Comments on the Competition Commission's Online Intermediation Platforms Market Inquiry – Statement of Issues

Section 3 – Inquiry Scope and Related Issues for Submissions (pp 20-46)

3.1 Stakeholder identity and scope of submission

1) Name of organisation, contact details

Ecommerce Forum of South Africa (EFSA),
Alastair Tempest
alastair@ecomafrica.org
071 790 9967

2) Confidentiality
No

3) Brief description of the EFSA

EFSA is the Not-for-Profit body set up by the ecommerce sector to encourage high quality research, training and education; to promote online trust though best practices; and to represent the sector.

EFSA covers the totality of the ecommerce eco-system *inter alia* from e-platforms (otherwise known as e-marketplaces), through e-shops, sole proprietor social media shops, delivery logistics, online payment systems for ecommerce, warehousing, web design, ecommerce marketing agencies, aggregators, and both academic and commercial education and training bodies.

4) Our Concentration in this Market Inquiry

EFSA is a not-for-profit association. As such we confine our views to "non-competition" issues between the different players in the ecommerce eco-system. However, we will outline general issues which potentially infringe on the smooth running of the ecommerce sector and which create barriers to trade or challenges to the online trust which is essential for the sector to function.

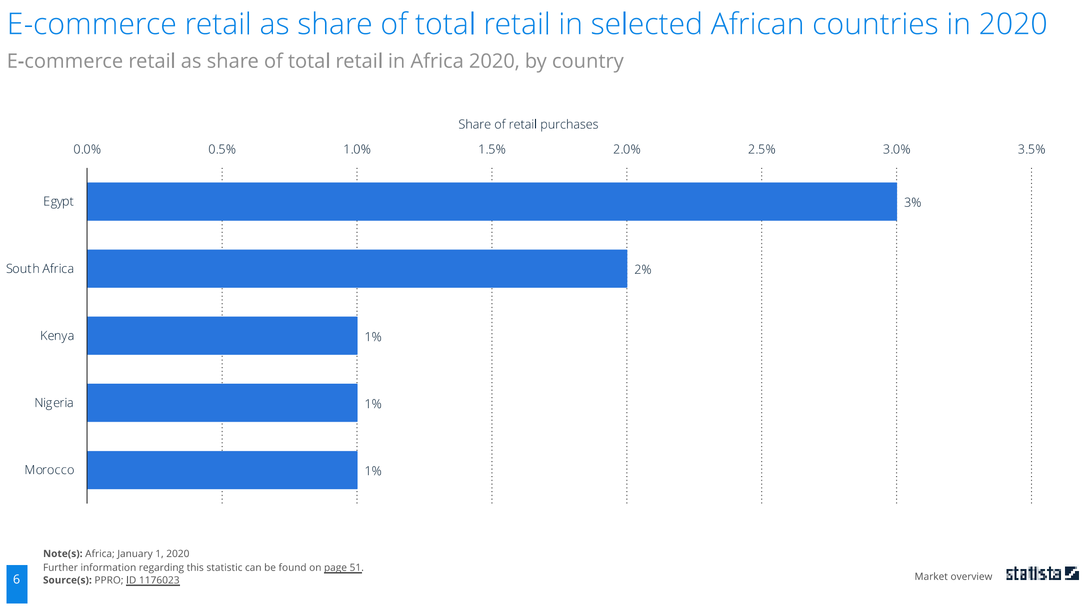
3.2 Scope 1 – Evaluating Trends and leading platforms.

1) Extent of Adoption

The Competition Commission has rightly identified in its preparatory work for this Market Inquiry that the COVID lockdown has stimulated ecommerce in South Africa. More consumers (and businesses) have tried online buying/selling and found the experience to be effective, quick and trustworthy. However, as EFSA pointed out in our previous two submissions to the Commission, there is a major lack of data on the sector. A study was carried out by South Africa's World Wide Worx for some years which showed a healthy growth. But, due to lack of funding, that research finished in 2019.

