COMPETITION COMMISSION'S GROCERY RETAIL MARKET INQUIRY TRANSCRIPT

GAUTENG 5 JUNE

Competition Commission :

1. Technical team and the parlour with the working knowledge of the market. Secondly this is a second point to the phase two. Secondly the enquiry conducted country wide sight visits. The technical team with the small team amongst others and independent business owners formal informal market both local and Foreign Nationals, Government , Grocery Suppliers, Wholesalers, New Market Entrants, Property Developers and Finances located mainly located in townships Peri-Urban, Rural Areas through- out the country. The sights visits were followed by re-visits where the members of the Technical team as well as the panel further engaged with the constitutions once off and associations formed by small and independent retailers in the informal market.

2. In the third, phase the enquiry had commissioned two surveys targeted at consumers and small businesses respectively. Thus far the consumers survey has been concluded and the results will be published on the enquiries website in the next coming weeks. The small business survey will be concluded in early June so some time now basically. And the fourth phase which is what brings everyone here is the public hearings. The public hearing will allow the enquiry to give an opportunity to consumers pillars of all sizes especially small and independent retailers and any other interested parties to submit their views and experiences to the enquiry. The first hearings were held in Cape Town in May. This is the second set of hearings which are being held here in Gauteng, and I would like to mention we have decided to split the Gauteng hearings into two, from today up until Wednesday we will the hearings will be held here in Pretoria and then Thursday and Friday they will be held in Joburg at the Parktonian Hotel in Braamfontein. Um the next round of hearings will be held in Kwa-Zulu Natal from the 3rd July until the 7th July , but do note that the enquiry may also decide to hold additional public hearings in other Provinces should the need arise.

3. I now move on to discuss the conduct of the public hearing, which is important for those that are participating to a kind of understand to how we will be

proceeding. As I indicated earlier these particular public hearings will only cover specific objectives that was previously stated. This is because some of the objectives in particular some of those dealing with the informal sector were extensively discussed and probed during the enquiry site visits and re-visits. The topics to be discussed at this public hearing are:

a. The impact are both negative and positive effects therefore of the entry of National Supermarkets Chains into townships, Peri-Urban Areas, Rural Areas and the informal economy.
b. The impact of long-term exclusive lists agreements and the role of Finances on competition of the grocery retail.
c. The impact of regulations and by-laws in competition in the grocery retail market, and lastly the impact of bio groups and bio power of purchase of fast moving goods on consumer competition in the grocery retail market.

At this point we hereby set out conduct which is applicable to the stakeholder submission, to the stakeholders making submissions. Number:

d. Where necessary may claim confidentiality to the commission processes as outlined in section 44 Of the competition Act that is if the parties make submissions or would like to make submissions. Pertained to information that is confidential to their businesses can do so under section 44.
e. Secondly stakeholders should that in accordance with section 72 of the competition act failure to Answer fully is a recognised offence of the act.
f. As per section 73 that's the third one we would like the stakeholders to note per section 73 of the competition act. A person commits an offence if they fail to comply with the act . And finally stakeholders should note that they maybe summoned should the commission believe that a person is able to furnish any information or on the subject of the investigation or to have possession or control of any book document or any other has a bearing on subject of this on the subject being probed by this enquiry.

<u>Rules for the public hearing</u>

<u>The Procedure</u>

4. The formal seating's of the enquiry would be opened to the public at all times except when the panel rules that and for this case. I will be making that ruling except when I rule that part of the proceedings will be closed on the grounds set out below. Upon making such a ruling we may exclude public or specific persons or categories or persons from attending the proceedings on the following grounds :

5. If the information to be represented is confidential

6. If the proper conduct of the hearing requires it or for any other reason that would be justifiable in Proceedings competition tribunal and competition court or in terms of the competition act . All the sessions will be recorded and streamed live online say for those sessions or parts of sessions that are closed.

7. In order to allow for the proper ventilation of information the panel as well as the head of enquiries technical team may pose questions to the person making all of the submissions or to any witness. On this one I would like to highlight that some people tend to think we are cross examining them this is not one cross examination of any kind it will be clarification points at first. So that we would like you to be understood no matter how heavy it seems that is what we are doing.

8. Thank you, we will not permit any person personally through legal representatives to question witnesses or any other person making our submissions during the public hearings. In the event that a stakeholder has an objection in respect of submissions heard during these proceedings the stakeholder must submit a question or comment to the enquiry in writing by e-mail at retail@compcom.co.za or retail@com.co.za by post at private bag X23 Lynwood Ridge, Pretoria 00 that's the postal code 0040 or by telephone on (012) 394-3417. The enquiry will attend to the matter in the appropriate time. Due to the available time being limited only one representative of the group or entity either personally or through a legal representative will be limited to make

oral submissions at the public hearings other than witnesses the parties may wish to call in support of their section.

9. Where parties anticipate that different representatives will be needed to address certain topics, the arrangements should be made with the panels in advance. We may conduct joint hearings in terms of which any number of persons maybe combined as participants in the same proceedings if they are respective submissions or responses being to the panel involves substantially the same question flow of facts in conclusion. We hope that over the coming days we will develop a mutual sense of trust that is vital for the proper conduct of this enquiry. This enquiry is not really important to us for submission and to you as a stakeholder but it is important to the nation as a whole the grocery wholesale and retail market is important as it is a part of chain that ensures food security it creates jobs, allows South African companies to expand and provide a lot of young people with entrepreneurial opportunities. We hope it's outcome will be to promote competition in South Africa and in doing so to promote an inclusive to the South African Economy.

10. Thank you, with this address I would like to comment the Pretoria public hearings and now hand over to the first stakeholder that would be making the submissions and that is EST Africa. I now present to you, and you have been told how to operate this.

11. But I suppose it's on.

Competition Commission :

12. Ok, you may proceed sir.

EST Africa: Louis Greef

13. Thank you very much Madam Chair. My name is Louis Greef, I am from a company called EST Africa we are a buying group representing a large number of independent trading happening in South Africa, independent retailers and wholesalers, and we felt that it is our duty that we make this public submission

as I truly believe that this debate should be public and I found it shocking that the nature retailers in South Africa decided that their submissions should be regarded as confidential. This probably represents the biggest part of South African Economy if we start to link it upstream into South African fast linking goods manufacturers downstream into shopping centres, buildings etc etc

14. We dealing with an incredible part of the South African economy and Madam Chair, I would , I would the like to request everybody to leave the room as my presentation is confidential. No sorry.

15. Madam Chair, the process is that I'm sure I would like to do follow maybe just if it's OK with you and ask your permission for that, I would like to to have as much as possible of our presentation public as I go through the motivation and the points I will hand out documents to you and your panel as proof to what I'm saying I would however every time point out to you that the document is confidential I will in principle talk through the content of the document but leave out any persons and any company that it refers to is that OK with you?

Competition Commission: Chair

16. That is acceptable.

EST Africa: Louis Greef

17. It. It is important that this inquiry takes place. We live in a country where 14 million people go to bed every night being hungry. We live in a country where 37% of the population is unemployed. We live in a country where the vast majority are being crowded together in townships. And we live in a country post apartheid where some things have just simply not been rectified and we need to pay attention to them so we cannot forget the history of South Africa if we talk about the retail industry in South Africa and if we talk about fast moving consumer goods we cannot forget the history that happened pre 1994 and 1995.

18. So, Just to refer to your your own documents. Which is the grocery retail marketing enquiry remarks by the chair person of the marketing enquiry Professor Houghton Cheadle to the market retail the grocery retail market stakeholders I see you boardroom Savanna campus Sunnyside Pretoria of 17 May 2016 where it says that: In terms of the referral in terms of reference the panel proposed to the two access competition in the grocery retail sector under six objectives mainly the twelve point one, The effect of national supermarket chains moving into townships, peri-urban rural areas. What the effect of this move has on small independent retailers and the informal economy within these areas and I will go going to greatly length and great detail trying to to answer that one.

19. Twelve thirteen, the dynamic relate the dynamics relating to competition within foreign and South African operator small independent retailers i.e spaza shops general dealers in townships, Peri-urban areas rural areas and the informal market and in twelve fifteen the impact of buyer groups or small independent retailers in townships peri-urban areas, rural areas and the informal economy.

20. Let me just start off by number one referring to twelve point one and that he's the effects of national supermarket chains moving into township peri-urban and rural areas. Madam Chair, I'm going to go into it in a much more detail later on. I don't think that if you read any statistics in South Africa even if you read the submissions of my oppositions who are the top end retail champions in South Africa being Shoprite Checkers, Pick n Pay,Walmart, Spar and to a lesser extent Woolworths, none of them can argue the fact that this bottom in trading township trading, Spaza trading, independent retail trading, is under strain it is being closed down by the minute. They are not price competitive. They are not competitive in the market. They cannot compete against top end retailers.

21. And. It is just a simple fact and I don't know why so many of them in the submissions done to you or to your panel they try to cover this fact that that supermarkets and chain retailers moving into a township do not have an impact on trading that happens with you know the township I don't think and I am not

a qualified economist to understand that a township rural areas has is as good in mini economy within itself .

22. It is got a G.D.P. that belongs within that area it has got X. amount of available rands that can be spent in that geography how can they argue that if a person without any any limitations to do to credit, no limitations to product, no limitations to do but to to to to to finances moving to an erea take forty and fifty million Rands worth of turnover per month out of a very small geographic area I must remind you that townships in South Africa are densely populated places. They were built to be densely populated by the previous government. If you take that money out of circulation one Monday morning, let's say there was one R100 million per month in circulation in that township to be spent. One morning and a new top end retailer opens in a township. It takes out let's just say one third of the money in circulation out of that area what happens to the thousands. And there's no doubt about the numbers of of of spaza stores, independent retail stores, pavement stores, there is no doubt about the numbers. How can they even vaguely try to motivate that it will have a very little impact on those small and independent traders it is to say the least it is absolutely absurd.

23. If there was a R100 million in circulation you take out thirty or forty million you only left with sixty. And I don't actually know why they want to prove that there is no impact . we can all just simply make up our minds. The minute that there is less money to be spent there is less activity. The remainder of the people will start to fight for the remainder of the value and the remainder of the spending power. The minute

24. that that happens something they would have to start to reduce prices the minute they start to reduce prices because that's a free market system that is how the economy operate and that is how business operates. The minute that they start to reduce prices their margins come under strain. The minute their margins come under strain the inevitable happens some will close down I would like to go into that as well.

25. The dynamic between South African stores and South African owned stores and foreign owned stores is a dynamic that we've viewed and we've seen over

the last five to seven years. Again the statistics are blurry nobody actually know the exact percentages they are samples studies being done I can just say from our own experience I would think that at least between in the metropolitan areas between fifty and sixty percent of all independent retail stores are foreign owned.

26. I will not be leaving and try to explain the phenomena. However when ever channel finds itself under strain I'm going to read I'm going to be referring to retail as a channel when ever a channel finds itself under strain you always find that some uncomfortable misses will start to develop within a channel. You will find that it will be the survival of the fittest. you will find it will be the survival of the person that can hold out longest. You could will find that it will be the economic survival will be the person that can literally dive the deepest and stay there the longest. So your resources will determine who will be the operator within that environment.

27. So when this channel of independent retailing finds themselves under strain as I've explained to you with top end retailers moving into townships, into peri-urban areas, into rural areas, it's a natural phenomena that something will happen in South Africa that phenomena is foreign traders then started to take over the stores because it is not feasible for that block the black store owner to continue to try and make a living he then finds a better return on his investment by renting out the store.

28. It is not been a phenomena and please you can go back and check it out. It has not been a phenomena pre-1995. It happened post that. It happened after chain retail moved into township areas. This is something very important for us to look at because xenophobic violence in South Africa starts at a business level. I have never come across or read about that xenophobia violence in a township starts at a person to person level, at the neighbor level. it starts from the community or other businesses against foreign owned businesses that's when xenophobic violence starts because that is when people start to look for a reason for their misery and what they see is a foreigner that they that they perceive to be successful in business.

29. So, every time that xenophobic violence breaks out, it has been maybe it's not every time but certainly the majority of cases, it start at a business to business level. It's against foreign owned businesses, it then cascades down into the population and maybe we can have a discussion later as I said I'm not going to it's not going to be covering that as part of my submission to you.

