

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

## SUMMARY

# Study Overview and Purpose

- Competition Commission comprehensive assessment of industry-level structure using data from **80+ organisations**, Competition Commission, StatsSA and SARS covering **178 sub-sectors** over past **5-8 years**
- Follows Commission's 2019 Report, World Bank & OECD publications.
- Study is designed to aid prioritisation and decision-making across government to address concentration & promote participation
- Study to be repeated biennially to enable tracking of concentration over time which could be used for performance measurement and target setting
- Summary report highlights overall trends and main report provides detailed industry analysis
- The Commission will update this biennially and welcomes engagement on how to improve the measurement, coverage and analysis of concentration

# Sectors

- **Farming**
- **Grain**
  - Seed
  - Farming
  - Storage
  - Processing for human
  - Processing for animal consumption
  - Pan-baked bread
- **Fishing**
  - Fishing of hake and small pelagic fish
  - Processing of hake and small pelagic
- **Forestry, logging and related services**
  - Unprocessed timber, primary processing and secondary processing
- **Animal-related industries**
  - Animal feed
  - Poultry - broilers and egg layers
  - Red meat - beef, lamb, pork
  - Dairy – farmers, raw milk purchasers
- **Sugar**
  - Sugar cane growers
  - Sugar cane milling
- **Potato**
  - Potato seed
  - Potato farming
- **Liquor, cigarettes and gambling**
  - Liquor – wine and beer
  - Cigarettes
  - Gambling – casinos, Limited Payout Machines (LPMs), bingo, betting
- **Retail**
  - Supermarkets
  - Apparel
  - Home improvement
  - Pharmacies
  - Online retail
- **Key intermediate product value chains**
  - Steel – iron and chrome mining, manufacture of ferrochrome and steel
  - Chemicals – ethanol, agrochemicals, fertilizer
  - Plastics – polymers, recyclers, plastic products
- **Energy**
  - Coal mining
  - Fuel
  - IPPs
  - LPG
- **Transport**
  - Airlines
- Automotive
- **Financial services**
  - Banking
  - Insurance industry – long-term & short-term
  - Retirement fund administration
  - Collective investment schemes (CIS)
- **Healthcare**
  - Administrators
  - Medical schemes
  - Hospitals
  - Emergency medical services
  - Pathologists
  - Radiology
- **ICT**
  - Mobile
  - Fixed
- **Broadcasting and publishing**
  - Broadcasting – TV, radio, cinema
  - Publishing – newspapers and radio
- **Property**
  - Real Estate Investment Trusts
  - Real Estate Investment and Services
- **Construction**
  - Building
  - Civil engineering

- **Data sources**

1. **SARS-NT database:** NT and CCSA determined the share of large and SSME firms (# and value) across broad economic sectors, exit and entry rates of large firms and SMMEs, concentration ratio in various broad sectors and transition matrices.

2. **Industry-specific data:** annual reports, information already collected and reported by government departments, regulators, statistical agencies or industry associations.

3. **WB merger database:** Whether increasing concentration likely due to CC merger approvals.

- **Data collected on concentration and participation **levels and trends****

- Concentration measurement: Concentration Ratio (CR) levels rather than HHIs
- Participation in total and in some cases number of SMMEs and black-owned entities.

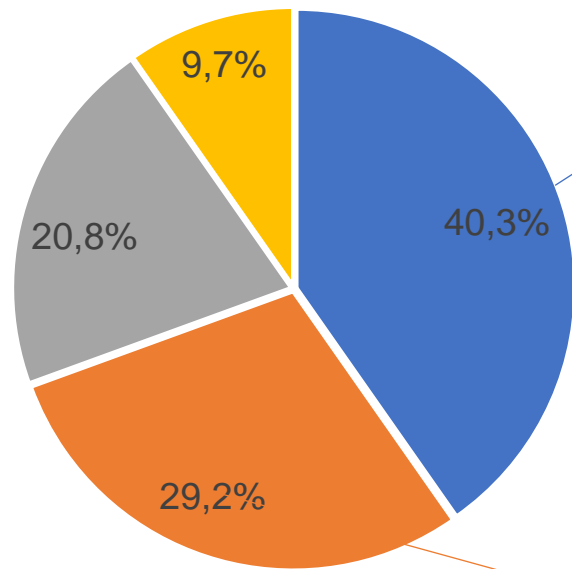
- **Concentration refers to the share of industry value held by the largest firms and a sector is highly concentrated when the top 3 hold more than 50%.**

- The CR measures are aligned to the US HHI thresholds
- An industry is deemed to have a presumptive dominant firm when one firm has a share of at least 35%

