Measurement of Concentration and Participation in the South African Economy: Levels & Trends

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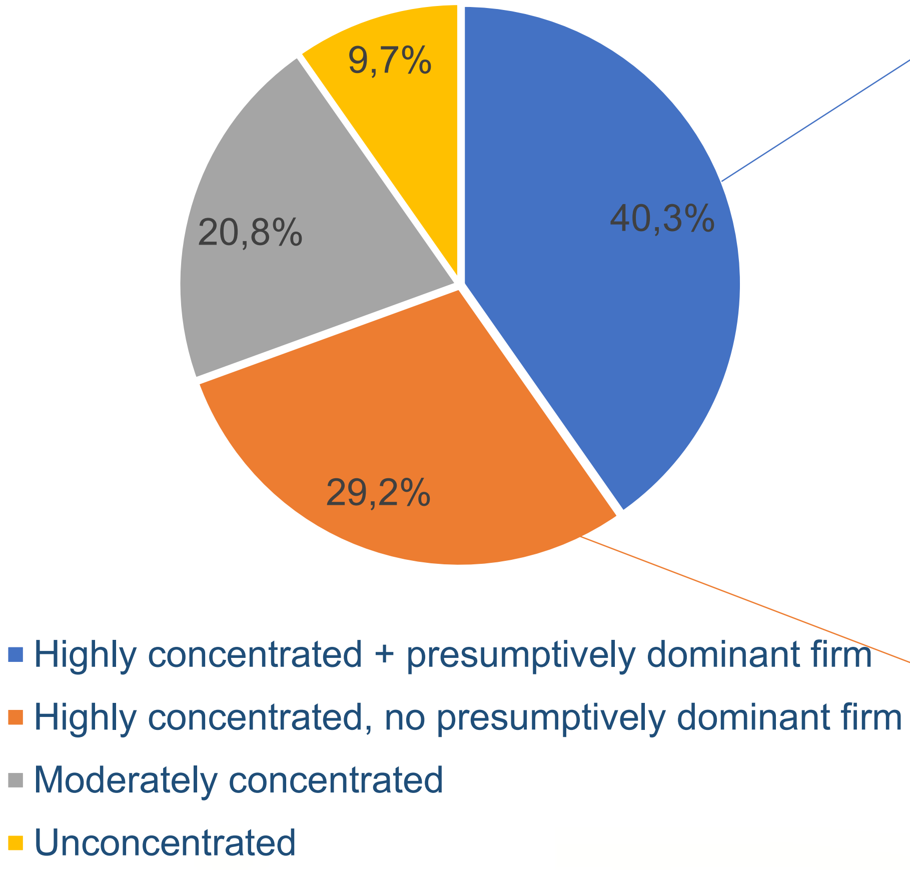
competition commission south africa

Persistence of high levels of concentration

Summary of concentration across the economy using industry data



- Farming inputs (various seeds and seed treatment, fertiliser)
- Agro-processing (grain processing for human consumption, fisheries)
- “Sin” industries (alcohol, gambling and cigarettes)
- Healthcare (medical schemes and administration, pathology)
- Communications (mobile, FTTH, publishing and broadcasting)
- Upstream steel value chain (iron and ferrochrome mining, crude steel production) and chemicals (plastics, ethanol)

- Farming inputs (grain storage, fungicides and insecticides, animal feed)
- Agro-processing (grains processing for animal consumption, bread, poultry, sugar processing)
- Healthcare (hospitals and pharmacy)
- Transport (airlines and commercial vehicles)
- Financial services (all areas of insurance, banks)