30. Regarding your question about buying groups, buying groups is an integral part of business and survival in South Africa. Buyer groups is not something unique to South Africa you find them probably in many other countries in the world. What I came to tell you again categorically.

31. Buying groups let's just deal with the definition: is the coming together of similar independent businesses to leverage their combined purchasing power to receive improved financial terms and trading conditions . We talking about fast moving consumer goods in South Africa. We talk about retailing in South Africa.

32. If it has not been for buyer groups in South Africa, there would not have been an independent retail market left in South Africa because companies like myself and others we put our joint purchasing power together under one umbrella and then then negotiate with suppliers regarding prices, trading terms, other benefits that get passed on to those affiliated to the buying group.

33. I can also tell you I do not know about many successful small and medium size retail stores who are not affiliated to buyer groups. It therefore supports my view that I unless it has been unless we have had buyer groups this independent retail channel would have disappeared and would have fallen over in front of the big four already.

34. In none of the submissions could I pick from the big four, Shoprite Checkers, Pick n Pay, Walmart and Spar negative views about buyer groups. I have however got no doubt that they are that we are thorn in their flesh and that we

are the only entity that stands between them and total dominance of all trading taking place in South Africa.

35. Madame chair, we wish we went public and we decide and we decided to participate in this inquiry. After reading the submissions. As I said from the big four of which the biggest one we couldn't actually lay our hands on which Shoprite checkers. I want to put it to you that there is a structural flaw in retail trading in South Africa. I will put it to you that there is a structural flaw that has developed over time that is made the big four to be big. It is not because the others are stupid. It is not as Walmart would like to point out they don't understand how to manage their cash flow. It is not like some of them would like to indicate. It's because they don't know how to control the expenses.

36. I may just point out to you that an independent store has got very little leverage to play with. And the big four might use these cheap arguments to try and get away with it. Madam chair, If I've got a house store, I trade from my kitchen with a window that's open with a limited number of products available and a top end retailer move into the township How do I reduce my overhead expenses. How do I improve my cash flow. I'm working with and I'm assisted with by my child or my mother or my sister and as they so carelessly write about these things the same for a spaza store. How does a spaza store reduce the input costs. Hoe does the woman who sit right

37. outside our building here on the pavement please go there I'm asking the press there and take a photograph she sells chips, she sells sweets, she sells vegetables, she sells fruit and maybe contraband cigarettes. How does she and she's got a table and an umbrella. How does she compete? How does she improve her cash flow? How does she compete, how does she reduces her input costs. These are

38. stupid cheap and silly arguments to be used and I will later come to that.

39. As I said we dealing with a structural flaw that, Madam Chair, has to be addressed because this channel is under strain. This channel will keep on

resulting in xenophobic violence and it will keep on erupting nonstop unless somebody is going to do something about it.

40.

Let's deal with where we come from. Pre-95, it wasn't that black people didn't want to participate in retailing in South Africa. black people were to a large extent not allowed to participate in retailing in South Africa. Townships were designed not to

41. have trading spaces. Laws were designed and police forces were employed so a municipal pause force us to ensure that no trading will happen in townships but that all the township money will be spent in the so called white areas.

42. They were not allowed to own land, they were not allowed to do business. They were not allowed to participate in this industry. This of course gave rise to a system which we then those years called nominee ship under nominee ship a person of colour if he then wanted to buy a property he will then go to a white person giving him the money the white person will buy the property have it registered but it actually belongs to the black person. He will then in turn so-called rent it out or to a nonwhite person so called rent it back out again in the meantime the person of color was the owner of the property.

43. That is what the business trading and FMCG and retailing landscape in South Africa looked under the national party or looked like under the national party. It's However sad to say that although we we changed the laws nothing were really be done to rectify the previous situation. We could not go back and redesign townships. We could not go back and redesign history but also nothing has been done to rectify it.

44. Of course whilst this happened the big four, Shoprite, Pick n Pay, Walmart, Spar and to a lesser extent were allowed to build up retail empires in South Africa keenly protected by the government of the day. And they went unchecked. They were given the prime land they had access to the prime Land they'd access to the prime spaces and they had government protection at all time.

45. Townships and returned house house millions of people. With very little if any trading activity happening inside it. This gave rise to the start of what we call independent wholesaling in South Africa. Independent wholesaling traditionally then started to happen at the edges of the township most of the time it was actually industrial building that would change into a wholesale because inside the township they were spaza shops they were business activity taking place. It may that have been against the law may that have been in secret whatever the case might have been it was there. So independent wholesalers started to do to develop and these spaza stores were buying house stores, street vendors were buying from the independent wholesalers.

46. It's important to understand that because that was then the birthplace of independent trading as we know it today and today we can easily classify it as independent wholesale, independent retail, spaza stores, house stores, vendors and and so we can carry. So there is a clear line and a clear format that we can for follow in understanding it.

47. Whilst this was happening these four were capturing South African suppliers at the same time and I will address that later on in my presentation. So you cannot have four people controlling all sales of all suppliers without them busy building up a power base a power base that they could at any time use for their own benefit. As with any power in the world it will lead to an abuse of power in other words suppliers then started to favor them to the extreme relative to independent traders. Hence the fact again that buyer groups then started to develop.

48. These stores came together and said we cannot survive on our ow. we are up against four monster trading companies. We have to establish a neutral company that can take our turnovers put it together negotiate on our behalf and then pass back the benefits again.

49. Independent wholesale however and I will like to show you to what extent have then started to become quite powerful organizations like my own and others

powerful within the small part of the market that has been left. Started to negotiate on behalf of those affiliated to us. We however started to become the thorn in the side of the top end retailers. Because we standing between them and capturing a 100% of the FMCG market in South Africa because if they could just get rid of independent wholesale the rest of the channel will just fall over automatically because where will they go to buy. Where will an independent retailer then go to buy his groceries. Walmart, you're just making that the fourth one bigger. Where else do you go? So they then started to deploy a number of strategies to neutralize again independent wholesaling and we will deal with that whilst I'm getting my submission to you.

50. The next thing Madam Chair that we have to remember that our economy is in the emerging economy. Our economy in the townships is a third world economy. We cannot apply first world rules all the time because it doesn't make sense in the third world country. And you can have a zoning agreements and proclamations until you get blue in the face. In the township it's a third world economy. Butcheries are many times where a cow get slaughtered in the street. That's the definition of a butchery.

51. A trading post is as you see outside is a woman sitting with a table, that is what a shops means in that area. It is not a first world environment in which they operate in many of the of the instances. It's a third world. My company's saying we need an intervention and we need it quick because these four will stop at nothing in capturing every single cent available in South Africa. What we can accept before we start with my submission, let's just see what is the size of the human by involved here. I don't think you're going to find too many objectors to the fact that If I tell you that probably spaza stores in South Africa possibly add up to about between 130 and 150 thousand Spaza stores. Let's say that house stores and hawkers is twice that amount, go to a station go to a taxi rank, go outside this hotel and see them in in motion. So now are we saying we've got 300 000 hawkers, we've got 150 000 Spaza stores, so let's just try to make it easy. We say informal traders in this country is about five hundred thousand it can be much more.

52. Let's say five hundred thousand employees an average of two people it's a million people economically active. Let's say each one of them support five people within a family. Where we sitting now ? Each of them, sorry each of the five hundred thousand has got two people employed we onto a million.

53. Each of the million supports five people we want to employment of five million people in South Africa. In addition to this you've got formal independent and retail stores employing much more many more people people than that . You've got independent wholesalers employing thousands and thousands of people. Madam Chair, it's worth our while to try and protect this. Let me go to my submission.

54. I'm unfortunately maybe it would have been good if I had. I could have put it up on the projector but I've got no other option but to read it is that OK. Trading submission to the Competition Commission re grocery market inquiry.

55. It is fundamental that one appreciates the need and importance of ensuring that South Africa, Sorry, maybe before I just start can I just give you hand out. I just think it's important that before I start to read through our submission that we just all on the same page as to visually what is the FMCG landscape in South Africa actually looks like that we all understand it.

56. At the top we've got FMCG suppliers, on the left hand side we've got the retail informal we've got retail formal distribution centers most of the retailers are using distribution centers from the distribution centers from the formal retailers it will then be product will then be shipped to their stores and from there will be available to the end consumer. The next section we've got stores like like wholesalers: Makro, Jumbo, Pick n Pay and now Pick n Pay hyper markets who will go get products straight from suppliers. Here we however start to see that they start but they supply both independent wholesalers, independent retailers or they sell to end consumers. So already we need to like stay together to understand which which products are being sold through which channels.

57. The next section that we have, we got buying groups that can be a group like Shield UMS, IBCE, EST, ICC.They represent independent wholesalers or they can also represent independent retailers but a typical product flow will be to independent wholesalers from there it will be independent retailers and be available to the to the end consumer and then on the side you find dedicated supply independent distributors these are distributors appointed by the suppliers that can serve bottom end stores and bottom end customers. So we just need to keep the schematic explanation in our head as I go through it.

58. It is to fundamental that one appreciates the need an importance of ensuring that South Africa unique social economic development is properly in properly nurtured and developed in order to stimulate economic opportunities so as to progressively and sustainably correct the imbalance as characterising the South African economic landscape as a result of skewed economic policies and practices imposed during the apartheid government era.

59. That department of Trade and Industry in its BEE strategy document they stated that our country our country requires any economy that can meet the needs of all all our economic citizens our people, and the enterprises in a sustainable manner this will only be possible if all because if our economy builds on the full potential of all persons and communities across the lengths and breadths of our country. While South Africa's made significant social economic gains post apartheid government rule, the racial divide between rich and poor remains and then" society is characterized by entrenched gender inequality or racially or ethnically defined wealth disparities are not likely to be socially and politically stable particularly as economic growth can easily exacerbate these inequalities" .

60. Built on the back of favorable government policies today the grocery retail environments is categorized by old marta of the rich will get richer and the poor will get poorer. As traditional players are afforded the advantage of bargaining power which renders them immune to the independent

traditionally black owned retailer wholesaler hybrid store seeking to develop a footprint within the market.

61. Next paragraph, whilst the bargaining power of the chain retail wholesale can be somewhat offset through the collective bargaining for example "buy groups" the entrenched commercial relationship on both a national and often multinational level results in a traditionally large grocery retailers always gaining beneficial trading terms, incentives, conditions in negotiations with suppliers making it nearly

62. impossible for smaller independent wholesalers and buying groups they may belong to ever gain a cost advantage to ever expand on volume and to ever benefit from increased incentives such as rebates and volume discounts. Madam chair, at the at this I would then like to hand and other document to you.

Competition Commission: Chair

63. Thank you Mr Greef. I just want to say we will mark the first document you gave us as exhibit one OK then it's let's just carry on like and the one you have given us now will be exhibit 2.

EST Africa: Louis Greef

64. OK, yes this is two. madam Chair, what you see there is a price comparison. This price comparison benchmark mostly personal care products. That Pick n Pay offers to us independent wholesalers, we're supposed to be able to offer our best prices to those being affiliated to us, I hope you're going to stay with me, so if you look at it on the left hand side is a column which lists the products they both personal care and foodstuffs. Then there is a pack size don't worry about that there is a unit, a weight, don't worry about it.

65. The next column says Pick n Pay inclusive selling price in other words that is the price that a wholesaler in South Africa affiliated to a buying group can buy product from Pick n Pay. The next block, the next column is the best price offered to EST, our company from that specific supplier. So you would think that if trading behaviors are fair and open that those two prices should

roughly be the same. If you then look at the next column it shows you the rand difference per pack of twelve and it gives you a percentage difference.

