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COMPETITION COMMISSION'S GROCERY RETAIL MARKET INQUIRY TRANSCRIPT

6 June

Competition Commission: Du Plessis

It is now 10:30 our panel member Lulama Mtanga is on her way as I indicated earlier she had an emergency a while and she will be joining us during the course of this presentation but in order not to hold up everyone, in order for the schedule to proceed we thought it best that we could start with UMS's presentation. So the person you here is Mr. Jose Kareo from UMS it's a bio-group, and I will hand over to them to start with their presentation.

UMS: Jose Kareo

Morning everyone, thank you Madam Chair. I just want to give you a copy of the presentation.

Competition Commission: Du Plessis

Thank you

UMS: Jose Kareo

Ok, I am first going to point out that our submission is based on the information we have and our experiences in the trade. What we don't have is hard fast evidence. Understand that the big first four confidentiality is something they know at all so it's difficult to come by in retrieving documents, further to that I just want to add to what was said yesterday by Louise Greeff of EST. Everything he had to say is what bio will agree with. I mean we basically face exactly the same challenges. Ja, I think if you guys would allow me I am going to be repeating quite a bit of information, that he presented yesterday. Just to follow-up on the fact that I don't have much like documentary evidence. The rumour is out there everyone is talking about it. Well enough that's what it means that, we hoping that is enough merit to our enquiry to investigate on every aspect of this enquiry.

Right let us start with who we are, so that you understand the position we find ourselves in and our basis on which we make our submission. We are what you guys turn a bio-group, we don't classify ourselves as a bio-group. We are a voluntary trading association, which is similar to a bio-group with a whole lot more of support services attached. We have been in the business for twenty years and as I mentioned we offer our full sweeter service to the independent trade whether you are a larger

independent unit, a smaller tuck-shop we are for the service. What we do we channel the independent business we fight for the independence in the big four. Um right so what I from the top there is a list of what we offer. So, we are a franchise without the cost associated with a normal franchise, in other words there is no loyalty um there is no loyalty fees, there is no franchise fee and no hidden costs. What we do offer our independent service and allow to buy at a better price. We allow the opportunity to meet with suppliers and wholesalers anywhere where you fit into the independent market. We are in a whole team that allow the independence to buy at a better price. Again, that is the whole principle behind it, but the organisation is to get a whole lot of guys together pull their buying power and get a better price.

We offer Skills Training and Development to both our customers and our customers customers. Understand that the customers we talk of are wholesaler, retailers and their customers which would be spazas, hawkers as well as or rather smaller super markets. We offer credit facilities, facilities that they would not normally get from suppliers because the guys are just too small, or don't have the skills set or the administrative background to put into place, the necessary credit facilities. We offer a sales support service our sales people go to all independent stores and offer a service in formulating the independent stores in such a way that are able to get the right stock, the right customer to the right price. We do store development. A lot of our guys are current customers started off in their garage or in the back of a car and a lot of those to having stores of up to three, four thousand square metres. There is a development programme that we have that allows the independent to compete against the local Spar. We have a private little programme. So, the one thing we have put there is a development banner programme.

Although we as bio-groups don't necessarily interact directly let's call it the small independent tuck shop owner, garage owner. It's just too small for us, but what we is through our wholesalers put together programmes that allows the small guy to participate in the programme, that allows him to keep the right stock and to market his product at a low entry cost. Right as Uni-Trade we have approximately (two hundred and forty stores or customers) and through those (two hundred and forty) customers we employ twenty thousand people directly. They in turn will have customers directly who in turn have their infrastructure. So, one can apply your own mind to how you

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would ratchet that up. Louis mentioned yesterday there are about one hundred and fifty spazas. Each spaza employs about two people work it out that's up to three hundred thousand people in the sector informal sector.

Right we have an annual turnover of about approximately eighteen billion, and it's recently grown to between twenty and twenty -five. The reason why I mentioned that figure, it may sound like a lot understand that shop-rite is about a hundred and twenty billion. We are a fraction of their turn-over. Pick n Pay we are a fraction of their turn-over, so it does sound like a lot but in essence it's quite small. Through our growth path we reached as I say twenty million rand turn-over we could have grown our business a lot a lot better. The only thing that is restricting us is the power and amount of the big four. With them in the trading space we are restricted in every manner, of which I will go through. I have quickly put up a schematic which Louis briefly discussed yesterday.

