BOTSWANA INTERNATIONAL UNIVERSITY OF SCIENCE & TECHNOLOGY

Keynote Address at the Competition Symposium

By

Professor Otlogetswe Totolo

Vice Chancellor

Botswana International University of Science & Technology

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Competition Authority Symposium

Theme: An Integrated Business and Competition

Good Morning

- The Chairperson of the Competition Commission
  Dr Onkemetse Tshosa
- Members of the Diplomatic Corps
- Members of the Competition Commission
- CEO of the Competition Authority Mme Tebelelo Pule
- Heads of Government departments and units
- CEO of Parastatals here present
- Captains of Industry
- Distinguished Panelists and other participants
- Members of the Press
- Management and employees of the Competition Authority
- Ladies and Gentlemen

Director of Ceremonies, I am delighted to be here today at the National Competition Symposium under the theme “An Integrated Business and Competition”.

This country, Botswana, has adopted **Vision 2036** in which we see the country making the **transition from being a resource-based economy** to a **knowledge-based economy and society.** Thus, when we reach 2036, the country should have become a **high-income country in which there is prosperity for all**. One way to drive prosperity for all is by ensuring that markets are functioning well as they should because **it is in the market where business happens, jobs are created, and incomes and overall social welfare is improved**. The Competition Policy which is implemented and enforced by the Competition Authority, as the regulator, clearly lays out **government’s facilitative role and firm commitment to ensuring that competition is encouraged in markets to ensure efficiency that firms become competitive through the raising of productivity and that social welfare is increased.**

Director of Ceremonies, Competition in business is the activity or condition of striving to gain or win something by overcoming or establishing superiority over others when it comes to the provision of a good or service. Firms compete for survival in the market place and hence, they are constantly looking for ways to outfox rival firms.

The markets that embody attributes of **perfect competition,** having: many buyers and sellers, free entry and exit, symmetric information and producing similar goods amongst others, are widely accepted as being **ideal for society**. They are good for sellers because they produce a wide variety of quality goods and services as efficiently as possible (or at the lowest cost); and, they are good for buyers because they can purchase a wide variety of goods or services at the lowest possible price. Resources, such as land, labour and capital are also allocated efficiently in the production of these various goods and services when there is perfect competition. Thus, a market where there is **perfect competition** is considered **good for society** because it **maximises social welfare**.

Ladies and Gentlemen, Markets **do not always embody these attributes** because as firms compete, each one attempts to outfox the other by **differentiating their products and services** to try and attract many consumers to itself as possible. **Information is asymmetric** because a seller would not want to reveal their trade secrets to competitors. In some cases, there are **few big firms that dominate** the market co-existing with many others that are **smaller and struggling to survive**. The dominant firms **undercut the smaller firms** forcing them out of business. In some cases, the market size can only make it profitable for one, two or three firms to play in that space. Whenever there are a few big firms in the market, there is always the chance that they may **collude overtly or tacitly** to keep others out of business. Thus, when any of the attributes of perfect competition are violated, markets left on their own are likely to fail. To avoid **market failure,** regulation is needed to ensure that businesses are not behaving anti-competitively as this leads to **resource misallocation, consumer exploitation** and an overall **reduction in social welfare**. Avoiding such an outcome through **regulation of markets** is part of the mandate of the Competition Authority.

Directors of Ceremony, in the market place, it is firms that are **competitive** that survive. To **increase competitiveness**, that is your ability to compete in a business environment, firms must invest in those things that will make them more productive (more sales) and efficient (lower costs). Thus, firms must continuously invest in technology, research and development; become creative and innovative; and ensure that they employ workers with the right skills and competencies and invest in further developing their human capital, because this will enable them to stay ahead of competing firms and continuously be able to produce quality goods, and or render quality services that are needed by society.

To adequately examine and understand the way business is organised, one must look at each **commodity or service value chain in its entirety**. Right from procurement, production, processing, packaging, distribution, and retail all the way until the commodity or service reaches the actual consumer. At each stage of the value chain, **value addition takes place in conjunction with transactions or exchanges** between various actors involved in the production of a good or provision of the service. With each transaction the seller puts in a **mark-up which eats away at the profit margin** made by the next entity along the value chain.

One of the many ways in which firms act **strategically, to capture as much profit for themselves as possible is to make sure that they are well integrated in the market**. Such integration may be **vertical or horizontal**. With vertical integration, it may be either **downstream and/or upstream, so that the firm owns the entire value chain,** whereas with horizontal integration the firm merges with other firms at the same level of operation along the value chain. In my address, I will highlight on vertical integration because the issue we need to ponder this evening is whether vertical integration is shrinking the size of the market or making it more accessible to more players.

Ladies and Gentlemen, with vertical integration the focus is on the extent to which the firm owns its downstream or upstream suppliers or both. With forwards integration the firm sets up subsidiaries that distribute and market products to consumers or use their products themselves; and, with backwards vertical integration the firm sets up subsidiaries that produce some of the inputs used in the production of its products. In some instances, you do get completely vertically integrated firms that own the entire commodity value chain. For example, a business such as Senn Foods, which I am sure we are familiar with can be said to be vertically integrated.