66. Madam Chair, it is it is shocking that a company like Colgate Palmolive can have a 20 to 25% price differential to independent traders who are supposed to sell to independent retailers, who are supposed to sell to to to spaza stores that is 20% higher than the the Pick n Pay price that they can sell to us for. If there's a question from your side you can always ask a question

Competition Commission: Chair

67. Just to repeat that last line in relation to your Colgates, they sell at ....

EST Africa: Louis Greef

68. Well if Pick n Pay sells protex soap to us , the first one they sell it at R105 inclusive. And and if the next line is that is the best price that we can buy for the same product from the manufacturer

Competition Commission

69. Sorry, can I suggest that for purposes of confidentiality we just use that one item

EST Africa: Louis Greef

70. In that one line there is a twenty percent price differential. What we can buy directly from Pick n Pay relative to the base price that that same supplier offer us directly. So if you then work through that list. Of however many products you will see at some cases their prices that's even fifty percent more expensive from the same supplier and Madam Chair I may just add that the line that you see there that says a price differential of 52, 63% half way down the page on the right hand side, the percentage line. I may just add that our buying power with that supply is more than a billion rand per annum, EST AFRICA. So madam chair, this gives you an example across a wide range of products. Across one, two, three, four, five, six, seven of the biggest FMCG manufacturers is South Africa what the price differentials are and I

71. read some of the replies from the big four that says there's no proof on the table. There is the proof. I've got the invoice for it. I've got the bank transfers for it, I can show you, how can we then be expected to compete.

72. And I'm going to repeat what I read. Multinational level results in traditionally large grocery retail always gaining beneficial trading terms, incentives and conditions in negotiations with a supplier making it nearly impossible for smaller independent wholesaler in buyer groups that they may belong to do to gain a cost advantage to even expand on volume, to ever expand on volume and to ever benefit from increased incentive such as rebates and volume discounts as I've just given you the proof of that.

73. Even though some of these retail and wholesale stores and or by groups may have suppliers, may afford the suppliers this same efficiencies and the same volumes it is openly questioned if they are afforded the same supply incentives and benefits.

74. Madam Chair, I would then like I would like to go on and give you the next document.

Competition Commission

75. That will be exhibit 3.

EST Africa: Louis Greef

76. Madam Chair, what I have done here, I have taken taken exactly the same products as the previous exhibit. I've taken exactly the same prices. I then went to the Pick and Pay shelves to find out do they pass these big savings onto their own consumers. They so actively argue in their submission to you how tough the retail environment the South Africa is, how tough it is for them to fight the opposition's etc etc.

77. So what you will see there is the same comparison. The same products, the same grammage. Again we follow the first line which says, R8,75. That is the price, the previous price that I have now converted to one item. OK, its now the

price per item. I wrote there, supply price to the wholesale from Pick and Pay. So they sell to independent wholesale at R8,75 yet they sell to their own customers at R9,99 which is 14,17% higher than what they sell to independent wholesale.

78. Madam chair,if you go down there you will see that some of the products their mark up then must be 117% basic, basic, basic products consumed by the poorest of the poor in South Africa because that's the price difference between what they sell in bulk and what they sell through their own stores. These are just shocking numbers.

79. So we have to ask ourselves so why is this happening and I want to go back to my previous point that I made right at the beginning. These big four has to get rid of buying groups. So the only way they can get rid of buying groups is that they have to price them separately out of the market in other words I'm not going to disrupt my margins in my core markets which are my stores. I'm going to disrupt that and close them down or change the alliances by offering real prices to wholesalers and then get the wholesalers to move away or to stop to buy from the buying groups, therefore the minute that I really do use the power of the buying group I will then get to my objective reigning supreme in South Africa. And you can later pose questions about that if you want to.

80. About , about the issue about even though some of these the retail and wholesale stores and or buying groups may offer suppliers the same efficiencies and or sales volumes. It is openly questioned if they are afforded the same supply incentives and benefits and let me give you the next document please.

81. That is. That is confidential.

Competition Commission

82. This will be exhibit 4. EST Africa exhibit 4.

EST Africa: Louis Greef

83. This is a communication between Elite Star Trading and one of the biggest multinationals doing business in South Africa. And it's reflective of the minutes of a meeting that we had regarding the pricing of their products and our inability to compete in the market and I want you to page over to page 2 two. And I want you to to read with me the third paragraph from the top this is the minutes of the meeting.

84. You mentioned and I'm quoting "you mentioned it very clearly in the discussion that we will, we being EST, will never ever the Walmart Massmart earning potentials due to your alliances on a global scale. And EST is asking the question, I continue to read our next natural question will be, will we be able to have the same earnings potential then as a Shoprite, a Spar, a Pick and Pay as size is not a criteria anymore. What that, its probably the most shocking paragraph that you can find. That a South African companies will be penalized because they haven't got a head office in Bentonville in the United States. So what must we do. To have the same playing field.

85. Must we immigrate to the United States of America and become part of Walmart? What should we do to compete? what should we do in order to be successful? What more must we do? And that is open to open message delivered by their legal representative it's not delivered by a sales rep. It's being told in our offices capsulated in minutes that we will never be at the Wal-Mart levels of reward.

86. And I continue to read my submission, the purpose of the Competition Act is to develop the South African economy by ensuring that small and medium sized enterprises have an equitable opportunity to participate in the economy and to promote the great the spread of ownership of enterprises particularly ownership historically disadvantaged persons. With this as a background the Competition Commission is well placed to investigate the present status of the South African grocery retail market and to propose interventions to ensure that the market is not unfairly captured by the large traditionally entrenched vertically integrated chain also the retailers and wholesalers but rather that the that the buyer groups and independent stores are given a voice an opportunity to fairly

compete with, within this market and grow and develop their own enterprises to provide longer term sustainable economic development and upliftment.

87. Promotion of these enterprises will truly result in economic empowerment of the previously downtrodden protect the breed winners, their families and employees and I took you through the numbers involved of people directly and indirectly reliant.

88. Point number two, the impact of expansion, diversification and consolidation of national supermarket chains on small medium and independent retailers in townships, peri- urban areas and rural areas in the informal economy. Consumer shopping patterns have changed with an absolute emphasis placed on price. Madam chair, I just want you to want us one minute stop there. Because this price issue is a golden threat that has been addressed by every submission. That has been given to you. That retailing in South Africa is about your ability to be price competitive. It is come from every submission. In the Pick n Pay submission they even say that South every consumers are aware of 70% KBI terms that they purchase on the price of it. Which is the most amazing number I don't know where they got the research but it is incredible in other words consumers in South Africa knows the price point of 70% of the KBIs that they purchase. And will come back to this price, I have given it a first glance when I gave you document one, document two, I refer to it again in documents three, I referred to it again in document number four and this price thing is one of the most important thing but we also find more regular shopping excursions that the traditional might monthly hyper shop .

89. As a result hyper market retailers and I'm talking about Pick n Pay hyper market, the traditional dominant retail market players within this with within South Africa have sort sought to exploit new routes to market which include that which includes adapting the business model to enter into previously uncharted territories and targeting customers traders or retailers traditionally serviced by independent wholesalers and retailers within the informal economy this they do by leveraging their superior price and their benefits to gain share

and oppose independent wholesalers and retailers and I've shown that to you in the price comparison that I gave you. These are huge numbers.

90. Next paragraph, traditionally independent, independent retailers would source the product from wholesalers because these smaller players do not have sufficient scale to to source directly from suppliers. The issue of securing product from suppliers and pricing associated with the purchased power is a fundamental dynamic within the South African market and one that allows the large retailers to exploit significant leverage within the townships, peri-urban areas and rural areas at the expense of the independent retailer who are unable to secure the same pricing benefits from suppliers, independent wholesalers or the buying groups that they represent them.

91. These independent wholesalers are the backbone of ensuring supply of product to the independent retailers to on sell. If they do not benefit, if they do not, if they are not benefited by suppliers in the effort, this channel will also be captured or closed down if a level playing field does not exist. I really want you just to focus on the last few words, "if a level playing field does not exist" .

92. Madam Chair, I have not been appointed by the Spaza Association. I have not not been appointed by the Independent Retail Association. I'm telling you the only missing thing in South Africa, FMCG and retail what the environment is a level playing field. We don't want any superior treatment from a supplier. We don't want anything better than anybody else. We just asking for the same because from us it goes down the channels to the spazas, to the stores, to the independent retailers. We just asking for the same. If that price differentials that I showed you, if that is the best that can happen in South Africa, there cannot be even be a question about a level playing field, if that memo that I read to you which openly says, "you will never be at the level of reward that a Wal-Mart can achieve. how can the playing field ever be level? How can the product that we sell down from our stores to a spaza store, to an independent retailer? How must he fight that same wholesaler who is being additionally benefitted by multinational suppliers.

93. This very issue was raised by the Competition Tribunal in the case of best Masscash and Finro where the tribunal noted that for independent retailers to remain in the market and compete effectively with the traditional large retailers these independent and retailers needs access to suitable products at competitive prices that was noted by the competition.

94. The Tribunal's conclusions suggest that should independent retailers not receive the benefit at the same, of the same product, choices at the same competitive price levels the the result of large retail purchasing products cheaper will be the exit of the the independent retailer from the market.

95. The disappearance of the independent retailer from the market is bad for consumer welfare. And as such, intervention by the Commission either directly or by way of of recommendation for regulary, for a regulatory interventions is strongly supported encouraged by EST Africa.

96. Independent retailers and independent wholesalers that is where the independent retailers traditionally sourced their product from I'm referring to independent wholesalers cannot readily compete on price with a large retailers because of the buying power wielded by these traditional large retailers over suppliers. Most retailers therefore have to react. Smaller retailers therefore have to react to the entry of large supermarkets in these areas by decreasing the number of products stock or cut the prices to such an extent that the business becomes becomes an economic economical resulting in its exit from the market. Pricing is a particular sensitive parameter as firstly the large retailer have more margin to play with than the small independent retailer, comma ,given the lower prices up then by large retailers from suppliers and the large retailers have a corporate structure which allow it to realistic compete on prices within the independents.

97. What often privately owned businesses would need the monthly profits to survive and therefore such businesses cannot afford to do to engage in a price cutting war with a large retailer in order to retain market share in business.

98. Next heading: Pricing , the hidden benefits of being big. In order to to do somewhat counter the buying power exerted on supplies by the by the traditional large retailers independent retailers often join buy groups or buying associations in order to negotiate with suppliers on a collective level and therefore seek to obtain volume and trade discounts which would otherwise not be achieved by the stores individually.

99. Price negotiations with the suppliers are a complex matter with a list price simply being the kickoff point for discussions following which a number of variables are negotiated and discussed which variables include inter alia: The first point. Madam Chair, I'm talking about a list price here, we have to understand that in fast moving consumer goods and in retailing in South Africa a list price is something that the applier, the supplier put into the system that they believe should be the price of the product. After list price we will enter into a negotiation and then there will come a deal price in other words the deal price is a discount from the list price.

100. Over and above let's call it because now we start to run sometimes out of words over and above a normal deal price we will have a deep cut deal price or we will have a promotional deal price so there are number of levels of deals and prices at play here.

Competition Commission

101. Sorry, so there is list price, deal price and then...

EST Africa: Louis Greef

102. There is a list price, then there is a deal price, then there can be like what they call a deep cut deal price or a promotional deal price which are all prices lower than the list price and sometimes lower than the than the previous price. So that's the first level.

103. The second level is rebates that they will negotiate with suppliers that can either be a fixed percentage or a variable volume based that rebate that they get from the supplier. There is advertising allowances where suppliers pay,

where suppliers pay top end retailers to advertise their products for them. They have trade discounts over and above all of the rest. In top end retail they refuse to pack their own shelves. Suppliers are responsible to pack their products on to the retailer shelves.

104. Suppliers will be expected to pay for fridge space if they are in that category. Suppliers are being kept responsible to fund the newspaper adverts and newspaper support suppliers are responsible to to do what they call channel support and channel allowances. Suppliers are expected to pay for what they call business drivers. Suppliers of...Suppliers are forced to pay gross discounts. Suppliers must pay settlements discounts. Suppliers will pay for data sharing. Supplies will pay for efficiency allowances. Suppliers will pay for category management. Suppliers will pay ad hoc monies. Suppliers will pay for national and theme promotions. Suppliers will pay for distribution, warehouse distribution and/ or warehousing allowances. Suppliers will pay for television advertising. Suppliers will pay for product listing fees. Suppliers will, will even be kept responsible for paying or supporting chain retail customer loyalty programs. Suppliers are expected to pay them for joint promotions: Buy One Get One Free, buy three get one free, whatever the case might be. Suppliers are supposed to pay for new store openings, new store allowances, new store deals and the list just never ends. These are all income streams available to top end retailers that an independent retailer hasn't got. He doesn't even know that this is being paid.

