COMBATING COVID-19: THE PROMISE OF FOODTECH IN SOUTH AFRICA[1]

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Restrictions on movement, curfews, remote working and social distancing in the transition from lockdown is changing the way consumers access food. This will be the reality for a prolonged period to prevent new waves of virus infections in South Africa. Low-income consumers in township, peri-urban and rural areas are particularly vulnerable, and small and medium-sized enterprises (SME) in food systems, like growers, processors, wholesalers, retailers (both formal and informal), fast-food outlets and restaurants, are at risk if they cannot rapidly adapt to changing consumption patterns.

There is an urgent need to embrace new business models in the food industry using digital technology, with appropriate government support to ensure the models work for SMEs and meet the needs of low-income households. We set out how 'foodtech' can help and offer proposals on immediate and medium-term responses.

How digital technology links food demand and supply during COVID-19

'Foodtech' covers a range of digitalisation developments including food e-commerce, food management and nutrition. We focus, in particular, on the potential for digitalisation in logistics and e-commerce in food systems.

Up until now e-commerce in food has largely complemented the bricks-and-mortar sales by the main supermarket chains and fast food deliveries. During COVID-19, e-commerce has already increased by 37% according to Nielsen as customers opt for reduced touchpoint alternatives. However, it has largely only served well-off households, marginalising low income consumers in peri-urban and township areas.

The main supermarket chains dominate food e-commerce sales, and with the onset of the pandemic, they have partnered with delivery platforms such as Uber Eats and Netflorist, and with delivery companies that have repurposed their businesses for home delivery. New models have also emerged where supermarkets deliver orders to car boots in pre-arranged locations outside selected stores. The largest chains have further introduced e-vouchers. Shoprite Checkers has partnered with affiliate, Computicket to launch virtual vouchers, and Pick n Pay launched digital grocery vouchers to facilitate transfer of funds to recipients to purchase groceries from its stores.

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COVID-19 has also spurred growth of smaller platforms. For instance, One Cart aggregates across multiple store types such as supermarkets and pharmacies, utilising a model of personal shoppers and drivers for home deliveries.

With lockdown restrictions eased to level 4 on 1 May 2020, apps like Mr D (owned by Takealot) resumed delivering from restaurants and fast food outlets to consumers. Restaurants are also offering home deliveries using own fleets.

But challenges remain in reaching low-income consumers in low-income areas, and in linking SMEs to retailers

From a business to consumer (B2C) perspective, delivery fees through online platforms generally range between ZAR25 and ZAR100, making existing platforms in South Africa inaccessible to the poor.

To increase affordability for poor households during COVID-19, countries like India have formed new partnerships. For instance, Uber Eats, Swiggy, virtual kitchen partners and state governments in India have collaborated to cheaply distribute 150,000 daily meals to underprivileged communities across the country. In Kenya, companies like Twiga have partnered with dominant platform, Jumia, to deliver food at lower prices than what is available at supermarkets, making it more affordable for poor households.

Business to business (B2B) platforms that dominate the South African landscape are also not SME-friendly. Margins for SMEs are already thin, and listing on existing platforms like Takealot incurs listing or membership fees. Online platforms like Uber Eats and Mr D also charge commissions of up to 30% to food outlets. For emerging business models which support social distancing, like virtual kitchens or delivery-only restaurants (e.g. The Dark Kitchen) to succeed, there needs to be cost-effective and flexible delivery platforms.

Platform fees have indeed been a concern worldwide during the pandemic. In China, dominant takeaway app Meituan Dianping reportedly charged commissions of up to 25%, with exclusive agreements. However, pressure from restaurants has led to lower commissions and ending of exclusivity. In the Philippines and Singapore, petitions have been filed seeking Deliveroo, FoodPanda and GrabFood to reduce commissions from 30% to 15%. This followed the lead from interventions in San Francisco to cap commissions at 15%. In India, the National Restaurant Association forced Swiggy to introduce a 25% upper limit on commissions.