You have the supplier right at the top, and then on the right- hand side they will supply into the distribution centre, and those distribution centres are in the main own buy the large corporate chains the big four and they in turn submit deliver the stock to their own stores. Suppliers also make use of agents and the buying groups and through the agents and the buying groups they can go to a wholesaler who in turn gives a turn around to a spaza or other independent retailers. Now if you look at that schematic, you will see that the right-hand side is very lean and mean, whilst the left hand-side you have got a lot of intermediaries, a very fragmented market if I may say that. Whilst on the right -hand side you have got four players, who know exactly what they want and how to get what they want, whilst on the left hand-side there is so many individual guys who necessarily as I mentioned stand together. Yes, that's fragmented, the market is fragmented, and as a result of that the big four take advantage of that.

Then what I have there is basically a split of the market share percentage wise I think what is key is your big four who have an excess of eighty percent of the market, whilst the balance is the independence, and if you look at the independence you will units at six percent needs start for IBC at four, ICC at three. Those entities I have just mentioned are the by groups as I highlighted in the enquiry. So, we do exist but it's just that portion that services the independent sector. Then we have Shield, Shield is Competition Commission's grocery retail market inquiry – Gauteng 6 June 2017

also a bio-group, and it's a bio-group that is owned by Massmart or Walmart. Shoprite have also a bio-group it's called Mega-save. So, although the corporates, the big four have their own stores, they also have their own bio-groups, which they use to disrupt our market.

Rights lets then move right into your objectives. Right I will just go back the impact of the expansion of navigation consolidation national supermarket, small independent retailers and market, peri-urban urban areas, rural areas and the informal economy. Right as I have mentioned earlier the amount of these chaps allows them to pre-empt divide or they have the first go of getting into retail space within the previously disadvantage areas. Whilst the Malls vary from small strip Malls to large Supermarket Malls. The lower represented in all of those now if one looks at the traditional suburb and let's take For example you have Mopani Mall which is a very large Mall, it has a lot of trading space, but within two or three kilometres of that Mall you have strip Malls. There again those are smaller Malls, again represented and occupied by the big four, not only occupied by the very large shopping centres, but the strip Malls too.

Ok the Larger supermarkets also what we call significant buying power, which puts the small independent on competitive. The guys mentioned it yesterday, the pass that we as independence get is a surprise that Pick n Pay, that Spar or a Shop-rite demand are significant up to twenty three percent as Louise discussed yesterday. Those are significant price differences, which we as a bio-group or voluntary trading association or the independence are unable to cope with. The gap is just too wide. We also have been faced with corporates changing the dynamics of various sectors and those include buying the larger independent businesses. Allow me to elaborate how some independent business has developed in this country.

So, pretty might four there were a lot of restrictions on where and how people could trade. Since then a lot of people have ventured out into areas untacked. This is allowed small businesses to grow to medium and large businesses. But Those large businesses at some point become the target of the corporates. So, just imagine you have small businesses a tuck-shop, and after ten you built the store you doing, ten million turn -over a month now. It is in the interests of the corporates to come in and buy that store. Number one they taking over your customer base, it's easy it's easy to Competition Commission's grocery retail market inquiry – Gauteng 6 June 2017

buy a customer base. Number two they taking up the opposition, because in time to come they will open up another store within the area. So, what they are doing is not necessarily buying your store to develop your store, but they are buying your store to take out the competition, because they know how to manipulate the stores, and we have seen it happening in our game.

So, our independence becomes predators, become the target of the big four predators as and when they become successful. Which means the small guy who is will always have smaller independent retailers who don't necessarily grow just don't have a fighting chance and they always going to stay where they are. Just to elaborate on the activities the big four and this information was drawn out from a industry publication, Shop-rite for its two thousand and eighteen year, expect to open up a hundred and ninety four new stores in South Africa alone. Wall-mart fifty- eight. Pick n Pay and Spar have not reported their growth targets. However last year the big four opened five hundred new stores in South Africa five hundred and these were not stores in Sandton.

Right what are our recommendations to what I have just mentioned?