105. This is being paid over and above anything else by a supplier to a chain store might not be all of it, might be some of it but might also be all of it. I see in the submissions done to you and I want to refer to this one of new store openings. I wondered why none of the big four referred to the tens of millions of Rands that they collect from suppliers when they open a new store. It is as if they have turned this game around. They've actually become the bosses of the suppliers. I open a new store but it's your problem, you have to give me money to open the store. Tens of millions of Rands I can tell you. A Makro store can get by opening a new store from suppliers that's excluding in all the other deals.

106. During these discussions the list price will then be diluted through a series of variables to arrive at the net net cost price for that particular retailer after taking the above listing to consideration. The invoice price is however simply an indicator as the chain retailer will also endeavor to negotiate a tally or something called a sally from the supplier.

107. A tally payment is essentially an off the record retro-pespective cash payment paid by the supplier to the retailer for each volume purchased or sold. In other words even though once you've paid all of the above list to the stores they will still try to negotiate with you and try and force you into a reader into a situation where every unit that sells through the till I'm billing you, I'm giving you a back billing for that unit and you've got to pay me for it. This tally or sally payment is not reflective on the invoice for the product and rather the retailer will render an invoice to the supplier for direct payment of the tallies or the sally this Tally can take on many many formats.

108. Keeping the tally off the invoice ensure that the competing retailers do not know the real price at which the supplier is supplying product to the competing retailers. Aside from pricing benefits as a result of larger volume rebates, trade discount, tally payments and preferential training terms and settlement discounts, chain retailers also benefit as certain suppliers pay fees to ensure these large retailers market their products through the retail channels and provide the their product with provincial shelving space this again negatively impact on new manufacturers suppliers entering this space.

109. Madam chair, I would like to hand out the next documents to you. Which is again the minutes sorry we are you're going to refer to this as document number 5.

Competition Commission

110. EST Africa Exhibit 5

EST Africa: Louis Greef

111. ....and and I want to focus your attention to paragraph two, the last sentence in our discussion with the supplier: We said, but our prices are out by as much as 36% on a basic item consumed in every township in South Africa, in in every rural area in South Africa. We cannot get close to the prices that we see in the trade and then number three comes as the sales executive then explained that and I want to carry on after the comma, but yes there is a difference in the rebate reward structure that this retailer having the better structure than EST and that we as a company offered this retailer a deal of a three pack combo promotion at a reduced price.

112. What is this three pack combo promotion? It means, if you buy three you get one for if you buy three you get one for free. Which relates to a 25% discount or 33 whatever is the number.

113. How. When. So when is it the place in the sun for the township trader? These are multinational companies, these are companies with turnovers of billions of Rands per annum. How well must you oil their wheels to kill off opposition there's nothing else for it. And I continue with chain retail or wholesale are therefore ideally position to leverage their size in order to obtain the best pricing and supply conditions for for these large retailers to exploited this price advantage in the downstream market at the expense of buying groups, wholesalers and independent retailers.

114. One of the more disturbing developments as taking South Africa by these big retail chain and wholesale groups has been the introduction of a joint business planning. Joint business planning in our world just gets referred to as JBP or similar practices which forces suppliers to enter into discussions and negotiations regarding cut of product cost prices is actually like a circle they draw for the suppliers. To enter into

115. discussions and negotiations regarding product cost analysis of the supplier must explain how they got to the product cost price business partnering so you not our supplier anymore we now business partners in this. There is joint market analysis so we agree on the market, we agree that what is the market share

you would like for your product within this category, we do a joint commitment to the chain store's objectives so Wal-Mart will say I would like to have a 20% participation within the South African within this category within FMCG. And the supplier will then agree to that or disagree agree on non price disruptions from oppositions. Suppliers are even then expected to prevent an opposition company from going out at a better price for that product, agree some form of selling price we now these big business partners, we friends now, we've opened a club here between the two of us so let's agree what the decent selling price should be for this product. We will have service agreements in place so if you run out of stock and you run short of product I will not be affected. Strange stuff.

116. I just read in The Sunday Times, independent wholesale as being with out of butter for weeks now. I read in The Sunday Times Wal-Mart's said supply is constraint but the shelves are full. So with this is the meaning of service agreement, the service agreement is I will actually unfairly allocate you what I've got available, your shelves won't go empty out so if I haven't got stock where on earth am I going to get it from. I better take it from somebody else then to give it to you. Agree on expected margins, what is the margin that I as the retailer, the big four can expect to make from those products. And last but not least agree on compensation from the supplier to the chain if these objectives are not achieved.

117. Madam Chair, If this is circle is completed and the supplier supplier has got to a penalty clause or has got money to lose. Why will the supplier support independent businesses? . He can run a billing of R5 million here by not fulfilling this agreement. So if you therefore wanna move market share to live up to your commitment you just simply reduce your service levels to independents because then the market is only that size. So you start to manipulate the market to suit the agreement that you've got in place with a chain store.

Competition Commission

118. My apologies Mr ....I just want to make an announcement that we are, we will proceed up until 1:30pm at which point we will adjourn for lunch. Thank you

EST Africa: Louis Greef

119. This happens and I'm reading this happens under the guise of bringing cheaper prices to consumers and not to drive down costs and increase efficiencies this EST views it to be illegal and should be investigated.

120. Next heading: Buyer power. A every action has a reaction. Great chef a noted that the problem is that the that the intuition that buyer a power is good appears to rely on an implicit assumption of linear contracts, when contracts are nonlinear it appears as though buying power is neutral effects and could even be harmful to consumers as the situation is even more complex if downstream firms are a symmetric because then one has to worry about possible adverse effects of other weak small downstream.

121. Downstream firms A E.G. may have a waterbed effect inverted commas where lower purchase prices for powerful retailers might be at the expense of higher prices for other retailers buying a buyer power may not be so good after all. Madam Chair, I have given you a price comparison. I have showed you with a number of documents, how these big retailers us are simply sucking money from suppliers. That I don't know if the suppliers can afford it but what the waterbed effect is saying it's not necessarily good for competition because if you give too much you either close down or you find another way to make money so the only other way you can make money is by then putting more prices higher prices and better margins onto you your non organized trade which is your independent trade, independent retail township markets.

122. The waterbed effect predicts that a substantial increase in the size of the buying increased buying power enables the buyer to extract higher discounts an increased benefits from supplies relative to other buyers which equally results in a situation where the size and discounts dropped to other

supplies by the supply the clients as a consequence there after, I have explained that.

123. In order to understand how price increase is going to occur in the short run due to the waterbed effect it should be noted that the waterbed effect has got two opposing effects. I've spoken through it so I don't think I need to read through it again. At this point in time I would then like to hand out another document to you.

Competition Commission

124. We will mark this one EST Africa exhibit 6

EST Africa: Louis Greef

125. Number 6. Madam Chair, you can read who these is addressed to it's addressed to again one of the biggest South African food manufacturers. And again you can read through it. Where we openly questioning the fact that one of the most key....

Competition Commission

126. Sorry, is this confidential or not?

EST Africa: Louis Greef

127. It is confidential, yes.

128. Again we question the pricing that we can get product from Wal-Mart for four. And again we saying we haven't bought this product from you Mr supplier for months, we have to buy out the product from Wal-Mart to stay price competitive and and how the supplier tried to motivate the fact that we cannot compete in the market. We have to buy our product , we have to go to Wal-Mart we have to support again another one of the big four. And that can be read and discussed at a later point. And buyer groups, buying associations next heading number three buying group providing a competitive platform for independent wholesalers and retailers, buyer groups allow independent wholesaler, independent retailers to achieve to an extent certain benefits

enjoyed by a large enjoyed by large national retailers by bargaining collectively under the guise of a single representative body these stores benefit from pricing and volume rebates which will otherwise not be available to them as they sought to negotiate with supplies individually.

129. Buyer groups also assisting the independent retailers, wholesalers to gain access to credit. Lower prices and increased volume ultimately allow small independent retailers compete more effectively with large national retailers by offering customers cheaper prices, larger volumes and increased product ranges with the pulling of buying power independent retailers, wholesalers and the single umbrella i.e the buying group also give benefits for the independent retailers in so far negotiations with suppliers go, the retailers and multinational supplies go, the South African landscape suffers from an entrenched traditional market power wielded by a large chain retailers and multinational retailers wholesalers which ultimately secure the larger, ensure that the larger retailers always have a benefit over other role players such as buying groups.

130. In the grocery market investigation undertaken by the UK Competition Commission, the investigation their investigation revealed, revealed that the traditional four retailers Asda, Tesco, Sainsbury's and Morrisons received materially lower price, lower average prices from supplies than other retailers. In South Africa it is submitted that the trend is exactly the same with a traditional large retailer Shoprite checkers, Pick n Pay, Massmart, or Spar holding significant buying power when negotiating with suppliers ensuring them allowing them to achieve better prices and trading terms than independent retailers even those represented by buying groups. The question really therefore needs to be asked if therefore independent retailers are closing down because of a lack of business acumen or market forces or are they closing down because of a structural and unfair pricing advantage of which there are the net recipients of who renders them uncompetitive in the marketplace which is not conducive to fair trading and fair competition against these national retailers.

131. When is big big enough one of the one of the major reasons offered by suppliers as to why the large retailers get preferential pricing and trading terms is due to amongst others volumes and other bit of efficiencies generate to suppliers on products purchased by these retailers as a result the inability of independent store to enter into fair and equitable bargaining arrangements with suppliers buyer groups develop this as a tool of survival for these in the bin and stores in a desperate effort to compete with the traditional retail chains.

132. Buying groups to do as as a collective can take up a large volume and unlock benefits for its members however without a transparent objective yardstick it is impossible for buyer groups and the members of independent wholesaler retail to even know what volumes or what other performance standards are needed from suppliers in order to a unlock any additional benefits to allow for a competitive opposition to be created. It is very much doubted in any case by EST if these so-called performance standards as a reward imposed on suppliers by chain retailers should play a role at all if size or volumes become the determining factor for supplier rewards how will the small ever get big in South Africa given the political and economic realities experience and apartheid the long standing relationship between the traditional chain retailers and suppliers together with a market power and buying power of the traditional chain stores mean that behind a cloud of secrecy this discount levels and prices can always be manipulated in order to ensure a perpetual benefit to their traditional large retail chain.

133. In a third world economy an emerging market en route to market with chain retailers and chain wholesalers cannot reach the depths of the South African consumer i.e rural areas and townships this should not be allowed.

134. Creating an environment where supplier target rewards parameters a clearly defined will allow all the market participants to gain an equal up an equal opportunity in unlocking the benefits and discount suppliers have to offer promoting a fair competitive environment in which small businesses can be given an equal opportunity to grow, develop and compete.

135. Madam Chair, what I'm saying, Madam Chair what I'm saying is that. There is no guideline in this game. It's just everybody hammer on. What we do know is that these are a total disconnect in what top in retail and wholesale gets as prices and rewards and what the little bit there that is being left for the rest of the South African trade. The use of bargaining power in the form or buying power in the form of bargaining groups should be supported by the competition authorities as this allows better prices to be negotiated for and on behalf of small independent retailers, wholesalers within the South African economy.

136. As most independent stores stores belong to previously disadvantaged individuals extreme attention should be placed in ensuring the growth and economic well being of these stores. As this is the only way you for this channel of stores to develop into a true black owned contributor to the economy. Caution must however be had for the fact that excessive bargaining power wielded by a few dominant market players i.e the traditional large chain retailers could result in more harm than good for consumer welfare and small business development. As a few dominant players with great bargaining power can result in barriers of entry with new participants unable to source products at prices to allow them got to be compete with a chain wholesalers.

137. Gordon Mills noted both the Australian a British Government has introduced formal codes of bio conduct and thereby relieve believes that the general legislation UK Competitions Act 1989 and Australian Trade Practices Act of 974 is not likely to be sufficiently effective in this field.