Highly concentrated markets are becoming more concentrated

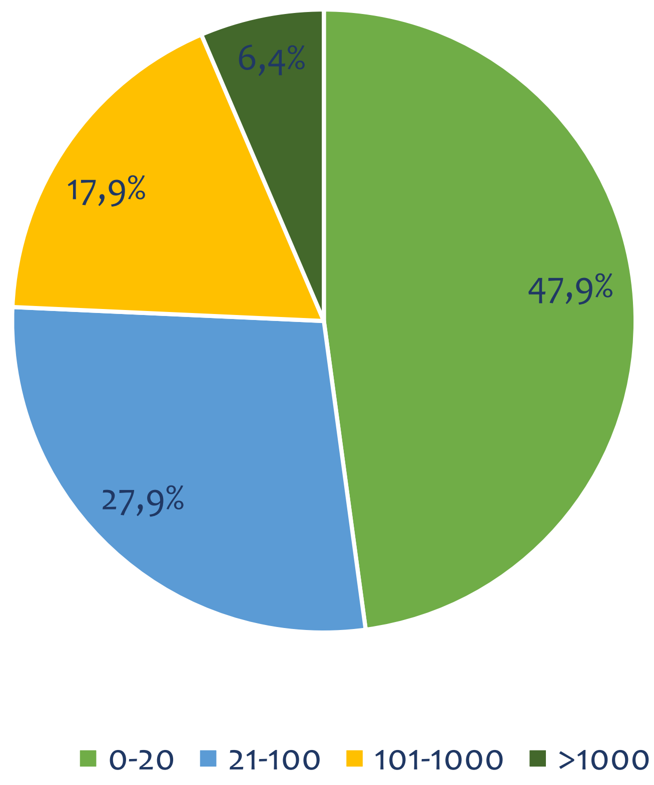
Percentage of industries with changing levels of concentration over the last 5-8 years

	Industries with increasing concentration	Industries with declining concentration	Relatively consistent (≤2 percentage points)	Total
Highly concentrated with a presumptively dominant market participant	59.5%	19.0%	21.4%	42
Highly concentrated without a presumptively dominant market participant	35.9%	35.9%	28.2%	39
Moderately concentrated	31.8%	45.5%	22.7%	22
Less concentrated	25.0%	41.7%	33.3%	12
Total	42.6%	32.2%	25.2%	115

- Highly concentrated sectors are more likely to see increasing concentration levels than declining concentration, with the opposite holding for unconcentrated or moderately concentrated markets
- Merger activity not the primary cause but there is growing consolidation in licensed sectors such as fisheries, retail pharmacy, renewable energy and gambling where individual acquisitions do not cross the thresholds for prohibition

Growing participation remains a challenge

Summary of participation across the economy using industry data



Percentage of industries with different concentration & participation

	0-20 participants	21-100 participants	101-1000 participants	>1000 participants
Highly concentrated with a presumptively dominant participant	32.7%	8.7%	1.0%	0.0%
Highly concentrated without a presumptively dominant participant	20.2%	7.7%	1.9%	0.0%
Moderately concentrated	1.9%	11.5%	2.9%	1.0%
Unconcentrated	0.0%	5.8%	3.8%	1.0%

Changes in participation

	Industries with declining participation	Industries with increasing participation	Relatively consistent (<10% change)	Total
≤20 participants	32.0%	30.0%	38.0%	50
21- 100 participants	38.9%	25%	36.1%	36
101-1000 participants	33.3%	19%	47.6%	21
>1000 participants	87.5%	0.0%	12.5%	8
Total	38.3%	24.3%	37.4%	115

SMEs hold a low share of value and face increasing exit rates

- The SARS database of tax-paying firms shows that SMEs account for 95% of firms but only 24% of turnover, compared to an OECD average of 99% of firms and 50-60% of value
- It also shows that a low SME share harms employment creation as SMEs are more labour absorbing and account for 38% of employment despite holding only 24% of turnover
- Market is becoming more challenging for SMEs, not less
- Exit rates have continued to climb and were higher than entry in 2015

