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An effective online retail strategy will allow SA to catch up with big guns

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Sha'ista Goga

Introduction

The rise of online retail internationally has raised an apocalyptic spectre of empty malls, dying city centres, local factory closures and rising unemployment.

It also evokes images of a de-personalised landscape in which electronic orders are processed at automated warehouses and boxes of goods on conveyor belts in China are shipped directly to mailboxes around the world. This, while the international tech giants that facilitate transactions, profit without paying income tax.

But the reality is that while e-commerce is changing the face of retail internationally, it has the potential to enhance consumer experiences and create organic opportunities if we correctly harness it. Appropriate policies for the digitalisation of business are urgently required to make sure the playing field is level and to ensure technological changes open up markets to entrepreneurs.

At present, online retail in SA is small, making up a mere 1% of total retail, while the most developed online markets such as the UK approach 20% of retail spend. This has been attributed to having densely populated markets of customers with fast internet access, credit cards and a willingness to pay extra for delivery.



By comparison, in SA we have a shopping mall culture, concerns over sharing card details online and delivery by an inefficient postal service.

Room for innovation

However, local industry is innovating to expand the pool of potential customers. In response to low broadband penetration, companies are investing in mobile shopping apps. Small entrepreneurs are using social media platforms to build their brands and reach consumers. Retailers are integrating store payment cards into online shopping to expand the customer pool. Innovation in the payment space includes instant electronic fund transfers (EFTs) and options including cryptocurrency. Investment in data analytics is increasing.

Many local larger retail groups see omni-retailing or seamless integration of in-store and online experiences as core to their growth plans. Developments in websites are being combined with the digital transformation of other aspects of retail businesses (such as integrated inventory systems). For example, a store may allow customers to check stock of their size at their local store online before going in to try it on.

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Online-only retailers are investing substantially and creating new employment. Entrepreneurs have created a plethora of companies that support payment, logistics and software, particularly in segments that service small, medium and micro-sized enterprises (SMMEs). Small businesses have also benefitted as barriers to creating websites fall, while the potential to outsource specialised aspects such as payment systems and logistics have risen.

SA has been shielded from international competition by a combination of factors. From a customer perspective there is a disincentive to order from international firms due to weak local postal services, delays due to customs processes and duties that are variable and opaque at point of purchase.

From an international provider perspective, the cost of shipping, small market size, volatile exchange rate and high levels of theft make SA unattractive for direct entry thus far. However, that can and will change as other markets mature.

Entry by companies such as Amazon or Alibaba, which have immense scale, brand, supplier networks and data capabilities could change this balance and move the location of head office employment, taxation and manufacture offshore with repercussions for our tax, employment and local industry. In the absence of steps to inoculate us, these changes could decimate local industry.

Developing an e-commerce hub

SA has not developed into an e-commerce hub for supply to other countries in Africa. This is despite us having infrastructural advantages — ports, rail, and internationally competitive logistics. As such, it is important that the country focuses on smart proactive regulation to support the industry as has been done by countries such as China and Malaysia.

First, we need to protect local companies from unfair international competition. Ensuring that tax policy is set to ensure a level playing field is important, particularly in the face of income tax avoidance by large tech companies, and consumer tax avoidance by suppliers who try to avoid duties by under-invoicing.

The Treasury has led the way internationally in taxing intangible goods, but this needs to be extended. The UK has recently announced a 2% turnover tax on the largest tech companies to address income tax avoidance. It is also important to make tax collection more efficient, especially on large volumes of small value purchases, through digitalisation of tax collection.

Second, public infrastructure that impacts on e-commerce needs to be improved. While payment

systems are working well, the Post Office and ineffective telecoms regulation are letting down the team. SA urgently needs cheaper, faster and more reliable data.

Third, policies need to be put in place to promote use of e-commerce by SMMEs. Practical skills development in e-commerce entrepreneurship and simple information on the required processes and providers is essential to better equip SMMEs to access online opportunities. Investment in coding and science, technology, engineering and mathematics (STEM) skills is integral to the broader industry.

Fourth, proactive policies are needed to enhance outward-facing commerce. This can include incentives for e-commerce investment, and strategic investments in the value chain (as in China and Malaysia). OR Tambo International Airport or the Durban harbour can be developed to create hubs for African e-commerce, providing local industry with a platform for outward expansion. Warehouses for exports could be built, goods that are not entering the country could be expedited for onward travel and we would benefit from employment and investment effects of an e-commerce hub.

Fifth, a united regulatory and policy approach to e-commerce is required with the relevant government departments working in a unified manner to harness the benefits.

Change in retail is coming, and it is still early enough in the game that we can leapfrog rather than being left behind if we move quickly now.