The other general research is carried out by the European company Statista, which uses a combination of estimates and surveys. Statista is important insofar as it provides comparative data globally. In its most recent annual report, for 2020 published in 2021, Statista estimates ecommerce expenditure for business to consumer (B2C) in SA at 2% of total retail trade.

Chart 1



Some companies also publish data – PayPal, Visa and Mastercard, for example – with their estimates of expenditure in the B2C. These have tended to show a larger percentage of retail trade going to ecommerce during 2020. So too has an initiative called the Ecommerce Performance Index, by PayFast and uAfrica - see https://www.payfast.co.za/blog/payfast-launches-ecommerce-performance-index/

Under a 2018 agreement at UNCTAD, member states undertook to produce comparable data on ecommerce activities in their countries. Unfortunately, this has so far failed to materialise.

As EFSA pointed out in our submission to the Commission, we have brought together academics from six SA Universities to do rigorous and unbiased research into B2C, B2B, C2C, employment levels and the number of companies (including sole proprietors) involved in ecommerce in SA. We believe that until this process is completed, only a partial and distorted view of the size of ecommerce in SA will be available, depending on which company's data is taken and on how they measure the data they have collected.

EFSA would also like to point out that the failure to produce robust sector data is a factor in the failure of SA's ecommerce to attract foreign direct investment over the last few years. SA has recently fallen to 4th position on the continent for the level of FDI attracted for the digital economy, having led the field for years. The level of FDI, as the Commission is aware, is influenced by regulatory uncertainty in the marketplace. The Statement of Issues touches far too briefly on the need for greater investment.

The Commission asks if online channels will continue to assist companies to reach consumers, and if online sales/leads will be affected should online channels be closed? EFSA points out that consumer (and business) purchasing behavior has been influenced for two decades by online search engines, supported by product/price comparison websites, such as Pricecheck (https://www.pricecheck.co.za/).

The sector fully recognises that "Showrooming" and "Webrooming", which relate to consumers either researching products online and buying offline or *vice versa,* are well established and that, so long as a consumer can access the internet with a 3G or 4G phone, the use of digital commerce is available whether the consumer is in a con-urbanisation or in a rural area. This process will never be replaced by bricks and mortar shopping alone, unless, as the Statement suggests, online channels are closed. Hopefully, South Africa will not regress to a point whereby online channels are closed or restricted to the point that they cannot function effectively.

2) The importance of intermediation platforms compared to stand-alone e-shops

EFSA stressed it its earlier submissions to the Commission that there are different online shopping functions served by different forms of ecommerce presence. To give examples, some commonly available products can be sold successfully online on e-platforms, such as Takealot, whereas other products are more suitable for unique e-shops – such as over-the-counter pharmaceuticals available on the websites of Clicks or Dischem. Some e-shops that appear as third-party outlets on intermediation platforms also operate separately using their own e-shop, and in addition appear in social media with a link through to their purchasing system[1]. Their online activity is dictated by their marketing strategies (see below).

Sellers of niche products may find it useful to use intermediation platforms in order to benefit from the payment and delivery services which that platform offers, but they may also wish to stress their specialty or avoid competition from other third-party sellers by operating their own e-shop.

Solutions which provide some of the intermediation benefits (such as payment facilities or warehousing and logistics) are available for e-merchants setting up on their own – common solutions include Shopify or Woo Commerce. As EFSA pointed out in its earlier submission, the ecommerce measurement company, Builtwith (https://builtwith.com/), estimates over 8,000 e-shops use these services in SA.

The vast majority of ecommerce 'shops' appear in the social media or on consumer-to-consumer (C2C) sites. Facebook Marketplace, Instagram, WhatsApp, Gumtree, or specialised e-platforms like the Springer-owned ROAM platform for recruitment and careers, provide business of all sizes with a searchable ecommerce presence, and particularly for SMEs.

