

**COMPETITION TRIBUNAL
REPUBLIC OF SOUTH AFRICA**

Case No: 33/LM/Jun01

In the large merger between:

Imperial Holdings Limited

and

Tourism Investment Corporation Limited

Reasons for the Competition Tribunal's Decision

APPROVAL

On 4 July 2001 the Competition Tribunal issued a Merger Clearance Certificate approving the merger between Imperial Holdings Limited and Tourism Investment Corporation Limited without conditions in terms of section 16(2)(a). The reasons for the approval of the merger appear below.

The merger transaction

1. The primary acquiring firm, Imperial Holdings Limited ("Imperial"), is acquiring all or part of the ordinary shares in Tourism Investment Corporation Limited ("Tourvest"), the primary target firm.
2. Both companies will post-merger retain their primary listings on the Johannesburg Stock Exchange and continue to conduct their respective businesses separately.

EVALUATING THE MERGER

The relevant market

3. Imperial, has over 30 subsidiaries in South Africa. Though primarily known as a transport and financial services group, it conducts through its various operations, a vast array of services including transport, motoring, car rental and tourism, trucking, aviation leasing, logistics and fleet management outsourcing and forklifts. Its financial services wing is involved with the supply of banking, short-term insurance and life assurance products. Imperial's financial services business has recently been sold to Nedcor.

4. Imperial's tourism arm consists of an inbound tourism service only.¹ It has two major brands operating in this market. Springbok-Atlas focuses specifically on the European and Australasian markets. They market standard tour packages to international operators and also sell individual packaged holidays. This brand also has a transport service which transports tourists on their fleet of luxury and semi-luxury coaches. Secondly, Imperial owns the Grosvenor Tours brand, which caters to both the North and South American markets.
5. Tourvest is primarily engaged in two areas: (i) travel and financial services and (ii) retail merchandise. Like Imperial, it also boasts a stable of over 30 subsidiaries in South Africa, through which these activities are conducted.

(i) Travel

Tourvest's travel arm consists of three divisions: Inbound Tourism Services Unit, Outbound Travel Solutions and a so-called "Dotcom unit".

❖ Inbound Travel

The Inbound Tourism Services Unit offers travel tour operators and product companies targeting the incoming overseas and regional travel market. It comprises a range of service operators including **Autshumatu Marine Services**, (offering ferry and leisure cruises in the Western Cape); **Baz Bus** (a backpacker hop-on hop-off bus service to tourist centers around the country) ; **Africa Shongololo Express** (a train cruise service around the country); **Crown Travel, Incentive Touring, Welcome Tours & Safaris, Willson Collins Travel** (various tour operators specializing in individual, group and specialized scheduled holidays) as well as **Sunbound Tours and Safaris** (safari drives).

❖ Outbound Travel

Tourvest's outbound travel arm is grouped with financial services and comprises three categories of business, namely outbound travel agents, wholesalers and product providers; adventure tourism & safari operators and foreign exchange. Well-known brands include Seekers Travel, American Express Travel, Starlight Cruises, Safpar White River Rafting and Wild Horizons Elephant-back Safaris.

❖ Dotcom Unit

Tourvest's dotcom unit houses a range of e-commerce internet initiatives targeted at both the inbound and outbound tourism community. Well known websites include travel.co.za; amex.co.za and lastminute.com.

¹ A generic term which describes international tourism into a particular country. It includes tour operators, transport (car and coach rentals), accommodation and tour guide services. See Commission report page 3

(ii) Retail Merchandise

6. The Retail Merchandise division houses the group’s tourist retail business, designed to focus on inbound, foreign tourists. Outlets are predominantly strategically-based at Johannesburg and Cape Town International Airports and major shopping centres. They include Curio Mega-Store, Big 5 Duty Free Store, Derek Bauer, Tanur Jewellery.
7. The Commission identified the area of overlap between the parties’ services as being that of providing the services of **inbound tour operators** to the incoming tourist market. Tourvest is not involved in either the transport or tour guide services aspects of inbound tourism directly.² Similarly, Imperial does not provide any outbound or retail merchandise tourism services.
8. The Commission identified the geographical market as the whole of South Africa since both companies operate throughout South Africa.
9. The Tribunal agrees with this definition of the relevant market.

Impact on competition

10. The Commission calculated the market shares for the relevant market, inbound tour operator services, as follows³:

<i>Firms</i>	<i>No. of incoming tourists</i>	<i>Market share</i>
Imperial	40,000	0.62%
Tourvest	115,000	2,5%
Total	4,6 million	100%

Source: SATour figures

11. Accordingly, this would leave the parties with a 3.12% post-merger market share in the relevant market. The Commission stated that exact empirical data was not available. Conversations the Commission had with the South African Tourism Service Association, (“SATSA”) revealed that these were not large players and that they were in no form, dominant or to be dominant post merger.
12. However at the hearing, the parties indicated that the inbound tour market is further stratified into “niche” markets – the coach-based package tours and the “FIT”, or individual itinerary-based traveller market. Accordingly, on the narrower assessment of the market, it would seem that the Commission’s market share estimates are somewhat general and could under-state the true position. It

² The Commission states that Imperial is vertically integrated into coaches and car rental services, however its market position in this respect is not altered by this merger.

³ These calculations are based on figures provided by SATour, based on the estimated amount of tourists coming to South Africa per annum. Clearly not all make use of the services of inbound tourist companies so this statistic is unreliable.

would appear that tour operators operate in differentiated “niche” markets. No market share information was presented to reflect this market.

13. The parties conceded at the hearing that the largest operators in the small niche coach-based tour market were Tourvest’s Welcome operation and Imperial’s Springbok-Atlas brand. Notwithstanding this admission, they allayed any competition concerns raised by the merger of the two largest competitors in this niche market by stating that the packaged-tour market is presently relying on a rapidly-dwindling customer base. Consumers are now choosing FIT, itinerary-based tours, a market for which there are countless operators. As a result, a great deal of rationalization is required to keep pace with the changing profile of the industry. In order to respond to the dynamic nature of the industry, the parties are hoping to achieve significant synergies, economies of scale and rationalization benefits through this merger.

Barriers to Entry

14. SATSA indicated that there are 650 registered tour operators straddling all niche markets. The larger players in the inbound tourism industry include RCI, Thompsons, Into Africa, Wilderness Tours and Safaris, Hilton Ross, Magari Safaris and ERM. There are also many smaller operators.
15. It would appear that entry into the tour operator market is relatively easy. Tourism is very accessible, with minimal capital outlay requirements. From the parties’ submissions, it would appear that the inbound tourist customer base is very sophisticated and discerning. They are likely to “shop around” and compare prices in an industry where pricing is very transparent. Therefore any arbitrary price increase by the merging parties via their tour operators would in all likelihood result in consumers merely switching to alternate (cheaper) operators.
16. The Tribunal therefore endorses the Commission’s view that this merger will not result in the substantial lessening or prevention of competition in any market.

Public Interest Considerations

17. The merger raises no public interest concerns since Tourvest and Imperial will continue to conduct their operations separately.

N. Manoim

11 July 2001
Date

Concurring: D.H. Lewis, P. Maponya