

**COMPETITION TRIBUNAL OF SOUTH AFRICA**

**Case No: 35/LM/Apr07**

In the matter between:

**Steinhoff Africa Holdings (Pty) Ltd**

Acquiring Firm

And

**BCM Holdings Limited (Pty) Ltd,  
International Wire Converters (Pty) Ltd, and  
Buffalo Freight Systems (Pty) Ltd**

Target Firm

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Panel : D Lewis (Presiding Member), N Manoim (Tribunal Member), L  
Reyburn (Tribunal Member)  
Heard on : 1 August 2007  
Order issued on: 1 August 2007  
Reasons Issued: 9 November 2007

**Reasons for Decision**

**Approval**

1] On 1 August 2007, the Tribunal approved with conditions the merger between Steinhoff Africa Holdings Limited (Pty) Ltd and BCM Holdings Limited, International Wire Converters, Buffalo Freight Systems (Pty) Ltd. The reasons for approving the transaction follow.

**The parties**

2] The primary acquiring firm is Steinhoff Africa Holdings (Pty) Ltd ("Steinhoff"), a

company incorporated in terms of the company laws the Republic of South Africa. Steinhoff is a wholly owned subsidiary of Steinhoff Investment Holdings Limited which is in turn, a wholly owned subsidiary of Steinhoff International Holdings Limited (“Steinhoff International”), being a public company listed on the JSE Securities Exchange. The shareholders of Steinhoff International who hold at least 5% are RMB Asset Management and funds administered by them (with a 12.7% shareholding), BS Beteiligungs und Verwaltungs GmbH<sup>1</sup> (with a 9.3% shareholding), Fidelity International Limited (US, LU, UK, and CA) (with an 8.75% shareholding), Investec Asset Management (with a 7.75% shareholding), and Stanlib Limited (with a 5% shareholding).

- 3] The primary target firms are BCM Holdings (Pty) Ltd (“BCM”), International Wire Converters (Pty) Ltd (“IWC”), and Buffalo Freight Systems (Pty) Ltd (“Buffalo Freight”). The target firms are controlled by Geros GmbH, a company incorporated in Austria, which is also controlled by Daun et Cie, a company incorporated in Germany which is in turn controlled by Claas Daun.

#### **Description of the transaction**

- 4] In terms of the structure of this transaction, Steinhoff intends to acquire all the shares in and claims on loan account against BCM, IWC, and Buffalo Freight.

#### **Rationale for the transaction**

- 5] In its submissions to the Tribunal, the primary acquiring group stated that the transaction compliments and diversifies the raw material offering by them and gives them international exposure as these raw materials are exported overseas. However, the internal documents of the Steinhoff show that its primary motivation for concluding this transaction is the entry into the South African springs market by Legett & Platt, a world player.<sup>2</sup>

#### **The parties’ activities**

- 6] The primary acquiring group is a manufacturer and distributor of furniture and household goods, as well as a manufacturer and distributor of those raw materials which are used primarily in the manufacture of household goods. It is

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<sup>1</sup> This company is controlled by Bruno Steinhoff.

<sup>2</sup> See page 2 of extract of board minutes for the board meeting held on 4 December 2006.

involved in forestry, sawmilling, production of processed timber products, furniture manufacturing, bedding manufacturing, wooden kitchenware, and manufacturing of foam and textile.<sup>3</sup> Furthermore, the acquiring group is involved in freight and passenger transport, warehousing, logistics services, motor retail and car rental.

- 7] The primary target firms are involved in manufacturing and distribution of bedding components that are used in the bedding industry. BCM manufactures and distributes inner mattress springs, plastic legs, corner guards and z-springs. IWC manufactures and distributes bedding and sitting wire. Buffalo Freight engages in freight forwarding and clearing services.

### **Relevant product market**

- 8] The proposed transaction results in both horizontal overlap and vertical integration.

#### Horizontal product market

- 9] The only horizontal overlap resulting from this transaction is with regards to the freight forwarding market. The parties submitted that the freight-forwarding services they conduct involves arranging the international freighting of goods bought by their clients whether by sea, air or road freight, the clearing of the goods through customs and the payment of customs duty, VAT, and freight costs on behalf of clients. It also includes arranging the delivery of the goods to the clients' premises.

#### Vertical product market

- 10] The proposed transaction results in vertical integration in that Steinhoff purchases raw materials from BCM and from IWC to use in the manufacturing of bedding and furniture.

#### Upstream markets

- 11] The Commission identified the relevant upstream markets in this transaction as the upstream market for the production of bedding components, and the

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<sup>3</sup> See record pages 68-69.

upstream market for z-springs.

#### *Market for production of Bedding components*

- 12] The parties stated that there is a market for bedding components though they provided market shares per component. After finalising its investigations, the Commission concluded that, in this transaction, the market for bedding components can be further classified under two submarkets since bedding manufacturers can purchase various components from different producers. The first one is the market for bedding and sitting wire, and inner mattress springs. The second one is the market for plastic bed legs and corner guards. There are no competition concerns in the latter market as there many suppliers and barriers to entry are very low. The first market will be analysed below.

#### *Market for manufacture of Z-Springs*

- 13] The target firms manufacture both the wire needed to produce z-springs and the actual z-springs. Z-springs are used in the manufacture of lounge furniture.

#### *Downstream markets*

- 14] There are two downstream markets identified by the Commission in this transaction.