138. Madam chair, I would like to give you you an article. At this point in time. Unfortunately only got one to give.

Competition Commission

139. So, Is this confidential?

EST Africa: Louis Greef

140. No, its not confidential.

Competition Commission

141. We will mark this EST Africa exhibit 7.

EST Africa: Louis Greef

142. It might be commonly known. But I have quoted in my submission to you that the United Kingdom had exactly very or very much the same problem as what I've explained to you they had four retail groups which virtually controlled the United Kingdom regarding retail sales. And what they found is that this buying power will were actually closing down businesses. Businesses like dairy just couldn't it couldn't exist anymore because of the buying power that the buyer will simply just say No, I am not buying at this price. Now the dairy cannot stop the cow from producing milk, so he either the takes the price. Or he has to close down.

143. So the British Government introduced this code of conduct which says that chain stores and buyers are not allowed to enter into certain discussions that some discussions and some requests will be illegal and I'm under correction but I actually think that even appointed in ombudsman for quick resolution to these problems. Is the puts it to you that we have to get something like that or something similar because this situation is getting totally and totally out of control we somehow needs to find an ombudsman that can rule, that can decide and I want to give you an article that was in the Sunday Times which is not which is not confidential. And it's about the chicken industry in South Africa.

Competition Commission

144. This we will maker EST Africa exhibit 8

EST Africa: Louis Greef

145. And I want you to go to page two of that just a page over and halfway through I've actually underlined it and it's an interview with with. It's a Sunday Times 28 May 2017, and it's an interview about with Astral Foods regarding the state of the chicken industry and then halfway through the next page he stopped short of saying they being screwed by the big retailers but but says they are hard core and ruthless negotiators.

146. Madam Chair, I can tell you we supply and most of the township trade in South Africa. We're literally we cannot buy chicken because the price in chain retail is too cheap we cannot closely get to it. And I sometimes wonder if this picture that I'm drawing for you how much for instance of the chicken problem is because of the dominance of four players over the South African producers if they would say no if Pick n Pay or Shoprite Checkers or Wal-Mart will say to a chicken supplier I'm not going to give you an order. That supplier cannot stay out of the offices for longer than two to three weeks he's got to go back and agree to the price. And it was interesting when I read the article and it says he stopped short of saying the they are being screwed by the big retailers just maybe a point. To being.

147. South Africa may also consider introducing a formal code of conduct in relation to FMCG supply industry for example to promote transparency of discount and other reward structure offered by suppliers or prohibiting suppliers of FMCG goods from offering purchasing terms and conditions independent retailer wholesalers or the buyers groups that represent them that are different to those offered to large retailers.

148. It is accepted by EST to a large extent that it is not economical sustainable for suppliers to have terms rewards and distribution capabilities to achieve the bath given the depth of the distribution of the independent traders in South Africa and their needs these traders mostly short their group from wholesalers who in turn needs to be supported by the suppliers.

149. In a third world economy, in a developing economy this channel is very wide so these no supplier in South Africa who can even try to service 10% or 20% of the Spaza market or the independent retail market or the vendor market it is impossible it is too wide, it Lies too deep. And that is what we saying there. We are not saying that South African supplier or should be forced to do everything the same for everybody but where people are being recognised the rules of engagement should be the same.

150. And that Madam Chair is the is the EST submission. And we've got five minutes to go and then our can just close off when we come back.

Competition Commission

151. Thank you Mr Greef .

EST Africa: Louis Greef

152. This is the submission I've just got of a closing remark after that, so if we come back I can do that in 10 minutes. Should I do it now?

Competition Commission

153. How long do you think that will take?

EST Africa: Louis Greef

154. 10 minutes

155. Competition Commission

156. I think you can proceed. We do have some clarification questions for you.

EST Africa: Louis Greef

157. Yeah the confidential examples we could just discuss when we come back, is that right?

158. OK, just in conclusion, Madam Chair, I just would like to refer some of the statements I don't think it will be right that I leave this room without quoting some of

159. the statements being done by the big four in their submissions to you and I think if you will allow be a few minutes just to go through the I'm going to refer to the Pick n Pay paper submission page one second paragraph ," consumers are price sensitive and actively shopping around between the various retail grocers in order to source the bargains at lowest prices", exactly what I've been saying to you the South African consumer is tremendously price sensitive and they are always looking for prices Pick n Pay, still the fourth paragraph, Pick n Pay does

not believe that its business activities activities give rise to material reduction in competition or any prejudices to small independent retailers.

160. I think I started the discussion by explaining the township that there is only so many Rands I don't know how they can make a statement like this. Page one, the fifth paragraph, "in relation to the issue of market of supermarkets expanding they activities into township and rural areas it has proved highly beneficial for consumers, it has provided communities in these areas with access to a wide range of of grocery products at lower prices that was previously the case", I gave you to proof this is a fact, could because there is this world of difference in supply prices.

161. Page three, the first paragraph " furthermore the introduction of supermarkets into these communities has no material negative effect on small informal businesses such as spazas, spaza shops". Madam chair, I am asking the question if price is everything how can somebody with a higher price then compete with a Pick n Pay and still they maintain that there is absolutely no negative effect.

162. Page numbers six, number seven Pick n Pay estimates the total size of the retail grocery market in South Africa is approximately R492 billion in 2014 that you can just put a 5% inflation so you get to R456 billion in 2017 which means at this independent market is still worth between 80 and 100 billion Rands there is still a big market sitting there and it's still a market that top end retailers will will murder to get to. In the same paragraph the recent Nielsen's publication estimates that it's approximately 134 000 traditional stores. Traditional trade stores across all forms of retail in South Africa representing 95% of all outlets. This comparison are found to be absolutely laughable, so what they are saying is one spaza will be measured against one Pick n pay, so what they are say is that independent stores actually occupies 95% of all outlets in South Africa.

163. In page seven paragraph eight, the the grocery and then they carry on "a full line Pick n Pay supermarket will significant greater product range" and then

carry on " than the spaza shop as well as better prices" again, playing the price game.

164. Page seven paragraph nine, it appears a different retail grocery formats for formal and informal sectors serve different customer needs and therefore tend to generally be compliment complementary rather than direct competitors. Madam Chair, I don't know what they are trying to say here, they are trying to say the woman selling chips outside their store is or you in a spaza shop is selling something different to what they are selling, I don't know what else you can sell in a township than products that get consumed in a township and how they can say that we then complement one another it just simply baffles my brain.

165. Page nine paragraph twelve, "it will just appear that informal grocery store tends to offer less products, choice and a more restrictive range of services as well as often change charging higher prices but that would be the case for large retail stores", they're obviously trying to motivate that large retail stores bring cheaper prices that is very much the case and I have also showed you why and how.

166. And then it page 10 paragraph fourteen, 'the retail grocery industry is a low margin industry which is characterized by intense competition". If it is so intense and we given the price differentials that we've seen, how can the spaza store then survive in this environment.

167. Page 10 paragraph sixteen, "retail grocers advertise extensively in the media offering lower prices of various KVI. There is intense price competition in the industry". But I showed you the prices that they offer to us which is sometimes is 50% than what they offer to their consumers.

168. Page 44 first paragraph, the so-called top four would collectively represent 56% of the market market, I don't know where they come up with a " 56% of the market" all of a sudden.

169. If you look at the WalMart submission to you, I found the Walmart submission a strange submission. It sounds like they are a section 21 company and that the object of is actually to help people in South Africa, I would like to point out to you they are the most ruthless traders in the world. They are the number one retailer in the world. And. And the same paragraph one point four point two, " Masscash perceives its wholesale role to small and independents retailers one aimed at increasing accessibility to products providing promotional or pricing support when formal retailers enters a competitive location". Madam Chair, I found this strange that WalMart has appointed themselves, If I read the sentence correctly that they must actually protect independent retailers when the other players enters the so-called competitive location. I wonder what Walmart wants to do then when they themselves enters a competitive location they themselves are the owner of Shield Buying Group, they themselves are the owners of of Cambridge Retail Stores, they themselves are the owner of C.B.W. Wholesalers, they themselves are the owners of Makro stores, how can they say. In any case let's leave it.

170. In page 4, paragraph one point four four point one point four point four in conclusion Massmart submits that "the entry of formal retailers does not threaten the survival of small and independent retailers since the stores offer differentiating offerings to end consumers". I don't know how the biggest retailer in the world can make a statement like this? What must be the independent retailer offer the consumer that is not inside the WalMart store. What must they have because that's what they saying.

171. In conclusion, Massmart submits that the entry of formal retailers does not threaten the survival of SNT retailers since the stores offer differentiated offerings to end consumers. What do they offer? What are they hinting at ? What are their stores selling? They can only sell products it's consumed by the township dwellers.

172. And then in closing the last paragraph paragraph, paragrap three point three point ten, Massmart conceives of its role as one of active wholesaling but which its means a process way whereby it negotiates and not sounds it

obtains supplier funded and led promotions for customers including by for example bundling of desirable value added services i.e airtime.

173. So, what they saying they work with suppliers to collect monies and benefits for independent stores. My question is, when a new Makro opens and they collect tens of millions of Rands from suppliers do they share that with independent stores as well. When do they share and when do they keep ? I find this proposal to be laughable thank you very much, I'm done.

Competition Commission

174. Thank you Mr Greef. I think this is the right time for us to adjourn for lunch. I just have announcement regarding lunch, I have been told that vouches are available, that lunch vouches are available at the registration desk for those who are attending this hearing, thank you.

175. And we will reconvene at two o'clock. Let's have a 30 minutes lunch. Thank you.

SESSION 2

Competition Commission: Chair

176. OK Mr Greef as you may have picked up from the, from my initial address we would have a couple of questions to ask you which basically clarification questions yes. Someone whispering. Ok I thought you had finished your submission I'm I wrong. Yah, yes he is he is done. He said this is done.

EST Africa: Louis Greef

177. Excuse me madam chair there's only three more documents that I would like to give to you on a confidential basis. Ok shall we clear the room then? because then you can also question on those confidential.

Competition Commission: Chair

178. OK just hang on a sec, ok I think we it's best that we proceed with our non-confidential questions and then we deal with the confidential sessions afterwards.

EST Africa: Louis Greef

179. Ok, 100%.

Competition Commission: Chair

180. I just want you to, I want you to give us a sense of you know as the as the panelists we heard you you focused in your introduction more on pre 95 and post 95 and what happened and then what happened in post 95. Pre 95 we had a township economy that according to you was operated largely by small and independent retailers who were mostly black and local. I'm I correct. That's correct.

181. EST Africa: Louis Greef

Pre 95. I am saying pre 95 because even more difficult we had very little if any black participation in the for the in the retailing industry and if they were operating they were operating illegally.

Competition Commission: Chair

182. Ok I'm asking this question to understand because we are faced with, there's research that's been done one research saying that there is growth in the in the in the in the in amongst there's a growing if you're to look at what's

happening in terms of growth among your small independent retailers. One research group says there's growth happening there and another group saying that this is actually a decline so would you say based on what you are saying that pre 95 brought about growth in that sector in the small and dependent and independent retailers in the in the township and peri- urban areas and the areas that are the focus of this.

EST Africa: Louis Greef

183. I would say my view was that post 1995 they would be growth in that nonwhite participation in retailing in South Africa simply because pre that it was illegal and pre that they were confined to specific spaces which was specifically designed for them to operate in so they certainly has been growth post 1995 but that growth I think over the last number of years have become lesser and less and and that's just simply as the toping retailers are moving into townships. I said it in beginning the township by itself has got a GDP It's only got so many rands floating around in the township so if you are going to build the state of the art first world type of store and that store takes up thirty percent of the turnover and available rands or forty percent. I mean this is sixty percent left to be shared relative to the before it opened. And that sixty percent that is left cannot be shared by the same number of participants in retailing it would have to, the number would have to reduce. So even though and we have to make the distinction even though some research might prove or try to prove that this size of the pie is getting bigger in the townships the opportunities are getting less because of the big guys moving in. I can tell you and you can question them some of these townships stores can do twenty thirty forty fifty million rand turn-over per month on basic food commodities. On basic stuff you will find in a spaza store, basic items that you will find in a house store, basic stuff that you would find on a vendor table. And the opportunity just disappeared for them. And the opportunity disappeared not because they illiterate not because they necessarily bad at business the opportunity disappeared as approved and I showed but that the price differentials that they have to overcome to compete with the stores. So it's not a question like Wal-Mart would like to make it out

there's knowledge problem. Ma'am you can be as quick as as as as as you want to if my supply prices thirty percent lower than yours younot gonna to make, are you not gonna make a dent in my business and of given you the price comparisons. Some of them a fifty percent cheaper. How can that person compete so even though disposable income may grow the participants battling and seeking that rand has sip simply gone out of sync with the entry of the toping retailers into the townships.

