TIPS FORUM 2019

E-Commerce in South Africa: Opportunities and threats

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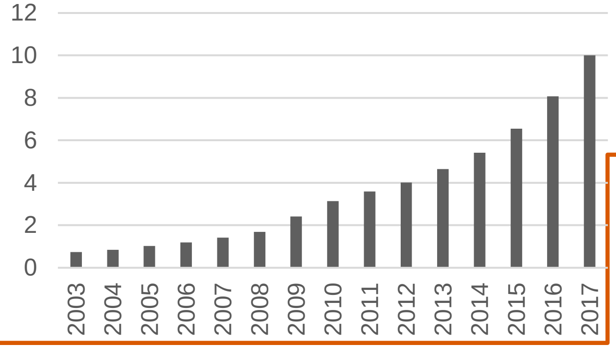
Context

Volumes

- 1-2% of retail in SA
- Growing at 20-35% pa

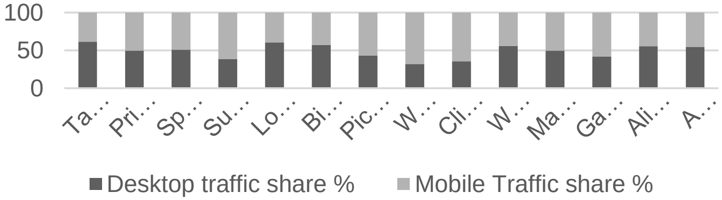


Customers

- Customers are predominantly higher income earners, work full time
- 35% earn over R 30 000 per month
- Concentrated in metro areas

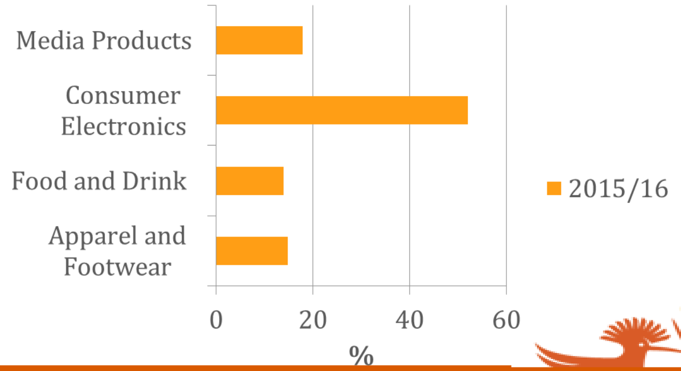
Snapshot of SA e-Commerce

- High proportion from mobile devices
- Purchases skewed to local websites



Channels

- Fastest growing:



Products

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Business models and participants

Online only (pure play)	• Takealot, Spree, Superbalist, Zando, Amazon, Alibaba
Omnichannel	• Pick n Pay, Woolworths, Mr P, Foschini Group, Incredible Connections, Makro etc.
Marketplaces	• Bid or Buy, Hello Pretty, but also marketplaces offered by Takealot and Makro
Classifieds	• Gumtree, OLX

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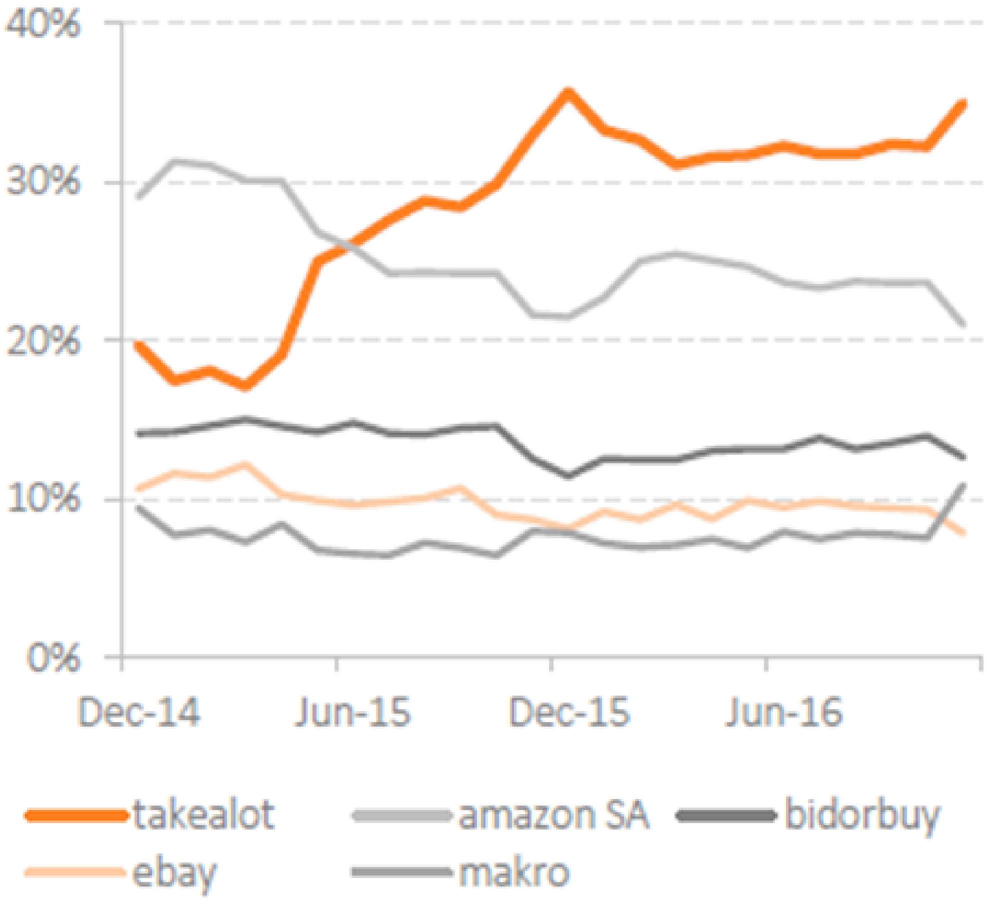
Current trends