The **ability to integrate a business** comes as the business grows and it is also a function of resources availability, access and capability of business owners. When one looks around at our markets in Botswana it is easy to see that it is the well-established ones, **the incumbents,** who have: been around for some time; cultivated a niche for themselves and are resource rich (availability and access) who have the capability to integrate that have done so. So, we have few big well integrated businesses existing alongside small businesses which in some cases are start-ups.

The question is do we want broad based development that touches everyone's lives in Botswana? If we do, then we must do everything possible to support Small Micro & Medium Enterprises (SMMEs) and start-ups. More so now that we face challenges of unemployment and the working poor. In some cases, people are compelled to go into small businesses to supplement their incomes. **But if there is no market for the goods and services that are produced by SMMEs what is the way forward?**

The presence of integrated businesses at a national (Senn Foods, Tswana Chicken), regional (Choppies) and international level (KFC and Woolworths) in Botswana presents an additional challenge for small businesses and start-ups when it comes to competition. These big businesses source majority of inputs for products they produce locally, from neighbouring countries such as South Africa where they are based. Yet, this is the same place where our SMMEs source their inputs as well. **Because the integrated firm owns its value chain it can procure the inputs at a lower price compared to the SMME**. This makes the final goods from the small local business more expensive than the imported goods from the integrated firm. Consequently, **the SMMEs are outcompeted in the market.** When this happens the business closes and we have **less employment**, which translates to **lower incomes** and **reduction in social welfare.**

What can Competition Authority (CA) do? Perhaps the CA needs to look critically at the type of business model it wants to drive to ensure that there is **healthy competition** in the market place across all sectors. But competition is only one side of the coin, the issue of

competitiveness is also critical because big businesses often claim they cannot procure from SMMEs because of irregular supply, low standard and poor-quality products.

But how do we assist our SMMEs? We need to do more to **link our SMMEs to markets** by encouraging or even making it mandatory for big business to procure a certain percentage of what is on their floor space from SMMEs in the same line of business. This could be linked to big businesses' corporate social responsibility mandate. If these two are linked, then big business will as a start be compelled to source a portion of inputs and products from SMMEs and ensure that some skills and in some instances technology transfer takes place. Such a step would have to be accompanied with an obligation on the part of the big business to provide adequate training for the small business owners on how to get the product or service to the standard and level of quality of the big business. In this way, a **win-win solution** is created. The **size of the cake is increased**, and **each participant in the value chain gets a bigger share**. These are some of the issues and possible solutions that we need to reflect and deliberate on as we seek to find solutions to improving our wellbeing as a nation.

Turning to the subject of state-owned enterprises (SOEs), as alluded to earlier on, there are certain instances when the size of the market makes it better to allow for a natural monopoly such as is often the case with utility companies. In Botswana, we look to the likes of Water Utilities Company (WUC) and Botswana Power Corporation (BPC). Due to the nature of the good being provided it is often justified in many quarters to have the state own the enterprise to ensure that people get water and electricity which are essential goods at an affordable price. **But with a monopoly, a lot of inefficiencies are incurred:** production, service delivery and revenue collection are poor, and these impacts negatively on the business and reduce social welfare. The entity faces no competition from anyone else and this leads to inefficiency. In these instances, there is need, to carefully **look at the service value chain** with a view **to introduce competition**, **raise efficiency and productivity**. Perhaps, it would be wise to have different actors focused on production, distribution and revenue collection since doing so would allow for better focus and specialisation of resources directed at a specific mandate which would increase efficiency and productivity. There is also need for Competition Authority to introduce anti-blocking rules, anti-competitive mergers, harmonise accountability, competitive neutrality, transparency and consistent application rules of subsidy or state aid.

The other category of SOEs, are those involved in the production of goods, the Botswana Meat Commission (BMC) comes to mind. Perhaps at its inception, it was justifiable for the BMC to have a monopoly on exports. It may have been justifiable because of the difficulty at the time, farmers faced in accessing external markets. For example, meeting all the beef standards and quality requirements including the sanitary and phytosanitary conditions required to access European Union markets would have been tough. And so, having BMC monopolise beef exports would have led to greater ability to adhere to these standards. But the downside is that supply has not been able to meet demand, even with the 18 196 quota. Yet, we do have players in the market who are able to meet requirements of these external markets. **Dismantling the**

monopoly and allowing for competition will **increase efficiency and productivity and enable technology transfer and skills acquisition so that more people are able to participate in external markets.** Successful entities will employ more people. Consumers would benefit from consuming better-quality meat at lower price. Nevertheless, even here there is always a role for the regulator to be vigilant because if a **few players overtly or tacitly collude consumer welfare will be greatly** reduced.

In conclusion Ladies and Gentlemen, as SOEs are reconfigured, and in some cases close down because they can no longer compete in the market, other social ills such as retrenchment or unemployment will naturally arise. Here tertiary institutions such as BIUST have a critical role to play in ensuring that they provide or assist in the provision of the appropriate curricula that will assist in re-tooling workers so that they can easily shift from one job to the next. A science and technology University such as ours needs to ensure that it plays its role fully in ensuring that Botswana not only has a skilled and competitive labour force but that it also develops and produces venture creators who can contribute to the maximization of our society's welfare.

I thank you.