Competition Commission: Chair

184. Ok and following on in what you have just said now. You also mentioned that. One. When retailers or buyer groups or wholesalers deal with suppliers they're all these prices. You've got a list price and then you've got the deal price and then the de-deal price and that whole complex structure that you gave us. If, in your understanding do you you are way off instances we for example any of the retailers you I know you you kept on mentioning Pick n Pay and we do know that Shoprite is probably the biggest major presence in the townships and is absolutely Perrier urban areas. thn Pick n Pay (Mr Greeff, 100%)

EST Africa: Louis Greef

185. Sorry whatever I have said about Pick n Pay is as much applicable on Shoprite checkers, as much applicable on USave, as much applicable on on Shoprites that may operate in those geographies and or Wal-Mart through their retail offerings

Competition Commission: Chair

186. Sure, ok now looking at the numbers this is something that I just want to understand for myself looking at the numbers of the, if you look at the end consumers that were being supplied that are being supplied in the township and those that we are being supplied in the urban areas I would have thought we have a bigger number therefore you can sell volumes in the township as a business so you make your money more yes if you move that direction than if you live in urban areas, Am I correct?

EST Africa: Louis Greef

187. Madam chair I'm not an economist however I've worked townships my whole life. Townships are places where people sleep that is the fundamental difference people work in one place but they sleep in a township for a want of a better explanation. That is why a huge percentage of the township available money gets spent at the taxi rank in that in the towns in any case or at a Shoprite or Pick N Pay in the place where they work. A small percentage actually gets taken back to the township to get spent because by the time the commuter get back to the township It is already past o'clock at night or in the evening so the township G.D.P. does not function the same way as a normal suburb would it's a place where people live it's a place where people shop and it's a place where people sleep, there's a difference there and I don't know if it's been researched that's just my experience the money does not necessarily gets spent there it's different to the suburb in which I'm living because I'm spending my income in that suburb and I'm highly mobile. Township dwellers are not mobile transport is always a huge expense so you tend to use when you enroute back home that's the route that you used to also purchase so the township purchase, I'm not trying to say there's no money available for a spend I'm just saying a big percentage of that spend does not necessarily happen in the township. So when you open a toping retail store you just drain the available money and I'm not against it. I'm not arguing against stopping them I'm saying let the playing field be level.

Competition Commission: Chair

188. You also mentioned numbers, numbers of your small and independently retailers for example I think you mentioned spaza shops between 130 and 50 000 and then with streets traders and hawkers you said it could go up to 500 00 in your estimation.

EST Africa: Louis Greef

189. In my estimation easy.

Competition Commission: Chair

190. I also want to understand buyer power concepts then what makes it aah, Where, buyer groups like yourselves how would you, how to you compare to supermarket chains in terms of volumes that you buy from suppliers which then go, I'm trying to get back to pricing issue do you buy less despite these numbers that are bandied around and why just explain that.

EST Africa: Louis Greef

191. I think I pointed out to you that the that the available spend that is not being spent at the toping retailers and wholesalers is stole between seventy and one hundred billion per annum. That is stole unallocated part of the South African fast moving consumer goods market. So there is going to groups like my own and others. But if we and we predominantly control what we say or manage what we called independent wholesalers, independent wholesale in my schematic explanation that I gave you number one is they supply independent retailer because independent come to them to buy and the spaza store comes to them to buy. So when you start to it's impossible to manage the spaza set-up in South Africa it's too big, it's too wide and it's too deep you can't get to them. I mean who would have expected that right next to this hotel seats a vendor and she's doing business so it lies too deep you can't get to them and capture them and that is what you need to do. And that is what the the toping retailers are trying to do, they trying to nullify the buying groups because you nullify the buying groups the independent wholesaler disappears. When the independent wholesaler disappears there's no place for the spaza to buy the spaza now has to come exactly what you find in Australia. They buy back door from him if you got an independent retailer in Australia and New Zealand you actually buy back door from Woolworths and then you take your little store you go and sell it because you like convenience only so they know if they can dollar fight independent wholesale all sales will be less.

192. Madam Chair, and that notification would occur through pricing by the, through pricing price, discounts that they get through the suppliers?

EST Africa: Louis Greef

193. Well there my view is that because of the abuse of the power that they have because of the buying power with suppliers they can leverage their in superior pricing to kill that channel that supply the spazas also.

194. Madam chair, And is that buying power the function of them having volumes in respect of certain products or leveraging over having volumes over certain products. How is it done, I'll tell you why I'm saying this in competition law recognizes is the power, I mean the dynamics of volume discounts and what they can do in different businesses so the more you buy the more discount you get. And then it's in that context that I would like to understand here.

EST Africa: Louis Greef

195. Madam Chair. In in a first world what you're saying is hundred percent correct. Size should determine some issues in an emerging and a third world economy how will you then get the black population to participate in the economy, they haven't got it. So how do they get it. How will they become oppositions to the big four. How will anybody if all rewards are structured along the lines of buying power and volumes only. How will the small get big. How will we develop into an opposition to Shoprite checkers. Because if they deploy money power against us the pricing superiority how will the small ever get big it's exactly the same we can draw an exact line between that and the BEE charter you have to intervene otherwise nothing will change. Have you seen with the BEE charter you can reduce and still nothing changes.

Competition Commission: Chair

196. So with that because wouldn't be correct then to say to to sum up your submission to be saying you are asking this inquiry to rectify the flaw in the

structure in this grocery and retail market by addressing this phenomenon where we don't apply competition, the Competition Rules as they apply elsewhere because if we were to do so and continue to do so then we would be killing your smaller and independent retailer who's who in most instances would be people for example black people in their own areas to.

EST Africa: Louis Greef

197. Madam chair I would like you to make a list of ten suppliers in South Africa. Call to a meeting and let them give you any financial analysis that they've ever done prior to this presentation today that proves to you that volume equals discount. It is not, it might be so volume equals discount because the top four are abusing their power now we find a reason why I'm not wrong to pay them more because they buy more. But there must be a financial accounting methodology in that, I mean surely you sit and you say, I mean we've got the capabilities of giving you an order for one hundred fifty link loads of rice that's easy for us we can do it easy. So how much more must we do in order to qualify for the big prize. In my own view from business a linked load of product is the most productive number you can get to, three link loads does not make you three times more efficient and twenty does not make you twenty times more efficient it is just to twenty ones next to one another. And I don't know why because I'm big I should get the best discount even if the competition law allows me that.

Competition Commission: Chair

198. You also alluded to the Waterbed effects in the discounting stats (EST Africa: Louis Greef , yes). Is that something that you suspect is occuring or is that something that you have evidence on and you can assist us.

EST Africa: Louis Greef

Madam chair if my analysis any of these one hundred percent correct that I gave you. That give the different prices that my organization who's got a plus ten billionaire rand turn over per annum can negotiate from suppliers. And then we can buy from one of the big four up to 20% cheaper then that is a living example of the waterbag effect.It says if the big four sucks too much money from the suppliers they have to find other avenues to recover it and I have shown it to you between twenty and thirty percent more expensive I haven't even madam chairman covered the discrepancies in trading terms which we referred to as back-end margins these are monies decked amongst the big four that a buyer will never even see so we cannot discount that. That can add up easy to another anything between six and fifteen percent kickbacks that you will get from a supplier we haven't even covered that but I gave you the list and that list you can cut and paste whichever way you want to. The even bigger discrepancies in that list now in that list there is no accounting format for it. And what we're saying if size matters then tell us how it matters you cannot discount the big four or one of the big four with twenty percent but you don't tell me what's my performance standard to achieve it. Then you must say to me give me an order for ten links and you can also get the twenty percent you can't discount it in secret. Because there can never be a business principle there must be an accounting principle and an accounting principle must be applicable on everybody you must say if you give me an order for ten link loads of product A.B.C. you will get it and everybody must get it. I'm not saying, ,I'm not saying give us anything special I'm saying if there are rules explain the rules and if they are rewards explain how we get the reward you can't keep it secret because then it becomes highly contentious I will object to it every time because there is no business model underlying absolutely nothing you giving in to do much power from the big four.

Competition Commission: Chair

199. Thank you, thank you.

Competition Commission

200. maybe just to follow up on a question that is that Ms Mlanga had asked in the beginning and also to what you had indicated in the beginning of your presentation and this is about the numbers and growth in in retailers and spaza shops in township areas. think there is a slowdown in growth maybe I should

us that first. Do you think there's a slowdown in growth or do you think this is there is a decline in the number of of small retailers in intangible areas.

EST Africa: Louis Greef

201. Madam chair, you know if you are unemployed. I don't know what else give you an easier way into the economy than to become a spaza owner or a pavement trader or to sit next to a school and sell feedback. It's the lowest form of economic activity so we've got to watch out for these numbers that the big four dish out to us, because you can have a hell of a lot of increase in the number of traders yet the turnover reduces putting more pressure on them less money in their pocket. So let me answer the question I've got no doubt that the number of the activities probably is not decreasing let rather put it that way but I've got no doubt in my mind that the money in circulation is much less. I will tell you a spar store in a black area can do up to thirty million rand turnover per month if that turnover comes from of a relative confined township. What must the rest do it was money that was previously spent with informal traders. So i'm saying to you we've got to watch out that these numbers can sometimes i think confuse us even though the more participants the turnovers are less and the stress and the pains are much bigger.

Competition Commission:

202. Thanks and then in terms of your businesses as is you have you maybe seen any indicator in your business for example turn-over or anything like that that gives you an indication that perhaps not the number of traders that have declined but that the turnover traders have declined.

EST Africa: Louis Greef

203. We, we. Im gonna use a trade term which says horizontal trading which is something that you find in South Africa and in all emerging economies in other words products stock to travel horizontally before they find their way down into the channel. In other words Pick n Pay or Shoprite or Wal-Mart will buy a load

of washing powder. A wholesaler will then buy it from them so it move horizontally its not `moving down to consumer level from the wholesaler it can move to a third party and that third party can only start to sell it now to an independent retailers spaza owner and our shop. Ok so sometimes very difficulty companies like ours because of this horizontal movement because you try to cherry pick the best possible price to try and make you competitive but there can be a big horizontal movement of stock that happens before it goes down. So I have never got a true feel about I know exactly what the company turn-over is and I can tell you that it's certainly not growing but there can also be due to the horizontal movement and buying out of stocks. I've given you the list of the stuff that we buy from Pick n Pay so that I will not see because not being bought from a supplier It's only when my, the stores affiliated to organization will buy from a supplier that I will see to turn over. I've no visibility of the still, I've got no visibility of its outsells. But I can tell you FMCG in South Africa's very slow and FMCG is in a terrible place based on consumer spending.

Competition Commission

204. Thank you and then you're on some might be the same but it's bad just to clarify did you perhaps see any changes in your turn-over or anything like that when for example a large supermarket on mall opened up in a particular area where you are able to observe that from your turn-over?

EST Africa: Louis Greef

205. No, what you will, what you will find most of our turnover coming from independent wholesalers these are very agile and very clued up traders and business men as you know because some of your team went to visit them. They will keep on, keep on going and looking for business. So they sort of gut to feel traders they don't run statistical models to find out in my sales in Soweto has gone down. if Soweto goes down they just simply go to Orange Farm to go and for business if Orange Farm goes down they will go to the East Rand they'll just keep on going looking for business to sell very difficult for me but these no doubt that the numbers are under strain. Really under strain.

Competition Commission

206. Thank you then. Another question with regard to buyer group, do you aah aah, outside of the large buyer group such as yourselves and do you think there is scope for. traders within townships to form their own smaller buyer groups and if so have you seen it happen and if not why why do you think not.