Takealot is largest and growing- marketshare 30%
Also has marketplace for 3rd party sellers
Naspers owned- links to related businesses (PayU, Similarweb)
Mergers with competitors and into adjacent markets

Amazon does not have a South African website, sells through international one. Restricted offer, international freight only through courier- delays and taxes and duties. No short delivery times or streaming as in other countries.

Limited other international, but growing. 70% from US, 15% from UK, 13% from China. Chinese imports often delayed at customs

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Technology in e-commerce: Potential barriers

- Data
  - Company specific data (orders, reviews, searches on website)
  - Schemes that collect data (loyalty cards etc)
  - Third party data (search engine data, trending keywords on social media etc)
  - Scale important in collecting data- potential barrier
  - Ability to manipulate and draw insights from data key

- Platforms in routes to market:
  - Online retailers highly reliant on inclusion in search platforms (Facebook and Google)
    - Often complex and expensive
    - Barrier to smaller businesses

Trends, opportunities and challenges in e-commerce in SA: Dominant Platforms

Growth of dominant platform

- *Traditional scale economies*
- *Growth without profit expectations*
- *Platform effects on the consumer side*
- *Vertical integration:*

- Internationally- increased concern over Amazon
  - Is this an issue for Takealot in South Africa?

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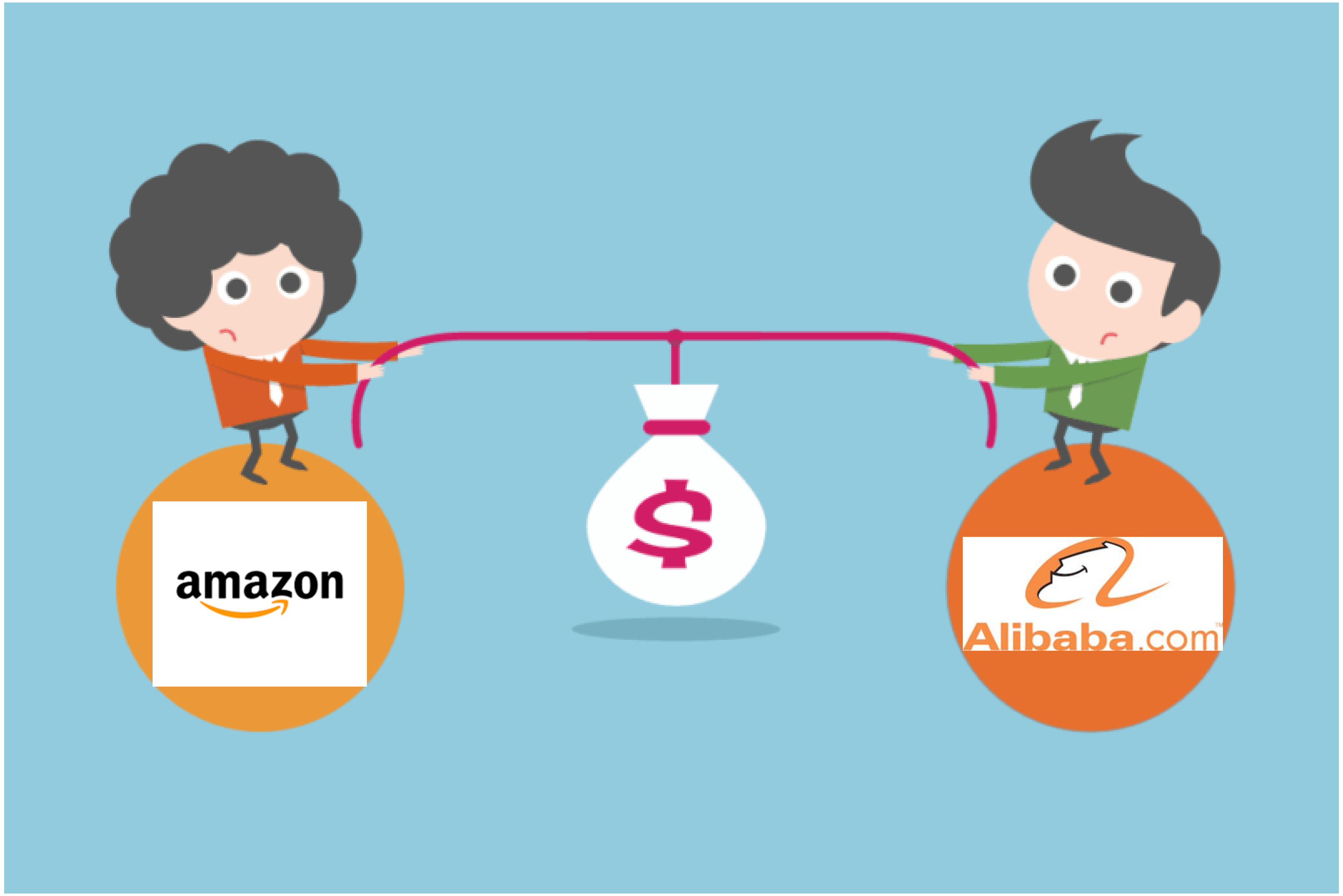
Is this all about the international tech giants?



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Rise of omni-retailing- is there a threat to the mall?

- Most large retailers in South Africa catering to upper income customers have online offerings

- Increased use of hybrid model.
  - “Click and collect”
  - Store facilitation of online returns
  - Store cards

- Employment impact?

“For a long time we believed that ecommerce was the future of retail, and that eventually this channel would “win” and the others would “die”. We were wrong. For many South Africans shopping is one of our favourite past-times — spending a Saturday at a mall, meeting friends and eating out. Or perhaps for certain products you prefer the physical shopping experience — browsing, getting advice and the immediacy of the purchase. Shops and malls are not going to disappear any time soon. We believe that the future of retail is ‘omnichannel’, which means a combination of physical stores and ecommerce.” (Yuppiechef, 2017)