#### *Bed manufacturing*

- 15] The first downstream market identified with respect to the bed manufacturing segment is the market for inner mattress spring units which can be supplied on a large scale to the national furniture retailers. There are three types of mattresses namely quilted foam mattress, non-quilted form mattress and the inner-spring mattress. For our purposes, the relevant market relates to the springs mattress. The firms competing in this market are predominantly Steinhoff,<sup>4</sup> Lylax, Restonic, Simmonds, Rand bedding, Contour beddingEMPS bedding and Viva bedding.

#### *Manufacture of lounge suites*

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<sup>4</sup> Steinhoff owns a significant portion of this market through its brands like Seally, Slumberland, Edblo and King Koil which is manufactured under contract.

- 16] The second downstream market identified is the market for the manufacture of lounge suite furniture. These lounge suites are manufactured for the national chains and makes use of z-springs.

### **Relevant geographic market**

- 17] It was not contended by any of the parties in these proceedings that the relevant geographic market for the implicated product markets is at least national. We will therefore, analyse the impact of this transaction in the Republic of South Africa.

### **Competition analysis**

#### Horizontal Analysis

- 18] There are no competition concerns that arise in the market for freight forwarding services since the merging parties' combined market shares are expected to be less than 1%. In addition, the South African Association of Freight Forwarders ("SAAFF") submitted that there are more than 600 large, medium and small players who compete effectively in this market.<sup>5</sup> SAAFF further stated that the freight forwarding market is highly competitive as there are low barriers to entry.
- 19] After the merger was referred to the Tribunal, the parties were requested to provide further information to the Tribunal. The Tribunal was concerned that post merger Steinhoff would control a large portfolio of raw materials used in manufacturing bedding and, post merger, this would give Steinhoff the power to require manufacturers of beds to buy a bundled products or to bundle inputs in predatory manner to exclude rivals. After receiving Steinhoff's further submissions, the Commission sent them to Steinhoff's competitors and customers for comment. None of them indicated any concerns, and one firm which had previously advised the Commission that it had concerns about the merger, now indicated that its concerns had been addressed by the additional information.

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<sup>5</sup> Record page 598.

- 20] Steinhoff's further submissions show that there is no horizontal overlap in the inputs that Steinhoff and the target firms supply to the bed manufacturing industry. The target firms, as noted earlier, manufacture bed springs, an input that Steinhoff does not manufacture.<sup>6</sup> Industry practice in the bedding industry recognises three segments; entry level, mass market and middle level and the upper market beds. Springs are not used as an input into entry level beds as manufacturers prefer to use foam to keep costs down. Since at present the entry level is the portion of the market where Steinhoff supplies 62.9% of value of the inputs, the addition of the springs will not enhance its share of the inputs that go into beds for this segment. At the other levels, where springs are used Steinhoff's share of the inputs decreases, varying between 22% - 28%, pre merger. Although at these levels springs comprise, depending on the level, between 20% – 28 % of the input costs, this is not sufficiently large a command of the inputs to warrant concern yet. Moreover, the target firms the target firms are not dominant suppliers of springs to the bedding industry, commanding only 28% of the market for this input. Thus even in these other segments it is unlikely to have a sufficient command to exercise portfolio power.
- 21] In addition post merger, Steinhoff will face competition from Legett & Platt, a world player in the provision of springs.<sup>7</sup>

#### Vertical Analysis

- 22] This transaction is related to the *Platoon/PG Bison*<sup>8</sup> transaction which was approved by the Tribunal on the same day as the current transaction. In the *Platoon/PG Bison* matter, Steinhoff is selling its furniture manufacturing business, including bedding, furniture logistics division which deals with roadway logistics and regional distribution centre and import sub-division which imports lounge furniture, bedroom and dining room suites to supplement the locally manufactured ranges to ABSA Group of companies. As a result, the Tribunal did not consider the competition concerns arising from this transaction but instead imposed a condition that the approval of this transaction is subject to the implementation of the *Platoon/PG Bison* transaction. The implementation

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6 See also record page 495.

7 See page 2 of extract of board minutes for the board meeting held on 4 December 2006.

8 Tribunal Case No.61/LM/Jun07

of the *Platoon/PG Bison* transaction would remove the potential competition concerns that might have arisen because of this transaction.

- 23] After the implementation of the *Platoon/PG Bison* transaction and the current transaction, Steinhoff will remain with the manufacturing and distribution of raw materials business, as described above. In addition, Steinhoff will be holding BCM's 69% market share for the supply of z-springs,<sup>9</sup> BCM's 28% market for the supply of inner mattress springs,<sup>10</sup> IWC's 28% market share in the bedding and seating wire market<sup>11</sup> and Buffalo Freight Systems' less than 1% market share in the freight forwarding services market.
- 24] On the other hand, Platoon will house the furniture manufacturing business, including bedding manufacturing (previously Steinhoff's). The parties assured the Tribunal that Steinhoff will not directly or indirectly exercise any control over Platoon.<sup>12</sup>

#### **Public Interest**

- 25] There are no public interest issues.

#### **Conclusion**

- 26] In light of the foregoing, the merger is approved subject to the condition that the *PG/Bison* transaction is implemented.

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N Manoim

Tribunal Member

**9 November 2007**

**DATE**

D Lewis and L Reyburn concur in the judgment of N Manoim

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<sup>9</sup> See record page 90.

<sup>10</sup> See record page 96.

<sup>11</sup> See record page 81.

<sup>12</sup> See *Platoon/PG Bison* record pages 520 and 522.

Tribunal Researcher : R Kariga

For the merging parties: Steinhoff Group Services

For the Commission : G Mudzanani and HB Senekal (Mergers and Acquisitions)