EST Africa: Louis Greef

207. Madam chair in the Walmart submission to you something to the effect that. Township traders organize themselves into groups with distribution efficiences. I have been in this game for thirty five years I have never seen that he my whole life. If there is a shortage of money the last thing you can afford is a truck. So to get back to the question I don't unless we change the macro picture these guys I mean it's the last resort before dying of hunger you have to try and do a business, you have to try and sell tomatoes or apples or chips so last resort you can't go lower than that and you won't do it if you can find other employment in any case because it's probably much more rewarding than other employment. So I don't think what I see on the rise unless we change this macro situation that people will be able to trade themselves to a higher level it becomes so bad as I say to you that when you now rent out your shop to a foreigner you make more money than when you try to do business yourself. And which drives a whole or completely new discussion.

Competition Commission

208. And then perhaps talking about many small initiatives such as in the sharing of a bakkie or something like that have you in your experience seen that happen?

EST Africa: Louis Greef

209. Yah township people are helpful people. Our wholesalers are full of bakkies and in township people will share transport even if they buy the open taxi seat next to them to transport goods so they find these weird and wonderful ways to move product. But have ever seen them organizing themselves into like a group that will come and buy and distribute into other areas really not because the

nature of the township trader is that he gets up in the morning he reads the newspaper he finds the base deals and down for products he gets into exactly that bakkie that you're referring to children at school these very little activity happening inside a township he goes and buy and he picks the best priced products he drives pick and by the time he gets back to the township the schools are coming out and the business starts to happen I have never seen it but the they might be cases that I'm not aware of where they have formed sort of group I'm just never of never come across it.

Competition Commission

210. Thank you then you very briefly mention this in your in your presentation earlier and that's the issue of counterfeit goods you mentioned it in the context of counterfeit cigarettes I think. In your experience is there a lot of counterfeit goods making its way through the township economy.

EST Africa: Louis Greef

211. No I don't think there's a lot I think it's probably, it's probably confined to maybe cigarettes only that I'm aware of.

Competition Commission

212. Thanks and then one last question from my side so you indicated that all that you require is a level playing field. And then you mentioned certain recommendations that were made in the U.K. inquiry and that is a code of conduct and an ombudsman do you think that those two recommendations would level the playing field, would it address your concerns?

EST Africa: Louis Greef

213. Yes if the objective at the appointment to create a level playing field I am sure that will be the result of it. I don't, I do not believe for a minute and I can only keep on saying that suppliers want to feed this monster of the four big ones they just got no other option but to feed and I have stated the chicken example I'm not qualified in chicken to be very small in chicken but I can tell you it's certainly the case in many other food categories it has become something that they don't manage I gave you the list. I mean when your life have you seen that

these a store and a group loyalty program and the supply is supposed to fund it it's your program to get your customers to be loyal why should it be a the supplier's responsibility. I mean television advertising that's your responsibility you are advertising your group how can the supplier be kept responsible to funded for you and to give you deals so that you can slash it on television. I mean where in the world if you heard about that I mean that is just absolute you go through that list. I mean suppliers forced to contribute to new store openings it's your store. And you raking tens and millions of rands to open a new store they funding your cash flow but then you've got the odessity to make a submission to this panel to say that the bottom end trader don't know how to manage the cash flows. This is becoming absurd absolutely.

Competition Commission

214. Have you seen any , have you observed any difference in this between a larger supplies and smaller supply so for example where a large supply might be very dominant in in supplying a particular product and that therefore have more negotiating power over the large retailers than smaller ones.

EST Africa: Louis Greef

215. Yes I have, I think some of the bigger suppliers are more responsible and are more fair in the trading behavior. But we find as a general rule that mostly the multinational suppliers are the one with the biggest problems and I don't think it is because they feel nothing for township traders. I think it's because number one those companies are being managed by foreigners ,number two the sales structures top social structures are foreigners they don't know township trading, they don't understand the hardships of what's happening they understand a first world trading environment make no mistake they exceptional business executives but you've got to understand there's this emerging market third world trading environment if you want to pay attention to it, and I will hand you out another document when we in closed session explaining exactly that. Where the replies just simply well there's nothing we going to do about it because that's the world they understand the world to understand is the world of the toping retailer. They don't understand this thing about one hundred to thirty five

thousand small schools , so no we do You don't find in the strategy that this is actually a place for that because they come from a world where it doesn't exist.

Competition Commission

216. Thank you.

Competition Commission: Chair

217. I just want to ask follow up question to, Ms Du Plesis asked you are question on whether you had seen, whether the there'd been a decline in EST turn-over as a result of the entry in your response to that was it to be to be picked up by your host sealers the independent that so by yourselves (EST Africa: Louis Greef ,Yeah yeah) but then those wholesalers it's not something that would automatically come through because they would move from one area to the next. (EST Africa: Louis Greef yes there will go and hunt for business absolutely) So if just to for just for us to have a sense and maybe to access that kind of data if you could. Do you think asking for that information from, would that information be available from these independent wholesalers for us to have a look at (EST Africa: Louis Greef ,absolute) to be able to see this trend in what's been happening.

EST Africa: Louis Greef

218. I'm sure that,hat you've also got powers within your structures to make them participate even if they don't want to but I've got no reason to believe that they don't want to reveal their to a third party like yourself provided that they know that the information is confidential.

Competition Commission: Chair

219. Ok thank you, ok we are done with their non-confidential part of the hearing and we about to proceed to their in camera proceedings with Dst Africa we will therefore request that all members of the public except for the men, except for the commission Competition Commission staff remain behind and therefore as well as media lives please. Ok camera people don't go and translators don't go

but you must switch off your cameras, thank you. And we need to also remember not to have any live streaming of the session. So we can we proceed. Ok so we may proceed? You may proceed Mr Greef

220. I think everyone has left.

EST Africa: Louis Greef

221. Thank you ma'am. Ok I'm just going to give you. I think we have just entered

Competition Commission: Chair

222. This will be exhibit, this will be exhibit 9. EST Africa exhibit 9.

EST Africa: Louis Greef

223. [redacted]

[redacted]

224. [redacted]

Competition Commission: Chair

225. [redacted]

EST Africa: Louis Greef

226. [redacted]

Competition Commission: Chair

227. [redacted]

EST Africa: Louis Greef

228. [redacted]

[redacted]

Competition Commission:

229. [redacted]

EST Africa: Louis Greef

230. [redacted]

Competition Commission: Chair

231. [redacted]

EST Africa: Louis Greef

232. [redacted]

Competition Commission: Chair

233. [redacted]

EST Africa: Louis Greef

234. [redacted]

235. **Competition Commission:**

236. [redacted]

EST Africa: Louis Greef

237. [redacted]

[redacted]

Competition Commission

238. [redacted]

EST Africa: Louis Greef

239. [redacted]

[redacted].

Competition Commission: Chair

240. [redacted].

EST Africa: Louis Greef

241. [redacted]

242. Competition Commission: Chair

243. [redacted]

EST Africa: Louis Greef

244. [redacted]

Competition Commission: Chair

245. [redacted]

EST Africa: Louis Greef

246. [redacted]

Competition Commission: Chair

247. [redacted]

Competition Commission

248. [redacted]

EST Africa: Louis Greef

249. [redacted]

250. [redacted]

EST Africa: Louis Greef

251. [redacted]

252. [redacted]

Competition Commission

253. [redacted]

EST Africa: Louis Greef

254. [redacted]

255. [redacted]

256. [redacted]

257. [redacted]

258. [redacted]

Competition Commission

259. [redacted]

[redacted]

260. [redacted]

Competition Commission

261. [redacted]

EST Africa: Louis Greef

262. [redacted]

263. [redacted]

[redacted]

264. [redacted]

Competition Commission

265. Thank Mr Greef, I think we are done. We don't have any further questions to ask. I think we will have to allow everyone in before we let you stand down.

266. So you will allow it ten minutes tea break. So everyone can quickly grab some tea and coffee and then we will comment at four. Thank you .

Competition Commission

267. OK. Then let the next submission that we will be receiving is from Glo Bake and there is a gentleman from Glo bake who will then say. Can I ask that you please please place names and full names on record and then you can then proceed with a written with your presentation with your submission if your name and you name it and say name before you comments and just a bit a bit of a background on who you are and then your submission.

Glo Bake :Noah Msibi

268. Thanks Madam Chair.. Ladies and gentlemen good afternoon. My name is Noah Msibi from Glo bake. It is in saulsville atteridgeville. Basically our business is a small retail bakery that is. Its aim is to supply food for lower class and the middle class hence people living in that township or most of them they are unemployed. And they are living by grunts. So you sit down and look and ok right right. In our products we can make the much cheaper so that they can afford. For them good enough for them to buy for instance to make them there are no simple break fast for example I'm busy with the bread. Confectionery. And a little bit of some fast food. Whereby this shop we started it at 2010.

269. It was doing very well. I can say it. It was a a profitable business whereby when I can put it in numbers it was selling over a thousand loaves a day. Which having say about fifteen employees working under it. There comes a. Some problems I can say it's a problem but. Let's see some development that is happened to our our areas now whereby this a bigger retail shop, Shoprite Checkers, Spars are closer now. Together with the Pakistanian shops that are all over our towns township.

270. My business. Go down. Really go down. I was being forced to cut the number of employees right now I'm talking I've got nine of them that are working but I would. Have to terminate the contract. Because of I can't afford to pay them. And it's South Africa because no one can volunteer. Is working up every day, bathing using electricity all of those things are a cost to everybody when it's going to work he is expecting to get something for him to earn a living because he also needs food.

271. So this business go down. I have been forced to cut these people, these employees. As a matter of fact right now day after day I'm seeing it it it's sinking it's going to it's not growing anymore. I'm struggling to sell over five hundred loaves in one day now while I'm talking about last from 2010 to 2013 I was selling over a thousand loaves a day.

272.

So now these big shops are in now. And they are selling almost the same thing that I'm selling at the same price, so question any more I'm worried that the how and they how are they getting it so cheaper because my I was thinking that I'm OK I'm the best in the cheapest one for this township.

273. So now it's getting sort difficulty to me to operate my business as before. So another thing that another thing that affects my business is this Pakistanian shops these Pakistan people I know very well that right they are fellow African brothers But my problem they don't support South African people or businesses. They don't support us I'm selling bread it they are also also selling

bread. The same bread that I will find on their shop is the same bread that I have but I don't know where are they getting it.

274. We tried to negotiate with the guys we are asking for business. To you so that as well we can survive, ok right. They said give us a stock price look at that and give you this the price this is the only price that I can give it to you then he said no we gonna phone you. But they don't make the follow up to phone us. Go tho their shops you find the same bread that they are allowing.

275. I'm trying to say our business that we are doing they are supporting one another as Pakistanians and not South Africans that is where you are going to see this thing of xenophobia not that we are fighting against foreigners in the South Africa. We are hungry. Our businesses are closing now and again. Our businesses we renting to the foreigners. Not that we are failing to to run the business. The market is beating and it is killing us. The prize that they can stock a tin, a tin stuff from Makro that they have to sell it like for instance at R18, Shoprite will sell this now and its R13,99. I am asking myself where is Shoprite getting it so cheaper so that as well as smaller retail business I can go and get it so cheaper so oaths completion campaign so it is really helping South African people. I will ask the to find out for us the source. Where can we get this cheaper? or else we can enforce every retail business to sell it at a same price, at a same level because we also want to survive. This is our country. We can't go anywhere in order for us to survive we need to get the right sources in South Africa. It mustn't favor some few individuals because they have got money or they have the a bigger names. Because for instance I can state my business is run down because Ok right because of Shoprite is operating, I've got how many Shoprite I think I've got three Shoprites in my place there. Three or four there are four If I am not mistaken. You can walk to that shop.

276. I personally I cannot go to a shop whereby I know very well that are just I will get a loaf of bread yet I'm looking for sugar as well. I rather go to that place, I will get plenty of things under one roof and it's affordable. So, that's our the main problem that we are facing as small businesses in the locations. Thank you.

