

COMPETITION TRIBUNAL OF SOUTH AFRICA

Case No: 30/LM/Apr08

In the matter between:

RCS Investment Holdings (Pty) Ltd

Acquiring Firm

And

Massdiscounters, a division of Masstores (Pty) Ltd

Target Firm

Panel : D Lewis (Presiding Member), U Bhoola (Tribunal Member),
and M Mokuena (Tribunal Member)

Heard on : 4 June 2008

Order Issued : 4 June 2008

Reasons Issued: 21 August 2008

Reasons for Decision

Approval

[1] On 4 June 2008, the Tribunal unconditionally approved the merger between RCS Investment Holdings (Pty) Ltd and the retail consumer division of Massdiscounters, a division of Masstores (Pty) Ltd. The reasons for approving the transaction follow.

The parties

[2] The primary acquiring firm is RCS Investments Holdings (Pty) Ltd ("RCS"), a company jointly controlled by Foschini Limited ("Foschini"), which holds 55% of the shareholding, and Standard Bank of South Africa Limited ("SBSA"), which holds 45% of the shareholding and has minority protection rights.¹ RCS controls RCS Cards (Pty) Ltd ("RCS Cards") and RCS Personal Finance (Pty) Ltd ("RCS Personal Finance").

¹ The acquisition of 45% shareholding with Minority protection rights by SBSA in RCS was cleared by the Tribunal under case number 90/LM/Sep05.

- [3] Foschini is a public company listed on the JSE Securities Exchange and no single shareholder controls Foschini. Foschini controls various companies in South Africa.²
- [4] SBSA is a subsidiary of the Standard Bank Group Limited (“SBG”), which is listed on the JSE Securities Exchange. No single shareholder controls SBG. SBG controls various companies in South Africa.³
- [5] The primary target firm is Massdiscounters, a division of Masstores (Pty) Ltd (“Masstores”), which trades as Game, Dion and Dion Wired. Masstores is a wholly owned subsidiary of Massmart Holdings Limited (“Massmart”), a public company listed on the JSE Securities Exchange. Massdiscounters does not control any firm.

Description of the transaction

- [6] In terms of this transaction, RCS intends to acquire the consumer credit business of Massdicounters. On completion of the transaction, RCS will own the consumer credit business of Massdiscounters.

Rationale for the transaction

- [7] RCS views this transaction as an opportunity to use its financial services expertise and capability to provide an outsourced service to retailers whereby RCS will run financial/ retail credit services on behalf of the retailers.
- [8] For Massdiscounters, this transaction enables it to grow the contribution of the credit turnover relative to the total turnover earned from its stores through outsourcing the retail credit business to a specialist firm.

The parties’ activities

Primary acquiring group

RCS

² These include Foschini Retail Group (Pty) Ltd; Retail Credit Solutions (Pty) Ltd; What U Want To Wear (Pty) Ltd; Markhams (Pty) Ltd; Fashion Retailers (Pty) Ltd; Foschini Finance (Pty) Ltd; and Foschini Investments (Pty) Ltd.

³ These include Diners Club SA; Blue Bond Investments; Standard Bank Insurance Brokers; Melville Douglas Investment Management; Standard Insurance; Standard Executors and Trustees; and Stanvest.

[9] RCS provides retail credit through RCS Cards and unsecured personal loans through RCS Personal Finance. RCS Cards and RCS Personal Finance operate as separate subsidiaries of RCS.

[10] The parties submitted that RCS Cards offers short term retail credit by means of its “private label”⁴ card facility to over 400 000 customers and has partnered with 7 500 merchants by offering their customers finance for purchasing a variety of goods with its “private label” cards.⁵

[11] RCS Personal Finance offers unsecured personal loans to persons within the broad middle income group.

Foschini

[12] Foschini is a clothing and apparel retailer which also offers credit to customers that purchase from its retail stores.

SBSA

[13] SBSA is an authorised financial services provider which provides, inter alia, personal banking, corporate banking, investment banking, and business banking. SBSA also provides products such as banking accounts, credit cards, debit cards, overdraft facilities, loans, asset and vehicle finance, among other things.

The primary target firm

Consumer credit business

[14] The consumer credit business of Massdiscounters provides retail consumer credit in Game, Dion, and Dion Wired stores.

Relevant market

[15] There is an overlap in the activities of the parties with respect to the provision of retail credit as SBSA, Foschini and RCS offer retail credit which competes with

⁴ The parties submitted that a “private label” card is a revolving credit program which does not require re-application for repeat purposes. In this regard it is similar to the traditional Visa or Mastercard credit cards. See record pages 43-46.

⁵ These merchants include Game, Dion, Dion Wired, Makro, Builderswarehouse, Tile Africa, Mattress Factory, Look & Listen, Glomail, and Verimark, among others. See record page 45 for a list of merchants partnering with RCS.

or is a substitute of the retail credit offered by Massdicounters. As a result, the parties and the Commission submitted that the relevant product market is the market for the provision of unsecured credit. In addition, the parties and the Commission concluded that the geographic market is national as Massdiscounters operate nationally.

Competition analysis

[16] The major participants in the market for unsecured loans may include the major banks, furniture and clothing retailers and a host of other players.

Table 1: Market shares of the competitors in the provision of unsecured loans during 2006/2007

Entity	Market Share
Standard	20
ABSA	19
FNB	15
Nedbank	11
ABIL/Ellerines	10
Edcon	6
JD Group	6
Woolworths	4
Lewis	2
Foschini	2
Others	4
Total	100

Source: Merging Parties

[17] As can be seen from the above market shares, SBSA and Foschini, the controllers of RCS have market shares of 20% and 2%, respectively. The parties submitted that SBSA, Foschini and the merged entity will not operate as one entity post merger. Although RCS is jointly controlled by SBSA and Foschini, each of its controllers independently operates its own retail credit business. Even if the market shares of SBSA, Foschini and RCS were to be

combined, the accretion of market share is less than 1%. The parties submitted that RCS and the target firm have less than 1% each in the market for the provision of unsecured credit.⁶ In addition, there are other players which will continue to compete with the merged entity and these include ABSA, FNB, Nedbank, ABIL/Ellerines, Edcon and Woolworths, among others. As a result, the proposed transaction is unlikely to substantially prevent or lessen competition.

Public Interest

[18] There are no public interest issues.

Conclusion

[19] The merger is approved unconditionally.

D Lewis
Tribunal Member

21 August 2008

DATE

U Bhoola and M Mokuena concur in the judgment of D Lewis

Tribunal Researcher : R Kariga

For the merging parties: Bowman Gilfillan Attorneys.

For the Commission : K Mahlakona and X Nokele (Mergers and Acquisitions)

⁶ See record page 33.