- **Sought to conceal **confidential information****

# Persistence of high levels of concentration

Summary of concentration across the economy using industry data



- Highly concentrated + presumptively dominant firm
- Highly concentrated, no presumptively dominant firm
- Moderately concentrated
- Unconcentrated

- 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

- Highly concentrated sectors 3 times more likely to see increasing concentration levels than declining concentration, with the opposite holding for unconcentrated or moderately concentrated markets
- Growing consolidation in licensed sectors such as fisheries, retail pharmacy, renewable energy and gambling where individual acquisitions do not cross the thresholds for prohibition

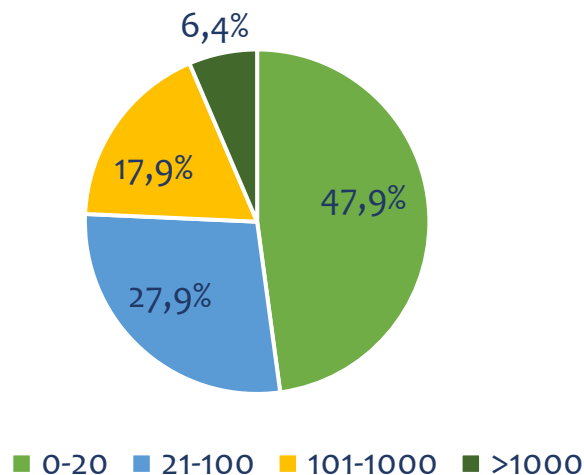
Percentage of industries with changing levels of concentration over the last 5-8 years

	Industries with increasing concentration	Industries with declining concentration	Relatively consistent ( $\leq 2$ 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
<b>Total</b>	<b>42.6%</b>	<b>32.2%</b>	<b>25.2%</b>	<b>115</b>

# Growing participation remains a challenge

- Low levels of participation more generally but especially in concentrated sectors
  - Numerous concentrated sectors with broader participation of smaller fringe firms unable to scale
- SME's represent 95% of firms, 38% of employment but only 24% of value by tax-paying firms, compared to OECD average of 50-60% of value

## 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%

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

- In recent challenging times exit rates have climbed and even overtook entry rates in some years. Also see more industries with declining participation (38%) than increasing (24%)

Exit and entry rates, 2012-2015

Year	All firms		SMMEs		Large firms	
	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%

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



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

- The top 10% of firms have 86% of total turnover compared to 1.6% for the bottom 50% of firms
- The Gini Coefficient for firm turnover distribution is 0.84 compared to the Gini for household income distribution of 0.63

## Turnover share of top 10% and bottom 50%

Industry Classification	Turnover share of top 10%		Turnover share of bottom 50%	
	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%

Sources:  
SARS-NT  
database

# Sector specific findings



# Food value chain shows concerning trends

- High concentration of inputs and processing
  - Top 3 firms in seed varieties, seed treatment, fungicides, animal genetics, fertiliser and forestry control 60-90% of inputs
  - Top 3 processors for dairy, sugar and grains control 50-80% of processing. Even where there is broader participation like milling, the top 3 firms still hold a high share
- Placing small and emerging farmers in a squeeze
  - Rapid and sharp decline in commercial farmers for grain (24%), dairy (31%), commercial cattle (56%) and pigs (24%) in the past 4 years as get big or get out

## Grain processing for human consumption

### Change in number of grain farm units

	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%

	No. of processors		CR3		Number of processors with <2% share	
	2014/5	2018/19	2014/5	2018/19	2014/5	2018/19
Maize	175	162	34.4%	29.3%	168	151
Wheat	57	50	31.2%	30.9%	40	34
Sorghum	35	33	67.3%	65.5%	26	23
Oats	2	2	n/a	n/a	n/a	n/a
Sunflower	13	10	53.9%	58.4%	4	2
Soya bean	15	13	47.9%	50.9%	6	4
Groundnuts	48	53	46.2%	43.1%	36	41
Barley	3	4	n/a	99.7%	2	3
Canola	4	2	99.6%	n/a	2	1

# Food value chain shows concerning trends cont.

- Emerging black farmers predominately small with barriers to scaling from small to large growers
  - Sugar can example: 95% of farmers black-owned but in total only account for 19% of cane production as only 1.4% large and that number is declining
  - In contrast, most white-owned farms are very large accounting for 65% of output
- 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
<b>Large-scale farmers</b>	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%
<b>Small-scale farmers</b>	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%
<b>Projects and co-ops (black-owned)</b>	0.6%	0.5%	2.6%	2.2%
<b>Joint ventures (50% white owned, 50% black-owned)</b>	0.0%	0.0%	7.7%	7.8%
<b>Miller sugar cane estates</b>	0.3%	0.2%	7.3%	6.2%
<b>Total</b>	1,269	1,157	15,418,100	15,591,784