Competition Commission

277. Thank you Mr Msibi . Can you just indicate where exactly is your bakery based, the location and and you mentioned also mentioned Shoprite and other supermarket chains having a presence in your township or the location where you come from and how far are these from you from where you are can you just give us a sketch that out for us more or less?

Glo Bake Noah Msibi

278. Ok, Thank you. My business is located at Saulsville next to the station train station. We have got a shopping center next to the police station I think it's about less than five kilometers away. It is that is they said they call it Atterridgeville complex. And then we've got a Attlyn mall, ok, that is an old mall that we found there. People who know it that's OK.

279. There is Shoprite as well there. Even there you can walk it is less than ten kilometers from my place. We have got Mandee mall whereby there is a Pick n Pay. Its Mandee. Even though its less than 10 km away that shop, that mall. There is another one at Lotus, at Lotus garden. There is Shoprite.

Competition Commission

280. Sorry, which supermarket is located at the Atteridgeville shopping center

Glo Bake Noah Msibi

281. Shoprite.

Competition Commission

282. And then, you also mentioned another shipping centre where Shoprite

Glo Bake Noah Msibi

283. Its Attlyn

Competition Commission

284. Ok. Maybe just going into each of the mall and the shopping centers that you have now spoken about and the various retailers in those shopping centers. You indicated that in 2010 you still did very well and that since they knew your sales have gone down. Can you explain to us when these malls opened up close to you and whether after 1each one of these malls opened up whether you saw a drop in your sales

Competition Commission - Chair

285. As you answer that question, just give you answer in the order of these malls opening which mall opened first followed by which mall and up until when and in the years when the open.

Glo Bake Noah Msibi

286. The mall okay, Attlyn mall is the mall opened before I opened my business. I was operating very well while it was there.

Competition Commission

287. Can I just interrupt you quickly so how far is Attlyn mall from your shop?

Glo Bake: Noah Msibi

288. It's less than ten kilometers

Competition Commission

289. Thank you yes.

Glo Bake: Noah Msibi

290. And then Lotus Garden Mall it opened in I think 2011. That one I didn't I wasn't affected that much. But I was affected because I lost some of my customers that we're buying the bread for quarters they call it spatlo in tswana. Yes I lost I lost for a few of them they just joined Shoprite there at Lotus Garden. And then in two thousand and... late in 2014 they built a mall the Atteridgeville

Competition Commission: Chair

291. Sorry, so this Shoprite at Lotus gardens sold Spatlos, quarters?

Glo Bake Noah Msibi

292. No they don't sell the quarters. They are selling the bread. The bread that I am making, In English the call it bunny chow.

Competition Commission - Chair

293. So Are you saying you lost your bunny chow customers. So are you saying these bunny chow customers went to buy bread bread in Shoprite at Lotus gardens?

Glo Bake Noah Msibi

294. Yes,

Competition Commission

295. Were these customers that bought it make quarter for themsleves or did they buy it to resell it.

Glo Bake Noah Msibi

296. These customers, they buy, they make the quarter to sell it.

Competition Commission

297. OK And so when you lost these customers how many loaves of bread so initially you said you sold about a thousand after you lost these customers how many did you sell then.

Glo Bake Noah Msibi

298. The figures would drop to 900 roughly, I can call it it dropped to 900 OK then. Late in 2014 the Atteridgeville shopping centre was opened. That one less than five kilometers away from my shop. All of my customers they're walking. They are not taking even a taxi to go there. That's where I was really, really affected. Really really affected and that Shoprite now It's always overcrowded

always overcrowded. So it's it affects me. It's affecting me in such a way that I am struggling to sell even five hundred loaves as we can speak now.

Competition Commission

299. So you say in that in 2011 there was this one mall that opened you lost some of your customers, your sales went down to 900 and so in 2014 the Atteridgeville Shopping Mall opened and when the shop the Shoprite there opened your sales dropped from about 900 to 500.

Glo Bake Noah Msibi

300. Yes

Competition Commission

301. Attlyn Mall, Lotus Gardens, Atteridgeville Shopping Cetre are all in Atteridgeville? in the same township?

Glo Bake: Noah Msibi

302. Yes, they are all in the same township. Then there is this one that opened late 2015 the Mandee one. It is is less than ten kilometers next to Attlyn mall as well whereby these Pick n Pay.

303. As these shopping centers and malls are being opened there we see, everyday we see some differences, some changes in our businesses in such a way that we think negatively of ourselves that we need to shut down these business because we doing nothing wasting our time.

Competition Commission

304. In terms of the number of employees you say that you started off with about fifteen employees in 2010 and and that you now have about nine can you maybe just go through then from 2010 up until now how many employees you had to retrench and whether it was after a mall opened every time.

Glo Bake: Noah Msibi

305. I've seen it in 2014 after this Atteridgeville shopping centre was opened . That is whereby I was forced to retrench three employees because I have to cut off mu shifts now or my working time. I have to cut them off. So that's where I decided three of them I must just be known terminate the contract, sit down. I sit down with them explaining this situation.

306. The job that you were doing before I no longer have it now they really understand, they understand. So and 2016 2015 later in December when we go for holidays on December the time that mall at Mandee was open again . There I also decided to terminate a contract of another three people there. Also cut the number of now shift. I will have have less time to work here. I am fighting against the electricity now and the electricity cost to and I won't managed to pay electricity, I won't manage to pay this workers. So now I am left with this nine people. As well I can see even this year I'm struggling I'm not happy to operate that business. I was thinking that this is winter, its winter time whereby bread people its a must to have because its cold they are drinking tea and coffee so but still its not going up. I am not picking, its doesn't pick up that much. I'm really not happy.

Competition Commission

307. I'm the people that you had to retrench, what kind of work did they do for you

Glo Bake: Noah Msibi

308. I retrench a baker. Was baking. A chashier together with a cleaner for another shift. Those are the people that I even a bread slicer, yes

Competition Commission

309. These are four people and you had to retrench about six people so where there more than one baker for example that you had to

Glo Bake: Noah Msibi

310. Bakers were 2

Competition Commission

311. Okay, so two bakers, one cashier, one cleaner and and one bread slicer.

Glo Bake: Noah Msibi

312. Yes, those were my people

Competition Commission: Chair

313. With with the competition that you saw from your from the supermarket chains around you in the malls, did you loose customers because your bread price is higher or was higher than the price at which they were selling. Can you can just answer that?

Glo Bake: Noah Msibi

314. OK. No I'm selling a 600 loaf , 600gm loaf for R6,50. At Shoprite that loaf its, Shoprite sometimes have some specials, it goes to like, a normal loaf for 600gm fro them its R6,99 that is R7. So I am mush cheaper than Shoprite , only to find that Shoprite its cheaper when they have some specials on that . So I cannot say that I loose my customers because of the prices that I am giving to my customers. I am saying I think I am loosing my customers because of the competition that its around there because, I cannot complain for R,50 just to travel all the way just to get one loaf and then to go there and I want to travel the whole way to get my cornfalkes, some fresh milk, some meat in the butchery and one loaf of bread. That one loaf of bread I can get it in one place and I get that one loaf of bread only.

Competition Commission

315. Did you ever try to open up your shop in one of those malls that opened around you so that you can also be close to the customers that buy the other things.

Glo Bake: Noah Msibi

316. I didn't. I tried to confronted. Oh yes I was tried to confronted about today but the rents there I find it its a bit higher . I cannot afford to pay those rents that are there in the malls. As well as trying to run no way for the competition of these big shops. I will still be selling one thing .Them they're selling different thing under one roof so I don't think there would be that much changes of my business to grow. Or to enable me to pay those electricity and rent together with the workers there.

Competition Commission

317. Did you consider or well maybe two parts to this question and do you know of maybe other bakeries that are located further away from from the malls that you have just listed. Do you know of them and are they doing better because they further away from the malls?

Glo Bake: Noah Msibi

318. There are some bakeries that are further from the mall, that are further to the malls. Actually I can call it there is KB bakery in Atteridgeville. That is the oldest because of that I found operating there. As we can speak KB Bakery shut down. It's a big bakery, it was delivering bread not as me . I was me I'm selling over the counter them are selling over the counter and they've got some trucks delivering bread.

319. One day I speak to the owner about this problem. He said you told me straight away that I'm thinking to be a pastor now I can't manage to run this business because the customers was that I was selling this bread to they are buying to the Pakistanians, they are going to these malls to get the bread. o now it was closed March this year. It's no longer operating.

Competition Commission

320. Do you know how many employees they had if maybe a rough estimate.

Glo Bake: Noah Msibi

321. Actually, they have got that number of employees I think roughly they've got more than twenty. The drivers and the crew together with the bakers and all the stuff insider there. They were over I think they were over 20.

Competition Commission

322. And how far are they more or less from the Atteridgeville Mall?

Glo Bake: Noah Msibi

323. Actually we are almost located in the same area there. Located in the same area but the thing is that their businesses were based on delivering mine were based on the walking customers that are coming through to fetch the bread for themselves.

Competition Commission

324. Do you know of other bakeries that also sell over the counter like you do but that are further away from the mall and that are doing better because of that.

Glo Bake: Noah Msibi

325. No, I don't know any bakeries.

Competition Commission

326. You indicated earlier that the foreign operated spaza shops do not support the local shops maybe if you could just explain what exactly you mean where that.

Glo Bake: Noah Msibi

327. I am meaning likely I'm staying there at Atteridgeville. I normally see all the spaza shops that are operated by South Africans are closing day after day. Only business that they can do as South African for now is the quarters, that

one I can call bunny chows. That's the only business they can do. The supper market part of it they are closing. They are failing to operate those things.

328. The main problem that is affecting them is the market where they get this sugar, the fish, the soap all those things the grocery part its so expense. They getting they getting it so expensive. While this Pakistanians people. I don't know whether South Africans are not supported supporting each other like or whether with the one on their wholesalers there if we can buy in bulk we get a huge discount I am not sure on that part but they're telling us everyday that one I'm selling this stuff I'm making a loss that means I'm doing nothing. As compared to this Pakistanian and people. So that's where it's affected in one of the South African business people.

Competition Commission: Chair

329. You also mentioned social grunts, were you benefiting from sales to people who were earning social grunts and how were you doing so and what happened to those customers that were earning social grunts?

Glo Bake: Noah Msibi

330. Those custom normally like I said earlier on that my product were the cheapest product, so the time of their pay day, Ok like getting social grants they came to support me. Sometimes I've got some of them I was having a plenty of customers like I was giving them like you send a child in that place you come and collect bread everyday, everyday without paying but the time of the grunt they just came to pay.

331. I was supporting them like that so now they stopped I don't know why . A number of them they stop doing that. That's what I'm saying as well I am still loosing these customers. OK Right I understand like as I'm saying they're going to Shoprite next to me. They've got that money for the grunt that they know that they will get sugar, they get that bread and so they will get some soap to wash of which I don't keep that soap and those things, the grocery part. I'm

dealing with baking stuff only. So now as this customers not coming in. My business is drowning.

Competition Commission

332. You say your bread was the cheapest. What made you able to sell your bread that the lowest price. Can speak to how you're operating which enabled you to have a good price.

Glo Bake: Noah Msibi

333. In those days, 2010 Up until 2014 I was competing with Albany. Albany is an expensive bread in South Africa we all know. Sunbake, Blue Ribbon those much expensive bread, so the people there were most of them won't afford those branded bread. They decided to come and buy the cheaper one .So, actually even myself I was not I was not making that much profit but I'm making profit as the more the customers coming in I'm making so I'm getting something today. So now the customers are not coming in that numbers now and I'm struggling to operate my business.

Competition Commission: Chair

334. So you made you made your money based on the volumes of people, number of people that recovering through no not on the price necessarily.

Glo Bake: Noah Msibi

335. Exactly.

Competition Commission: Chair

336. Thank you Mr Msibi should we have further questions for you we'll make contact with you. We will get in touch with you, thank you very much for your submission

Glo Bake: Noah Msibi

337. Mr thank you so much.

Competition Commission: Chair

338. With that ladies and gentlemen we come to an end of today's hearings we will reconvene tomorrow at 9am. At 9 in fact it will be arrival and registration and then the actual hearing will commence at nine thirty tomorrow . Thank you.