Objective one :

We not necessarily looking for Government to hand our money, we not looking for Financial assistance not now. What we are looking for is regulation. Regulation that allows the opportunity for various players to come into the market. We are saying that new developments must also be regulated in terms of local content. The new developments are all happening in new town call it new suburbs. We should be looking at who are the players in the suburbs or who the entrepreneurs in those suburbs and accommodate them. Abolish exclusive leases . Now in the UK there is a case whereby , exclusive leases were banned. In this country, we understand that ... requires secure tenants, but who is to say that independence are not secure tenants. All that we want is a space to trade. Understand that as businesses develop they gain access as to how they should be running their businesses. There are no bad businesses and hence what is the difference in putting in a ... or a Pick n Pay, they can operate the same way. We can make the same products we can offer the same products but just not linked to a bigger corporate business. We are also recommending Competition Commission's grocery retail market inquiry – Gauteng 6 June 2017

that if in the initial phases of new developments call it leases exclusive leases are required it should be limited within the time period and we put five years down. Remember I said these exclusive leases starts with a ten year initial period and will have another ten year thereafter but they are long leases and it just doesn't allow independence to get into the trade .

Objective Two :

The impact of the long term exclusive leases that is into Property Developers, Supermarket chains and all the Financiers in these agreements are competition in grocery retail sector. Right, the exclusive leases herewith enters into a new shopping centre or any area. Again, it's a bearer which the independent markets, independent operators which they will never be able to concur because your big guys they come in upfront, they offer better rentals, take more space a typical Checkers were run let's call it ten thousand square metres. The independent guy sometimes only wants a thousand. So, you know the Property Developer they got to look at trying to split up that Mall in a different way . Why give it all to one guy and not to two guys? These leases also have the impact of reducing competitive activity in the area understand that when a new Mall comes up you are out of the business, because you are not in the Mall. All the customers go to the Mall. You are on the pitfall guys are not to stop by you are not in the Mall as you are down, even if you are a hawker, even if you are a spaza sometimes those individuals are required to move because the land has been demarcated or it is taken over by the shopping centre.

All right long -term leases. the other thing is one usually assumes that because the big four are there and they have huge turn-overs and they are pretty efficient in getting the market at a reduced price it's not always the case. Again, we can go back to the case where I mentioned earlier, we should try move away from small independent entrepreneurs. Why do we want to keep them small? Every individual has the right to succeed and if we going to continuously refer to the small guy as keep him there we also not helping him grown his business. We not helping him as we do have businesses to grow and through our customer base it's another experience, we have found that by nurturing those businesses those businesses grow and become the size of Shop-rites and become more competitive than Shop-rite, and often better pricing and one only has to look at publications on a Thursday in the citizen, or look at um any Competition Commission's grocery retail market inquiry – Gauteng 6 June 2017

leaflet in and around our stores. Apart from the top twenty lines, Shop-rite yes are cheaper because it squeezes for a better price, but on a full basket independence inevitably are cheaper.

Right so what we are also saying is that exclusive leases should also be phased out over the next couple of years. If we going to have exclusive leases we should be limited to five years allowing the landlord to at least recoup some of his investment, but by the same token allow a small independent trader a space in the Mall. I know in this enquiry we specifically refer to groceries. What is groceries? A Pharmacy is it a grocery or a Pharmaceutical. Shop-rite a pharmacy. We have a lot of independent bread makers, those are independent businesses of which the big four are currently tapping into. Why should we allow the big four to tap in a pharmacy before an independent? In today's age we have a lot of guys who have been to tertiary education they have a pharmaceutical degree for Pharmacists, but they don't have the opportunity to open a new store in the Mall, because the Shop-rite guys have taken up that space.

Understand when the big four come in, I am going to refer to Shop-rite again they have allied businesses within a group, so when Shop-rite moves in you will have another store, you will have a pharmacy, you have furniture businesses you are related to the business through the stone of group. They have a very close relationship through Captic so you have a suite of new stores associated with Shop-rite, and a landlord when he develops a site he has to go to Shop-rite, because at shop-rite you get five six different stores you don't have to run to ... independence trying to get fifty square metres out of each guy. So, what we are saying is new developments must take into account the demographics in which the new development is taking place and ... independent adequate space to run his trade. Greater municipality collaboration to improve zoning, you know having read the Cape Town transcripts. How often do small independent traders get closed down, because the cops come and confiscate all or the guys come around and break-down their business units. It's because these people don't have anywhere to go, but if local municipality actually put through zoning laws and allow the individual a space to trade you giving the guy a fair chance. But at this point in time, there aren't any regulations or if I say there aren't the individual the small independent trader is unaware of what is out there what the parameters are. So, in Competition Commission's grocery retail market inquiry – Gauteng 6 June 2017