EFSA in its earlier submissions stressed the importance of all aspects of ecommerce operating together, in relationship with the other parts of the retail sector. We recommended to the Commission that a holistic approach

[1] To give a very few examples: Eurocare Wellness – Takealot (TAL) MP, Loot, Makro and others; Shop and Ship - own site, TAL; Baobab - own site, Loot, TAL; Binuns Online - own site, TAL; Masons - own site; TAL; Precision Cooking, own site, TAL, Makro

was advisable. If Statista is correct and only 2% of total retail trade can be accounted for online, any activity which affects the major players will rapidly be felt by the rest of the sector. An example might be the reduction of delivery capacity because one of the large players closes. This would have an immediate and negative effect on the rest of the sector, reduce competition and increase prices.

The present court case brought be the SA Post Office against PostNet for failing to adhere to the “last mile monopoly” for all parcels/packages under 1Kg, awarded to SAPO under the Postal Services Acts, is a perfect example of the uncertainly which already exists in the ecommerce delivery sector. The last mile monopoly was awarded to the national carrier with two conditions which fell to ICASA to apply – first, SAPO had to provide a guarantee of service. This requires SAPO to deliver parcels/packages within 3 days of posting throughout SA, and within 10 days of postage to addresses outside SA. This condition has never been met, and the Universal Postal Union (UPU) reported in 2017 that SAPO was so deficient that it did not appear in the global ranking of postal services. Second, ICASA required that courier services had to charge three times the cost of the postal stamp to deliver express post. This latter rule interfered with the pricing structure of the courier services and has artificially distorted prices.

EFSA recommends that, if the Commission continues with its inquiry into delivery services, it should widen the mandate of the inquiry to include SAPO and its monopoly on the last mile delivery.

3.3 Scope Items 2 and 3

1) and 2) Business model/Barriers to entry

EFSA is a trade association and therefore has no contribution or views on these questions or other company-specific questions.

3) Reaching profitability

EFSA stressed in its earlier submissions that ecommerce should not been seen as a cheap way to sell goods or services to the public. It is an alternative approach to trade in digital ecosystem. Many costs are involved, including delivery costs and expertise in offering goods or services online in a safe and secure manner.

And many business models are available for entrants to use as we have outlined above. As the Commission knows, the elasticity of different markets

provides different results and depends on different factors to succeed or to fail.
There is therefore no one answer to question 3.

- Critical mass will depend on the type of platform, what it sells, if it provides support or substantially the same support for a bricks and mortar shop, etc, etc.
- The same is true for costs which relate to scalability or which are fixed.
- And to the level of investment required to reach critical mass.

6) and 7) Use of multiple channels and critical success factors
As we have pointed out in our earlier submissions, and above, consumers research across a wide range of e-shops, depending on what they are looking for and whether they are webrooming or showrooming.
In order to market effectively, many e-merchants establish themselves in a variety of outlets – for example, with a Facebook or Instagram page, in addition to their website or third-party presence on an intermediation platform.
A minority also use classic mass-media, such as billboards, community newspapers or *niche* periodicals, as part of their marketing strategy.
As we have pointed out above, there is no 'silver bullet' for either e-merchants to reach their customers, or for consumers to find the e-shop of their desire.
Marketing is one of the key functions which will create success or failure – the same, of course, is true for offline merchants (e.g, bricks and mortar).

EFSA struggles to see the relevance of this section of questions, insofar as the answers given by each company respondent will, inevitably, differ. Academics and educators have scenarios which have worked in the past, or which guide ecommerce practice in other countries, however, best practice will always relate to the products on offer, consumer preferences and demand, availability of marketing opportunities, the sellers' resources, skills, funding, possibility to undertake market research, and so on.

To take a recent example relevant to saturation on Amazon, a recent American press article (https://www.marketplacepulse.com/articles/amazon-marketplace-is-not-saturated), made the following claim:
"*An increasing percentage of sales on the Amazon marketplace comes from sellers that have been on it for years. More than half, from those who joined in 2017 or earlier. At the same time, new sellers are finding opportunities and bring incremental marketplace growth.*

New sellers are adding additive volume to the existing base. Meanwhile, some of the old sellers churn (because they stopped selling, got suspended, or dozens of other reasons). The data shows that sellers are churning slower than new sellers are joining. The expanding overall marketplace GMV allows new sellers to grow without taking away sales from the existing sellers.

