BIZCOMMUNITY

Retailers must get to grips with SA's unique and evolving credit market


By Allan Dickson

11 May 2021

As furniture and fashion retailers continue their recovery from the Covid-19 pandemic, and redouble their efforts to grow their customer base both online and in-store, credit will play an increasingly important role.


Allan Dickson, redPanda Software

The emergence and evolution of credit offered by furniture and fashion retailers in South Africa cannot be separated from its socio-economic history, read alongside political change and technological advancement. These three factors continue to play a role in shaping retail credit in South Africa.

In a cash economy, or in a society structured on barter only, there would be no need for credit. Credit transactions are necessary when a person seeks to obtain a product or service for which the person cannot, or chooses not to, pay the full amount in cash. Credit enables people to have use of a product or service, prior to paying for it.

Development of credit management systems

Sophisticated full credit lifecycle software packages incorporating international best practices and improved decision-making capabilities replaced the home-grown software in the fashion segment. These were either licensed to the retailers or outsourced. Since much of this software was still run on mainframes, those retailers who were moving away from this technology opted to outsource their credit processing.


Research reveals how South Africans are embracing digital payments

6 May 2021

A South African framework for managing credit

The credit market that had developed over many decades proved inappropriate for the political, economic and social context of South Africa. It was a market that reflected, but also reinforced, the two economies of South Africa – one economy that is modern, globally integrated and which produces most of the country's wealth, and the other which is characterised by underdevelopment and structurally disconnected from the first.

A new National Credit Act was signed into law in March 2005. This provided retailers and other credit providers with a simple and transparent regulatory framework that was relatively easy to comply with. Since then the Act has been tweaked to provide further protection to consumers – particularly those in the lower-income groups – and has been successful in achieving this aim.

While not all furniture retailers insist on customers holding a bank account, it is becoming their preference – particularly where defaulting customers may be encouraged to move on to debit orders.

Recent developments in the local banking sector have seen a renewed focus on serving the unbanked, resulting in an increase in the card base. Despite this, the anonymity of cash still holds some appeal in the lower tiers.

Buy now, pay later (BNPL) phenomenon in fashion retailing

The swing to online shopping, escalated by Covid-19, has produced a new credit option that is growing rapidly internationally. This is led by a company called Afterpay although there are other similar services such as Klarna. Australia-based Afterpay allows customers to pay for items over the course of four installments. When shopping online, the customer simply selects Afterpay as the preferred method of payment while checking out.

Their business model is based upon providing interest-free credit (shades of the old Edgars) to online shoppers and charging merchants through a fixed and variable percentage fee. There is a requirement for the customer to hold a credit or debit card. The merchant fees make up the vast majority of the revenue that Afterpay and its foreign subsidiaries generate.

Their second source of income comes from late payment fees. With late payments, Afterpay tries to automatically deduct the instalment from the customer's debit or credit card. Afterpay blocks late payers from making additional purchases through its platform.

While merchants pay for every transaction facilitated through the payment gateway, having a BNPL option on their platform holds appeal. Afterpay takes on the risk of payment default while also conducting the debt collection process. In addition, Afterpay claims that its instalment options lead to an increase in average invoice value of 10% to 20%.

SA fintech startup funded by major international buy-now-pay-later player

Payflex 22 Apr 2021

Today, more than 11-million customers around the world conduct their shopping using Afterpay, which works with around 55,000 merchants. Afterpay is available in Australia, Canada, New Zealand, the US, and the United Kingdom. The concept of BNPL is extremely popular among millennials around the world. A fledgeling BNPL platform is attracting growing interest in South Africa.

Just like other BNPL services, Afterpay has been subject to criticism from consumer rights groups which claim that these services encourage people to build up debt they cannot repay. Compliance with our own NCA probably merits scrutiny.

Given our youthful population and growing card base, we are likely to see this concept growing rapidly in the online shopping space – but don't be surprised if it also moves into physical stores. Credit in fashion and furniture retail will continue to play an important role in those industries, and to some extent drive sales. The leading retailers will continue to invest in the best software solutions to maximise their competitive advantage and improve their customer experience.

ABOUT ALLAN DICKSON

Allan Dickson is the independent chairman at redPanda Software. He has more than fifty years of experience in the IT industry and holds qualifications in Economics from the University of KwaZulu-Natal and Information Resource Management from Harvard Business School. Dickson is one of the most experienced retail systems people in SA. His retail systems experience spans Clothing and Textiles (as CIO at the Edcon Group), FMCG (as IT executive at Woolworths) and Furniture (as IT director at Ellerines Group).

- Retailers must get to grips with SA's unique and evolving credit market - 11 May 2021
- Why SA retailers are asking the wrong questions around IT spend - 5 Feb 2021

View my profile and articles...