line with that those zoning laws need to be communicated to independent entrepreneurs so they know how to penetrate the market. The other thing I mentioned is concentration. I can refer to Rustenburg, around the taxi rank you have three boxes in a space of one square kilometre boxes is a store brand within the Pick n Pay group. Shop-rite there must be three Shop-rites within a square kilometre so you have high traffic zones you have the big four not having one but having two multiple stores what we are saying is guys have a share of the market, give the balance to the independent.

Right Objective four:

The impact of regulations including amongst others municipal town-planning, by-laws of small independent retailers in the township, peri-urban, rural areas and the informal economy. As I alluded to you earlier the absence of regulation in terms of how a developer develops an area is not as strong as we hoped it would be, again with adequate regulations we are hoping that independent retailers are granted the opportunity to take up space within a new trading site. Currently regulations don't allow small and independent retailers to operate in and around Malls, either because there is a taxi location or a brand -new road, you can't run your spaza shop anymore there's a ... or a main road understand that mostly developers come with new infrastructure in terms of roads they are very busy you can't put your store anymore in the same site you got to move out. So, again it goes back to allowing individuals to trade their ... but dedicating them a site a dedicated site, and this means that you actually got to dedicate land to these people, don't tell them that you can't use the pavement you can't do that.

Right regulations that lead to the reduction are small and independent retailers to compete effectively. So, again because we have a lack or the regulations don't really assist small and independent guys we not putting them out of business, we not protecting them at all it becomes again a further hindrance on those guys to grow their business. Right what do we recommend. In terms of new developments, the local guys need to be given the first right in terms of fair space within a Mall. Again, it is pointless giving a guy space if he is right at the back. It's got to be within a fair, it's got to be located in the centre that is equally viable to all the other tenants. Creating an obligation on the landlord, on local municipality to ensure that the SME's have the opportunity to participate start a regulation on municipal level. Again ... the local Competition Commission's grocery retail market inquiry – Gauteng 6 June 2017

municipalities need to enforce the regulations which in my mind need to be set at a national level in terms of board .. strokes of what the anticipated share should be within our shopping centre or business mode.

Right the impact of buy power of buying groups of large ... products of CG power and independent retailers in townships, peri-urban areas rural and the informal economy. Right in this particular case bio groups as I mentioned earlier, without us the independence would not exist today. However, because the independence wanted to compete and they are looking for an avenue to compete they have allowed bio-groups to come about. And what is it we do we give them, we offer the grouping of people, we offer our customers critical mass and a belonging that allows them to compete with suppliers get better pricing, access to credit and have greater choices greater choices by means of more products different products, different locations, different businesses. So, you know we just don't as I mentioned just look at us we help the guy develop himself and his business.

We aim to foster stronger relations between the independent and the SME training. So, bio-groups are also overall competitors of the sector by increasing the number of options to SME's, spazas to source product. So, what I have put down is just the distinction between voluntary and bio-groups. Voluntary training associations are more than just buying. As I mentioned above we offer a whole lot of suite of services and the reason why I mentioned that is because of the next slide. Our greatest barrier is the fact that we negotiate with our suppliers the limited amount,of discounts we can get. What I mean by the amount, of discounts. I am talking about the different types of discounts, if Shop-rite move into a new area with a new supplier or centre they will go to a supplier and they will demand from a supplier a store opening allowance that allowance will be of such value it would allow them to fit the store for free we don't have that privilege. If we open a store we use our own money. Independent has to use his own money. So, we don't have what we call a store opening allowance. We don't have a revamp allowance, again that's an allowance that he big four dictate to suppliers they send suppliers every five years we going to revamp store it needs to be re-done so it looks fresh supplier ... because the big four demand it from suppliers. We on the other hand had to fund that out from our pricing allowance.