Opportunities and challenges in online sales to increase microbusiness

Barriers to entry for small business to engage in online retail are falling

- Not necessary to have a web-designer anymore- WooCommerce, Shopify etc have templates.
- More integrated payment systems.
- Logistics companies that will deliver.

- Also social media provides a platform for smaller businesses

- Challenges:
    - Challenges relating to general entrepreneurship
    - Bank fees
    - Access to online platforms

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International entry- direct imports

- Concern over propensity for e-commerce to encourage direct imports by customers
    - Drop-shipping through existing platforms
    - Fulfilment through existing platforms
    - Own websites
- Not same extent in SA as elsewhere
    - Small market
    - High shipping costs and time
    - Unreliable postal services and loss rates
    - Strong currency fluctuations
    - From consumer perspective- complicated with duties and taxes
- Are buying- but less than elsewhere

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Why the slow growth in e-commerce in South Africa?

Shopping mall culture

High delivery costs

Poor postal services

Lack of trust in online payment systems

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Policy recommendations: Promotion of international e-commerce:

Simple online importer registration for individuals:

(who may order more than 3 shipments a year from abroad but is purchasing for personal use rather than commercial purposes)

Transparency over duties and tariffs.

This can include clear and user-friendly guides, and potentially an online calculator to allow customers to estimate costs prior to purchase.

Streamlining of systems at the ports of entry to reduce the delivery times.

Changing the deminimus under which duties do not have to be paid.

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Policy recommendations: Promotion of domestic e-commerce

Improve postal services

Payment and fraud

Regulatory alignment

Competition issues

Skills development