Foodtech represents a door which can be pushed wide open by developing B2B platforms for SMEs, and by connecting them directly to small retailers and spaza shops, to the benefit of both sides. There were apps developed for informal spaza shops in township areas for this purpose before the crisis which now need to be turbo-charged. For example, Vuleka app and Spazzap are ordering systems that help spaza shop owners purchase goods collectively from manufacturers, and allow them to build credit profiles to buy stock on credit. Such platforms lower operational, search and transport costs for independent wholesalers, retailers and spaza owners. The crisis has also spurred novel B2B platforms for SMEs. FinMark Trust, in partnership with the Redshift platform, provides small food businesses the opportunity to list at affordable terms and accepts orders from shoppers. Redshift lowers barriers to e-commerce for SMEs by offering easy-to-use interfaces to build affordable websites.

Such initiatives need to be scaled up and replicated. They also need to be better linked to buyer groups, wholesalers, cash and carrys and spaza shops. This can be done through investments in online platforms, and ordering and delivery infrastructure, as we discuss in our proposals below.

Lessons can further be learned from other countries on how SMEs benefit from digital systems to access finance. In Kenya, Sarafu Credit uses digital vouchers backed by blockchain to allow SMEs to exchange goods and services when they have limited funds available. This allows them to build up a transparent digital ledger of debt. In India, a consortium of 11 lenders have launched blockchain-linked funding for SMEs to expand their business, with the added benefit of traceability of food to improve consumer trust.

Mobile payment systems are also critical to support SMEs. The Kenyan government, with the support of mobile network operator, Safaricom, has implemented a M-Pesa fee waiver on person-to-person mobile money transactions under around ZAR185 for 3 months during the crisis. The daily transaction limits for SMEs have also been increased from around ZAR 13,000 to ZAR28,000 to facilitate liquidity.

Way forward

We propose the following measures to support foodtech business models for low-income consumers and SMEs:

- Provide rapid financial support for foodtech start-ups catering for low-income consumers and linking SMEs to markets in township, peri-urban and rural areas. This includes extending credit lines, providing concessionary finance and collateral-free loans and offering easier access to existing support measures, such as tax relief and funding from the Department of Small Business Development. Support measures should also include skills training and capacity building in foodtech, facilitated by agencies like the National Empowerment Fund.
- The Competition Commission in its Grocery Retail Market Inquiry (GRMI) recommended that government establish an incentive programme to provide seed finance for innovative commercial models supporting spaza shops, including incorporating them into buyer groups and wholesale operations. Part of this funding should be channelled to foodtech in these routes to market. The Department of Trade, Industry and Competition can also play a key role in facilitating partnerships between private sector and local community digital platforms.
- Investment is needed in logistics and warehousing to support digital platforms. Under prolonged social distancing, these functions are employment intensive. The GRMI also recommended that government facilitate establishments of distribution centres in peri- and non-urban areas to service small and independent retailers and wholesalers. These recommendations need to be fast-tracked, with foodtech incorporated as complementary investments.
- A code of fair practice for online delivery platforms should be developed, based on expanding reach and commitments to meet delivery requests in low-income areas, including by existing buyer groups and logistics companies. The code should include the capping of fees on platforms during this period, as done in other countries. It should also cover protection measures for workers in foodtech value chains.
- Regulations should be appropriately modified to enable the use of mobile money platforms for small-scale payments by approved providers without requiring a banking licence.
- Government should channel funding for protective equipment and health insurance for delivery workers for safer delivery of food, together with digital GPS tracking services.

Cheaper data costs which have been achieved in South Africa are a crucial step in the right direction. Digitalisation needs to now be rapidly ramped-up in food supply chains. Home grown e-ecommerce and foodtech businesses can bridge the gap between producers and consumers and keep the economy turning. This requires partnerships between government, tech companies, mobile network operators, retailers and finance institutions, as seen in other countries.