

**COMPETITION TRIBUNAL
REPUBLIC OF SOUTH AFRICA**

Case No: 10/LM/Feb02

In the large merger between:

Bidvest Group Limited

And

Voltex Holdings Limited

Reasons

Approval

1. On 13 March 2002 we approved without conditions the merger between the Bidvest Group Limited (Bidvest) and Voltex Holdings Limited (Voltex). The reasons for the decision to approve the merger appear below.

The Transaction

2. The acquiring firm is Bidvest, a public company listed on the JSE Securities Exchange under the Industrial Services Sector. Bidvest comprises a group of companies involved in providing a wide range of services in South Africa. A summary of the services provided by the various subsidiaries of Bidvest appears in paragraph 6 below.
3. Voltex, the target firm, primarily conducts business as a wholesaler of electrical goods.
4. Bidvest is acquiring from Power Technology Limited (Powertech) 32,5% of the issued share capital in Voltex. Bidvest currently holds

approximately 32,34% of the issued share capital in Voltex. Minority shareholders account for about 34,61% shareholding in Voltex. Bidvest and Powertech have exercised joint control of Voltex since 1998.

5. The reason given by Powertech for selling its share in Voltex is that the disposal forms part of a strategy of its holding company, Allied Electronics Limited, to simplify its group structure. Bidvest, on the other hand, is purchasing because in its opinion Voltex's electrical wholesaling distribution operations fall directly within the scope of its commercial products division, which encompasses trading and distribution operations. The purchase is also in line with Bidvest's philosophy of preferring to own 100% of its subsidiaries.

The Relevant Market

6. Bidvest, through various subsidiaries, provides a diverse range of business activities in South Africa. The following is a summary of the services provided by the various Bidvest subsidiaries:
 - freight management - Bidfreight.
 - Provision of a wide range of outsourcing activities, for example, security and contract cleaning, laundry services etc - Bidserv
 - Distribution of a wide range of products to catering and hospitality business - Caterplus
 - Manufacturing and distribution of products to bakery, meat, food industries - Combined Foods
 - provision of a wide range of services relating to travel and foreign currency - Rennie's Financial Services
 - provision of strategic direction and corporate services to Bidvest Group - Bid Corp Services
 - provision of packaging closures, fastenings, strapping, stationery, adhesive tape, coding and labels - Bidpac
 - office products , for example, stationery, furniture, computers etc - Bidoffice
7. As stated above, Voltex's primary business is the wholesale of electrical products.

8. Overlaps in the acquiring firm and target firm products occur in two areas: first, both the supply and distribute electrical insulation tape. Second, both firms are involved in the manufacture and sale of product labeling material¹, more specifically self-adhesive product labeling material.

The electrical insulation tape market

9. Voltex imports electrical insulation tape from Taiwan and sells to electrical contractors; electrical wholesalers, equipment manufacturers, industry and mines. Bidvest, on the other hand, produces insulation tape through a subsidiary, Buffalo Executape for sale to the same customers, excluding electrical contractors and wholesalers. The relevant product market according to the Commission is therefore the market for the supply and distribution of electrical insulation tape. The relevant geographic market is South Africa. The parties have branches all over South Africa and the Commission found no evidence that the market is limited to specific regions.

The product labeling market

10. Another overlap occurs in the manufacture and sale of the product labeling material, specifically self-adhesive labeling material. Product labeling materials are produced via a two-step manufacturing process. In the upstream market, labeling materials manufacturers obtain paper, film, release liners, adhesives, silicones and other materials for the production of semi-finished labels. These are sold to printing companies, also known as “converters” in the downstream market where the label material is further processed and converted into finished products in accordance with the product manufacturers specifications. The finished product is then supplied to product manufacturers for labeling. The parties participate in the downstream market, that is, they are “converters”.

¹ The parties also sell the equipment used to mark and apply product labels, including pricing guns, barcode printers and plastic tags for attaching labels to clothing.

11. The Commission's investigations revealed that the product labeling market consists of various technologies such as wet glue labeling, mould labeling, dry gum labeling, direct printing, wrap around labeling, stretch/shrink sleeving and self-adhesive labeling. The parties argue that the relevant market in this regard is the broad market for the manufacture and sale of product labeling material.

12. The Commission, on the other hand, argues that the product labeling market consists of various sub-markets depending on the technology used. The Commission's investigations, which included an analysis of the views of customers, competitors and other industry players, revealed that the interchangeability between the various labeling technologies is limited. There are a number of reasons for this. Firstly, the application of labels is not completely substitutable - some types of labeling material cannot be used in certain products, for example, wet glue labeling will not work on moist surfaces and is therefore not suitable for cold or frozen food products. Secondly, there are significant price differences between labeling materials. In addition, each type of labeling technology has a distinct production process. Most of the self-adhesive label producers indicated that because of the significant costs involved in converting from one technology to the other and the fact that self-adhesive labels are in such high demand, they would not consider doing so.

