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COMPETITION TRIBUNAL OF SOUTH AFRICA

Case No: 95/LM/OCT12
015768

In the matter between:

Steinhoff Doors and Building Material Proprietary Limited	**Acquiring Firm**
And	
Hardware Warehouse Limited	**Target Firm**

Panel	:	Norman Manoim (Presiding Member) Yasmin Carrim (Tribunal Member) Medi Mokuena (Tribunal Member)
Heard on	:	30 January 2013
Order issued on	:	30 January 2013
Reasons issued on	:	05 February 2013

Reasons for Decision

Approval

[1] On 30 January 2013, the Competition Tribunal ("Tribunal") approved the merger between Steinhoff Door and Building Material (Pty) Ltd ("SDBM") and Hardware Warehouse Limited ("HW") in respect of 100% of the shares in HW. The reasons for approving the proposed transaction follow below.

Parties to the transaction

[2] The primary acquiring firm is SDBM, a wholly owned subsidiary of JD Group ("JD Group"). SDBM focuses on manufacturing, sourcing of raw materials and the distribution of household goods through the stores, Pennypinchers, Timbercity, Tilehouse, Sand and Stone, Unitraco and Trust Plant.

[3] The primary target firm is HW, which retails building materials and associated products, to predominantly cash paying customers, including home builders, home improvers, contractors, traders and government organisations. HW operates stores in the following provinces: 13 stores in the Eastern Cape, 3 stores in Mpumalanga (Nelspruit, Bushbuckridge, Hazyview) and 1 store in KwaZulu Natal (Mtubatuba).

Rationale for the transaction

[4] The transaction will provide SDBM with growth in areas where it's currently not operating, such as semi-rural and rural areas in the Eastern Cape.

Relevant markets and impact on competition

[5] The merger has both horizontal and vertical effects. The vertical effects arise from the fact that PG Bison (Pty) Ltd ("PG Bison") a Steinhoff sister company, supplies particle boards to HW. Whilst PG Bison holds a significant share in the particle board market (35 -40% depending on the type) its supplies to HW are miniscule, constituting less than 1% of its sales.[1] Hence this issue requires no further consideration,

[6] There is a horizontal overlap in activities of the merging parties in that they both operate as retailers of building products.

Market share

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[1] Both are subsidiaries of Steinhoff International Holdings.

[7] The merging parties' activities do not overlap in any geographic markets except in Nelspruit which we consider later. The size of the geographic market in this type of retail merger does not permit of any precision. According to testimony from Mr Miller (the CEO of HW) at our hearing this depends on the type of customer. He stated that 95% of HW's customers were cash customers unwilling to travel further than 60 kilometres for their purchases. The remainder might be more willing to travel further as they were builders[2].

Other than in Nelspruit, HW does not have any store within a 60km radius of the nearest Steinhoff store.

[8] Apart from the fact that the merging parties do not have stores in the same geographic markets, their respective product offerings are differentiated both in type of product and likely customer profile. HW specialises in material attractive to the small customer building at home in lower L.SM. groups, Steinhoff on the other hand is involved in the provision of building supplies to tradesmen, DIY homeowners in higher L.S.M.'s and occasionally to other hardware stores, in urban centres across South Africa through its subsidiaries Pennypinchers and Timbercity retail stores.

[9] In Nelspruit where both merging parties overlap geographically, Mr de Klerk, who is the Managing Director of Steinhoff, submitted that there were several large competitors in the region and independent hardware stores which would continue to compete with the merging parties post merger.[3] Further given the differentiation in product mix as explained above, neither firm was the most direct competitor of the other.

Public interest

[10] The merger will probably lead to the retrenchment of 20 employees at head office level due to redundancies. All these employees are skilled and

[2] Transcript of hearing: page 8-9 para 20.
[3] Transcript of hearing: page 7 para 5.

will where possible find employment elsewhere in the JD Group. The small number of employees at risk and their skill level suggests that although the merger creates a public interest concern, it is not a substantial one. If employees are retrenched the merging parties have undertaken to notify the Commission of this fact. The Commission will thus be able to monitor if the retrenchments, should they occur, exceed the level indicated to it.[4]

CONCLUSION

[11] We approve the proposed merger unconditionally.

Norman Manoim	05 February 2013 **DATE**

Yasmin Carrim and Medi Mokuena concurring.

Tribunal Researcher:	Caroline Sserufusa
For the merging parties:	Heather Irvine for Norton Rose
For the Commission:	Rakgole Mokolo

[4] Transcript of hearing: page 13 para5.