

PRESS STATEMENT

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Competition Commission to probe the supermarket industry

The Competition Commission has initiated an investigation against major South African supermarket chains, Pick 'n Pay, Shoprite/Checkers, Woolworths and Spar (who together comprise more than 60% of the market by turnover), as well as the major wholesaler-retailers, Massmart and Metcash for alleged contraventions sections 4(1)(a), 5(1) and 8(c) of the Competition Act.

The investigation has been prompted by concerns raised by various stakeholders and the public in general. Concerns raised fall within the food and agro-processing sector, which has been identified as a priority by the Commission.

In a preliminary review of industry practices and structural characteristics in the industry the Commission identified several potential concerns, including:

1. Concentration of buyer power

This can be manifested in practices such as exclusive supply arrangements, listing fees, slotting allowances, payment policies, returns policies, promotional discounts and other rebates, potentially limiting upstream competition and making it difficult for small producers to gain and retain access to retailers' shelves.

2. Long-term exclusive lease agreements

Property developers allegedly enter into exclusive anchor deals with major retailers for periods as long as 20 years. The retailers receive favourable rental rates which can function as a barrier to entry and could have the effect of excluding competitors.

3. Category Management

Category captains are appointed from the ranks of the largest manufacturer in a particular product category to manage all aspects of that category in the retail stores. In other words, one competitor is given the task to manage the placement, promotion and pricing of other competitor's products, on a category-wide basis. Through this conduct category captains may gain access to sensitive information such as the sales volume data of all brands. This could potentially minimise inter-brand competition. Moreover, competitive exclusion may take place and the conduct could facilitate collusion. This has been the focus of extensive anti-trust concern in the US.

4. Information Exchange

The Commission is concerned that supermarkets could be exchanging price sensitive information, which may have an impact on competition.

As part of its investigation the Commission will engage with the respondents as well as the members of the public to get an in-depth understanding of competition in this market. The Commission will decide at the end of its investigation whether there are sufficient grounds to refer the matter to the Competition Tribunal for adjudication.

“The Commission has made several interventions along the food value chain, from production through to processing. This complaint initiation now aims to uncover whether there are any possible competition concerns arising in the retail space, where consumers would most directly be affected,” explained Commissioner Shan Ramburuth.

ENDS

Prepared by: FD Beachhead

Jennifer Cohen 011 214 2401/ 082 468 6469/ jennifer.cohen@fd.com

Dani Cohen 021 487 9021 / 082 897 0443 dani.cohen@fd.com

Senzi Dlamini 011 214 2420 / 073 494 0030 senzi.dlamini@fd.com

On behalf of: The Competition Commission

Further info:

Nandi Mokoena, Manager of Strategy and Stakeholder Relations, Competition Commission
012 394 3286 / 082 399 1328 / nandisilem@compcom.co.za

Keitumetse Letebele, HOD Communications
012 394 3183 / 082 783 3397 / keitumetsel@compcom.co.za