Amazon marketplace is, thus, not saturated. Saturation is one of the most common concerns - in a saturated marketplace, a seller can only achieve growth through taking market share from competitors. Because Amazon continues to grow and seller moats are relatively limited, new and existing sellers are competing for a growing pie of GMV."

This appears to contradict the Commission's implications in its three papers that saturation could occur in the SA due to intermediation platforms. However, EFSA also cautions that care must be applied when identifying lessons from the elsewhere.

10) Promotional Arrangements
EFSA can only stress that the online sale of products must be seen as an integral part of the holistic retail market in SA. Just as promotions are common in the offline retail sector, so too are they common in the online sector. Promotions are legitimate marketing tools – they include 'lost leaders', coupons, loyalty schemes, etc. These marketing tools are governed by the Consumer Protection Act (CPA) and its regulations. If a merchant oversteps the CPA or its regulations, the consumer (or the competitor) has the right to lodge a complaint.

3.4/3.5/3.6, Scope 4, 5, 6

EFSA is a trade association, we do not collect data or interfere with any competition aspects between our members and thus have no contribution or views on company-specific questions contained in the Statement of Issues.

Scope 3.6, Question 4

EFSA has pointed out in our earlier submissions the importance of cross-border digital commerce. The ongoing establishment of the African Free Trade Area (AfCFTA) aims to stimulate industry and entrepreneurship in Africa by removing customs tariffs and non-tariff barriers (NTBs) throughout the continent over the next few years. A protocol on cross border ecommerce is being prepared.

The free trade area will provide scalability (economies of scale) particularly for SMEs and HDP-owned businesses – so long as they sell the right product at the right price.

The Statement of Interest asks about the challenges. We humbly submitted a list in an Opinion Paper published in March 2020 by the South African Institute for International Affairs (SAIIA) of these challenges and examples from around Africa in our previous submission https://saiia.org.za/research/the-digital-economy-and-e-commerce-in-africa-drivers-for-the-african-free-trade-area/.

The SAIIA paper refers to the eTrade Group's Sokkutu intermediation platform, part of which operates out of Eswatini, which aims to attract 25-50,000 SMEs from around Africa, with its own e-payments service and logistics solutions. The platform is strongly supported by the African Union. This gives a glimpse at the future of ecommerce on the continent. It also raises a number of essential questions – which data privacy or consumer protection regulations will apply? What intellectual property rights will be applicable? Which competition regulations will apply?

Challenges include many issues which fall outside the mandate of this Inquiry, for example, that goods bought online from abroad and then returned for some reason (because they were broken or did not reflect the image on the website, etc) are subject to triple taxation under the customs regulation of SA – once when sent; second on return; third when replace – which hits SMEs particularly hard.

At present very few intermediation platforms sell across the frontier within Africa, due to the infrastructural, logistical, payments, regulatory and other challenges. However, it is common cause that RSA's ecommerce sector must be prepared and in good shape.

3.7 Scope 7 and Scope 8

EFSA humbly suggests that these questions have been addressed above, as far as our organisation is able to within the confines laid on any not-for-profit body to refrain from competition issues except in broad terms.

3.8 Submissions as to the scope and issues

EFSA stresses the points raised in our previous submissions on the need to treat with the ecommerce sector holistically as a sub-section of retail. In addition, the success (or failure) of ecommerce will also be greatly influenced by the banking sector and e-payment services.

We have pointed out that a public entity, SAPO, must be included in the Inquiry on delivery mechanisms, to prevent serious distortions to trade.

As a closing but critical final submission, EFSA would like to point out that ecommerce depends on trust. This is touched on only twice in passing in the Statement of Issues, yet it underpins all the superstructure of digital commerce. Trust is earned over time. It is never a given. The larger players in the marketplace are essential to provide a benchmark of trust which has a cascading benefit to smaller to medium players as consumers increasingly begin to engage with the ecommerce ecosystem.

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