13. The Commission argues therefore that each type of product labeling material constitutes a sub-market. It concludes that the relevant product market for the purposes of this transaction is the sub-market for the manufacture and sale of self-adhesive product labels.

Impact on Competition

The electrical insulation tape market

14. According to the parties this is a very competitive market with big players such as CashBuild, Pick n Pay, Massmart and other electrical wholesalers. The estimated market share provided by the parties indicate that Voltex is the largest supplier of insulation tape in South Africa with a market share of 6,24%. Bidvest is second with a market

share of 2,44%. The other participants in this market each have a market share of just over 1% or less.

15. An issue not addressed in the Commission's recommendation is the existence of a restraint of trade agreement preventing Powertech and another company, Altron, from competing with Voltex in the electrical wholesaling market for a period of three years. We were advised by the parties that this is historical clause - it arose out of sale by Voltex of certain manufacturing businesses to Powertech. Powertech demanded that Voltex undertakes not to compete with these manufacturing businesses and the reciprocal of that was that Powertech would not compete with Voltex in the electrical wholesale market. It appears that there is no wish on the part of Powertech to enter this market anyhow and the clause is simply there as a reciprocal for Voltex's undertaking not to compete with Powertech in the manufacturing business.
16. The market shares of the parties are very low and will be less than 10% post merger. Concentration levels are also very low. We find that the merger is unlikely to lead to a lessening or prevention of competition in the market for the supply and distribution of electrical insulation tape.

The product labeling market

17. There were no statistics available to calculate market shares of the parties in the market for the manufacture and sale of self-adhesive labels as the industry is not regulated. The Printing Industries Federation verbally informed the parties that the estimated overall turnover in self-adhesive labels in 1997 was approximately R500 million. By postulating that this figure currently stands at about R600 million and based on their recent annual turnover figures, the parties estimate that their market shares approximately 18,67% for Bidvest and 1,6% for Voltex. The merged entity will therefore have an estimated market share of 20,27%. They hasten to point out that the figure of R600 million is very conservative, in which case it is likely that their estimated market shares are overstated.

18. With no reliable market share figures, the Commission sought the views of the competitors of the parties regarding the likely effect of the merger on competition in the self-adhesive labels market. The Commission also interviewed the Printing Industries Federation of South Africa and the customers of the merging parties. The competitors of the parties interviewed by the Commission informed it that there were more than 160 other participants in this market; the biggest of the lot being Flexoprint, Rebsons, New Era, Multiprint and Paul Frey. The Printing Industries Federation of South Africa saw no possibility of the merger leading to concentration in the market. The customers of the parties also expressed the view that there are enough alternative suppliers in the market for them to choose from. In this regard, the Commission found that generally each customer currently has more than two suppliers.
19. The Commission went on to establish that there was a significant level of import competition in the market, currently standing at about 30% of all finished products. It also found that there were low barriers to entry in the market, with evidence of very recent entry. International producers are also targeting the local market and have been entering through local distributors. Finally, product manufacturers, the parties' main customers, determine demand in the market. Some of these customers are very big companies and, given the large number of suppliers of self-adhesive labeling material producers, the product manufacturers possess a significant amount of countervailing power.

Vertical Issues

20. The takeover of a dominant wholesaler, like Voltex, by Bidvest, a major logistics company, may raise concerns that the acquisition may help the wholesaler leverage its dominance in the downstream market. This is an aspect of this transaction unfortunately not canvassed by the Commission or the parties in their papers. At the hearing it was argued by the parties that Voltex has over the years had adequate financial means to grow and sustain its business independently, and the change in the shareholding as a result of the merger will not change this. The Commission agreed with the merging parties' submissions in this regard. Even though we do not have much information on this point, it appears that Voltex's position is already

very strong in this market and if there are any vertical effects arising from the merger, they will not be substantial.

21. The Commission concludes that it is not likely that this merger will lead to substantial competition problems. This is a view evidently shared by most of the market participants interviewed by the Commission. We agree. Given the size of the estimated market shares of the merging parties and the structure of the market as revealed by the Commission's investigations, the merger is unlikely to result in a substantial lessening or prevention of competition in this market.

Public Interest Considerations

22. No substantial public interest issues arise from the merger. We have been informed that because this transaction takes the form of a sale of shares, it will have no adverse impact on employment - none of the operating companies of the merging parties will retrench employees as a result of the merger.

N.M. Manoim

11 April 2002
Date

Concurring: D.H. Lewis; P. Maponya