# Agro-processing concentrated

## Primary processing of timber

Primary processing	No. of processors	Largest firms	CR (log intake)
	2020	2020	2020
Softwood sawmills	~89	5	42.4%
	2017/18	2017/18	2017/18
Pole treatment (ii)	29	6	64.0%
Pulpwood (ii)	16	5	91.3%
Mining timber (ii)	15	3	49.0%

## Hake fisheries, 2020

	2006	2014	2020
<b>Deep sea hake (allocation in 2005/6)</b>			
Total number of rights holders	52	45	31
% TAC share of top 3	66.1%	66.0%	73.5%
Firms with a share of ≤2%	46	38	24
<b>Hake in-shore trawl (allocation in 2016/17)</b>			
Total number of rights holders		17	26
% TAC share of top 3		66.2%	47.6%
Firms with a share of ≤2%		8	13

## Liquor and cigarettes – brand level

Industry	Market leaders	Year	CR 2/3
Malt beer (i)	AB-InBev, Heineken	2019	~99%
Sorghum beer(ii)	United National Breweries	2020	Unknown
Spirits(ii)	Diageo, Distell, Edward Snell	2015	74%
RTD(ii)	Distell, AB-InBev, Heineken	2018	85-95%
Wine(ii)	Distell, Namaqua, Orange River	2019	45-55%
Cigarette (iii)	BAT, JTI, PMI	2019	92%

Sources: (i) Movendi International, (ii) Commission merger reports, (iii) Tobacco tactics

## Milk processing

	2016
Drinking milk products	59%
Cheese products	54%
Yoghurt and sour milk products	53%
Other dairy products	63%

Source: Euromonitor

## Sugar cane processing – sugar cane crushed

	2008/09	2013/14	2018/19
RCL, Illovo, Tongaat Hulett	86.1%	83.4%	82.3%
USM, Gledhow, UCL	13.8%	16.6%	17.7%

Source: SASA



# Retail sector concentrated across all categories

- High and persistent concentration in most key categories, with retail pharmacy rapidly consolidating with implications for primary healthcare
- Commission's recent Retail inquiry found that not only did exclusive leases keep out small grocers but also those leases required developers to ensure 75-80% of space leased to national chains
  - Favourable supply agreements reinforce existing advantages

## CR ratios in Retail

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

# Other key areas of the economy

## Infrastructure

- Construction has seen many firms enter business rescue or exit, with just 3 firms accounting for 70% or more of civil and major building contracts valued over R200m in 2019
- In steel, the top 3 producers supplied over 70% of steel products in construction and mining, with only 4 or fewer firms capable of producing for roofing, cables and pipes
- Three PVC & HDPE pipe producers have a share of over 80%

## Energy

- 50% of wind and solar power is generated by the top 3 firms
- The top 3 refineries and LPG suppliers have a share of over 65%

## Communications

- 3 firms provide 75% of home fibre connections, with 80% of consumers connected by the top 4 ISPs

## Healthcare

- Top 3 firms control over 70% of acute hospitals, open schemes and administration
- Pathology (incl. Covid PCR tests) dominated by 3 firms and in most provinces only 2 dominate as is the case with radiology practices too

# Actions to address concentration

- Changes have been made to the Competition Act in February 2020 to address these challenges and the Commission started implementation on this mandate
  - 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
- Recent actions by the Commission to address concentration and participation
  - Guidelines in the auto after-market to open up service/repair to independents
  - settlement agreements with two largest grocery retailers to end exclusive leases
  - Launched market inquiry into online commerce platforms (consumer goods; delivery; holiday rentals, apps) to address barriers to participation and concentration

# Recommend more coordinated government action

- Amendments to the Competition Act address concentration & participation
- But competition law alone cannot achieve the transformation of economic structure. Government levers impact economic structure and can be focused to address entrenched concentration e.g. Legislation and regulations; Licensing and procurement; Investment incentives and support services; and Technology development policies
- A government wide competition policy is required to ensure a coordinated and systematic approach to competition policy across all spheres of government, and that government action don't favour incumbents and work against inclusion
  - Concentration study can aid prioritising initiatives and benchmark for target setting
  - Agricultural value chains warrant immediate focus to support broader land reform initiative
  - Greater coordination is required between regulators and public entities responsible for issuing of licenses and concessions is required, including required for Commission concurrency in ownership transfers.
- Consideration to more systematic funding and support to scaling SMEs and HDI firms including focusing DFIs and regulated changes to private sector funding patterns