Exit and entry rates, 2012-2015

	All firms		SMMEs		Large firms	
Year	Entry rate	Exit rate	Entry rate	Exit rate	Entry rate	Exit rate
2012	10%	4%	11%	4%	4%	1%
2013	9%	8%	9%	8%	3%	3%
2014	15%	9%	15%	9%	5%	3%
2015	10%	11%	10%	11%	4%	4%
Average	11%	8%	11%	8%	4%	3%

There is a high degree of inequity in the distribution of firm income

Turnover share of top 10% and bottom 50%

	Turnover share of top 10%		Turnover share of bottom 50%	
Industry Classification	2011	2016	2011	2016
Agriculture	78.7%	80.7%	1.9%	1.3%
Catering, Accommodation and other Trade	64.1%	55.7%	5.4%	5.7%
Community, Social and Personal Services	65.5%	62.2%	6.4%	7.1%
Construction	72.4%	72.1%	3.4%	3.0%
Electricity, Gas and Water	93.0%	93.3%	0.8%	0.6%
Finance	75.5%	77.2%	4.9%	4.4%
Manufacturing	92.1%	92.6%	0.6%	0.5%
Mining and Quarrying	97.9%	97.0%	0.1%	0.2%
Retail, motor trade and repair services	85.0%	84.1%	1.3%	1.2%
Transport, Storage and Communication	92.1%	90.1%	0.9%	1.1%
Wholesale	86.1%	88.1%	1.0%	0.8%
All Firms	86.4%	85.8%	1.6%	1.6%

- The Gini Coefficient for firm turnover distribution is 0.84 compared to the Gini for household income distribution of 0.63

Food value chain shows concerning trends

- Top 3 firms in seed varieties, animal genetics, fertiliser and forestry control 60-90% of inputs
- Top 3 processors for dairy, sugar and grains control 50-80% of processing
- Rapid and sharp decline in commercial farmers for grain (24%), dairy (31%), commercial cattle (56%) and pigs (24%) in the past 4 years

	2015	2019	% change
Maize	5 504	3 854	-30.0%
Sunflowers	1 604	1 389	-13.4%
Soybeans	1 974	1 545	-21.7%
Groundnuts	310	229	-26.3%
Sorghum	125	75	-40.2%
Dry beans	294	117	-60.2%
Wheat	1 486	1 331	-10.4%
Malting barley	381	320	-16.1%
Canola	485	368	-24.0%
Total	12 164	9 227	-24.1%

Food value chain shows concerning trends cont.

- Emerging black farmers predominately small with barriers to scaling from small to large growers
- Market structure adverse to small growers which may threaten land reform initiatives

Sugar cane farmers – delivered cane

	Number of farmers		Delivered cane (tons)	
	2018/19	2019/20	2018/19	2019/20
Large-scale farmers	6.0%	5.0%	73.7%	74.8%
- Black-owned	2.6%	1.4%	9.2%	10.0%
- White-owned	3.4%	3.7%	64.5%	64.9%
Small-scale farmers	93.1%	94.2%	8.7%	9.0%
- Black-owned	92.3%	93.5%	7.9%	8.5%
- White-owned	0.8%	0.7%	0.8%	0.5%
Projects and co-ops (black-owned)	0.6%	0.5%	2.6%	2.2%
Joint ventures (50% white owned, 50% black-owned)	0.0%	0.0%	7.7%	7.8%
Miller sugar cane estates	0.3%	0.2%	7.3%	6.2%
Total	1,269	1,157	15,418,100	15,591,784

Sector examples of market concentration

Retail sector shows high and persistent concentration in many key categories
Retail pharmacy has seen a rapid growth of the two national groups

Retail segment	Incumbents	2015	2018
Supermarkets[i]	Shoprite, Spar, PnP, Woolworths (CR4)	57.1%	58.3%
Apparel[i]	Edcon, Woolworths, Foschini, Truworths, Woolworths (missing Pepkor) (CR5)	64.2%	57.9%
Building/Home improvement[i]	Massbuild, Spar’s Build It, Cashbuild, Pepkor’s The Building Company (CR4)	48.8%	50.7%
Pharmacy [i]	Clicks and Dischem (CR2)	38.3%	49.0%
Online[ii]	Takealot, BidorBuy, Superbalist, Onedayonly (CR4)		77.3% (Oct-2020)

