

**COMPETITION TRIBUNAL
REPUBLIC OF SOUTH AFRICA**

Case No: 81/LM/Nov02

In the large merger between:

Edgars Consolidated Stores Limited

and

Central News Agency (Pty) Ltd & Consolidated News Agency (Pty) Ltd

Reasons

Approval

The Competition Tribunal issued a Merger Clearance Certificate on 6 November 2002 approving the merger without conditions. The reasons are set out below.

The merger

The transaction

In terms of the Sale of Business Agreement, Edgars Consolidated Stores Ltd will purchase from Consolidated News Agencies (Pty) Ltd and Central News Agency (Pty) Ltd ("CNA") part of its business, comprising:

- 1) The business as a going concern conducted from the 139 stores¹, all of which are situated in South Africa, constituting –
 - The stock in trade in these acquired stores; and
 - The fixed assets in these acquired stores;
- 2) The intellectual property rights of CNA, including trademarks, trade names, logos, designs and signage;
- 3) Other stock and fixed assets situated in certain retail stores; which stores are likely to be closed prior to the transaction becoming unconditional; and
- 4) Certain immovable properties situated in Johannesburg from certain subsidiaries of CNA.

¹ In total there are 210 CNA stores of which 145 are located in South Africa.

The parties to the transaction

The primary acquiring firm is Edgars Consolidated Stores (“Edcon”), a public company listed on the JSE. Edcon is not controlled by any firm. Edcon recently bought Retail Apparel (Pty) Ltd² and Elixer Marketing (Pty) Ltd trading as Super Mart.³

The primary target firms are Consolidated News Agencies (Pty) Ltd and Central News Agency (Pty) Ltd (“CNA”).

Rationale for the transaction

According to the parties, Edcon is interested in expanding its existing clothing, footwear and accessories businesses into other product markets because of the changing needs of South African customers. Through CNA Edcon will be able to expand into some of those product categories that are currently attracting a greater proportion of customers’ spend. Edcon, furthermore believes that it has the knowledge and experience to improve CNA’s profitability, thereby ensuring that the CNA brand continues to exist in the market.

Edcon will not re-brand the CNA stores.

Evaluating the merger

The relevant market

Edcon trades predominantly in the retailing of clothing, footwear, accessories and cellular phones throughout South Africa and in neighboring countries. Edcon’s major retail formats are Edgars, Jet, Sales House, Red Square, Cuthberts, Smiley’s Wearhouse and ABC, which target the lower-middle to upper-middle income groups.

Through its recently acquired Super Mart stores, which are large discount departmental stores aimed at the middle to lower income groups, it sells electrical appliances and sound equipment, house and kitchenware, DIY products, flooring, blankets and linen, jewelry, beauty products and cosmetics, music and video, schoolwear, stationery, toys and luggage. It also offers a full range of clothing for men, ladies, kiddies and infants.

CNA operates mainly as a book and stationery retailer. It also sells newspapers and magazines, audio and audio-visual products (music, video & DVDs) greeting cards and gift wrap, photographic development and printing services, toys, interactive games, software, cellular communication products, confectionery and an assortment of collectables.

² See Competition Tribunal Case No: 53/AM/Aug02

³ See Competition Tribunal Case No: 70/LM/Sep02

The following categories of product are sold by CNA and Edcon:

1. Cellular telecommunication services⁴
2. Audio and audio-visual products⁵
3. Toys⁶
4. Stationery⁷

With regard to the cellular telecommunication market the profile of CNA's customers corresponds to a large extent with that of Edcon's customers i.e. extending from lower-middle to upper-middle income families, with the majority in the middle-income market.

With regard to the audio and audio-visual products, toys and stationery, sold by CNA and Super Mart, the customer profile, the product range and quality, the different store formats and the store location indicate that the merging parties do not compete in the same relevant product markets. For example Super Mart caters for different audio and audio-visual tastes and according to the merging parties the degree of overlap between Super Mart and CNA's respective product offerings in terms of music and audio-visual content is no more than 810%. The parties estimate that the degree of overlap of similar products between Super Mart and CNA in the toys category is no more than 15% and in the stationery product market, the top 10 sellers list of each merging party, indicates that they focus on different consumer groups.⁸

CNA and Edcon buy merchandise, set prices and advertise their products on a national level. We therefore agree with the Commission that the geographic market is national for each of the relevant product markets.

Effect on Competition

Since Edcon and CNA do not compete in the same relevant product markets for audio and audio-visual products, toys or stationary we will only consider the effect on competition in the cellular telecommunication market.

There are a number of competitors in the cellular telecommunication market. The following competitors are the largest players in the pre-paid cellular market:

⁴ Edcon and CNA sell prepaid airtime, cellular handsets and accessories. This market comprises 25% of the total cellular airtime markets.

⁵ This includes videos and music CD's and tapes. Super Mart does not sell DVD's. Although CNA and Super Mart do not target the same customers, the merged entity's national market share in the *total music market* (CD's and cassettes) will be 10.2%, with Musica & CD Warehouse the largest with a market share of 32% and Look & Listen with 10.4%.

⁶ Super Mart sells predominantly lower-end recreational toys and CNA mainly educational.

⁷ Super Mart sells mainly to school-going children while CNA sells to a range of customers from businesses to upper- middle income consumers, etc.

⁸ See page 224 of the record.

- Vodacom 25,7%
- MTN 15,4%
- Furniture Stores 10.3%
- Pick 'n Pay 6.9%
- Makro 5.1%
- Dion 5.1%

The merged entity's market share will be 8.6%. The Competition Commission, in its recommendation, found the cellular telecommunication market highly competitive and unconcentrated, with low barriers to entry.

We agree with the Competition Commission's recommendation and find that the merger will not substantially prevent or lessen competition in any of the relevant markets. Since the merger will not adversely affect competition we do not need to consider the additional fact that CNA is also a failing firm.

Public Interest Issues

The transaction does not raise any public interest grounds.

N. Manoim

18 November 2002
Date

Concurring: F. Fourie, M. Holden

For the merging parties: Werksmans Attorneys

For the Competition Commission: A Coetzee, Legal Services Division