Sector examples of market concentration

Plastics and chemicals are highly concentrated, impacting on a diverse range of industries downstream from infrastructure and agriculture

Plastic product	Top 3 plastic products manufacturers	CR3
PVC pipes & fittings (2017) [a]	Swan Plastics/DPI, McNeil Plastics, Flo-tek Pipes	60-70%
PVC pipes (2013) [b]	Swan Plastics/DPI, Marley, Flo-tek Pipes	80-90%
HDPE pipes (2013) [c]	Swan Plastics/DPI, Marley, Flo-tek Pipes	80-90%

Product	Top 3 fertiliser products manufacturers	CR3
NPK blended fertiliser (2012)	Omnia, Profert and Kynoch	55-80%
NPK blended fertiliser (2014)	Omnia, Profert and Sasol	60-70%
NPK granular fertiliser (2012)	Omnia, Kynoch and Sidi Parani	60-80%
NPK granular fertiliser (2019)	Omnia, Yara, ETG/Kynoch	80-90%
NPK liquid fertiliser (2012)	Omnia, Kynoch, Sasol	60-80%

Conclusions from the study

A number of conclusions emerge from the study that require strategic policy considerations

1. The study shows that once markets are concentrated, the trend is towards more concentration and so more deliberate action is required to change the trajectory
2. The South African economic conditions and structure are hostile to SMMEs and therefore undermine inclusion and the job creation potential of the economy

Actions to address market concentration

A number of actions that have been taken in recent years to address the challenge of economic concentration. These include amendments to the Competition Act

- came into effect in February 2020
- Introduced contraventions for the abuse of buyer power and price discrimination against SMEs and HDIs with a lower fair trading or impeding participation threshold
- Strengthens market inquiries to enable the competition authorities to impose remedial action, including divestiture, and interventions that promote competition
- for the first time introduces structure (not only firm conduct) as a focus for the competition authorities
- Introduce a more stringent regulation of creeping mergers
- The Competition Commission has been tooling up to take on its new mandate.

Actions to address market concentration

- New guidelines in the car after-market sector to open up the service, repair and maintenance of motor vehicles to independent workshops;
- settlement agreements with two largest grocery retailers to end exclusive leases in shopping malls to opportunity for SMMEs and black South Africans to participate;
- the market inquiry into online e-commerce platforms now under way, which is intended to address challenges faced by SMMEs and other businesses in accessing e-commerce opportunities (consumer goods; delivery; holiday rentals, apps)
- Portfolio of possible market inquiries being developed, which following consultation, will be launched within the next six months. These include possible market inquiries in
  - fresh produce markets
  - the steel industry
  - export-industries to promote smaller firms' efforts; and
  - lending practices affecting SMMEs;
- Possible 'block exemptions' to smaller businesses from certain provisions of the Competition Act to enable greater coordination by them to grow and expand.

Actions to address market concentration

- Competition law cannot on its own achieve required transformation of economic structure
- Government levers impact economic structure and can be focused to address concentration levels across sectors and to achieve widespread participation in all sectors. They include:
  - Legislation and regulations
  - licensing and procurement
  - investment incentives and support services and
  - technology development policies.
- More coordinated and systematic approach to competition policy across all spheres of government along value chains to ensure policies don't favour incumbents and work against inclusion
- The agricultural value chains warrant immediate focus to support broader land reform initiative.
- To address concern about potential concentration in sectors characterised by government licenses and concessions, it is proposed that consideration be given to greater coordination between regulators and public entities responsible for issuing of licenses and concessions.
- The Competition Commission could be requested to provide reports and advice in such sectors to the appropriate regulators or issuers of licenses/concessions.