So, Louise mentioned quite a few allowances yesterday and I don't really want to go through all of them but when Pick n Pay moved into the area, the staff they employ is a fair amount it creates employment, the only problem is Pick n Pay don't pay for the staff, suppliers are paying for the staff. Suppliers have to pay the staff to merchandise. Pick n Pay will merely offer shelf space. Compare that to a small independent, a supermarket a guy has got a supermarket and let's call it five guys working for him, he pays for those guys out of his own pocket. Suppliers don't contribute what so ever. Store promotions I think everyone here is aware of ... loyalty programme they force the suppliers to pay for that programme. If I or if the independent wishes to create some sort of customer programme in order to entice the customer to buy more frequently more often and more products from his store he has got to fit that bill himself. He has got to pay for every cent, whilst Pick n Pay are getting the money from suppliers and it's a product or a promotional campaign that Pick n Pay put together that suppliers have to pay for. In addition to so their whole myriad number of what we call trading tips, we only have a few of those. In addition to that due to the fact that the big four of about eighty percent of the market sales they have access to better pricing is far better than ours. Louise mentioned it yesterday and I am going to mention it again there would have been an effect on the case taken up in the UK. The big guys put so much pressure on the supplier they tell the supplier what price they are going to pay for the product, it's a surprise so much sold that in order for the supplier to make up so much sale that lost profit to increases or doesn't allow the independence a discount the same that of the big four so we paying a higher price to fit the cost the big .. impose on the supplier.

We have also been subjected to various situations whereby, the big four, we ... a successful dependent operator in their area who sends staff into those stores and do what is called a price survey, and Gods forbid the guy comes back with a price as really competitive. We have seen it before the supplier gets the brunt he gets the brunt from Shop-rite he says I will buy ex-amount of chocolate tea from you why is my price higher than his how can he sell a price lower than mine. He threatens the supplier, he threatens to ... what does the supplier do he has two options either he delists or he gives him a better price and what happens is the independent operator is again faced with unfair competitive advantage.

So, yes there are a whole lot of different allowances, campaigns that suppliers pay for which we don't get either as a independence or as a voluntary/bio-group. Right the effect of the buying power large purchases of FMCG products. So, as I mentioned here if the big four has seventy or eighty percent of market, believe me they going to add a significant amount of pressure on the supplier to get the price they want and that thirty percent is the significant difference. We can never make up that difference. What we do though is we run our businesses far more efficiently than them. Understand that within a Shop-rite environment or the big four environment we know is not of corporate structures, you have got store, you have got a region, you got a area and then you have got South Africa. You have different layers of Management and that different layer comes with extra cost. We as independent retailers are able to survive on the thirty percent price different only because we run the shop in our stores more cost effectively it's the only way we can't compete on buying ... is too high. Ok corporate excising the main power lead is to discrimination against SME's it's what is mentioned earlier. The independence will never get the price purely because they offered it to the big guys now I need to make money elsewhere. The other point to note is in this country we only have four the big four there is not a lot of competitiveness amongst them. Split the market up. They know which target market they trying to hit, who else is going for the upper hand. Checkers is going for let's say six to ten, so they now set the market that's making the market fairly competitive for the independent and then again, the pure abuse that they offer that they ...on supply's independence at a disadvantage.

So, what are we recommending in this particular instance all we want is transparency you know all we sit with is a fair price give us the same price that you offer a Pick n Pay, a Shop-rite give us the opportunity to bid or to participate or promote a campaign pay us for it. We educate and train our staff contribute towards it just allow us that bit of leverage, unfortunately that is not taking place. So, all we are asking for is transparency amongst suppliers.

Right conclusion, as I mentioned earlier it's a bit difficult to get the trading terms that Pick n Pay, Shop-rite and the other guys have and you will see the different rebates, the different allowances offered and we can show you ours. There was a part those discounting structures need to be monitored and regulated. Pricing offered by Competition Commission's grocery retail market inquiry – Gauteng 6 June 2017

suppliers, so here again is the supplier looking for some hope he must be, he has got to be because every-day he faces the brunt of shop-rite, Pick n Pay saying this is what I will pay. Suppliers offering you a price, the big four are demanding a price. Look at the ... privacy programmes and store promotions, it determines which SME's ... come to qualify for this what we are saying here is ... to our stores and our advertising campaigns we don't have the money, we not given the money to promote yet the big guys are. Understand the role of distributors why are they independent. Independence are far more efficient in distributing the product into every corner of our society than the big four but we are not offered the opportunity purely because of price structuring discounts. Promote opportunities for SMI's, retailers to participate in new Malls. Again, all we want is regulation to our foot in the door.

Right you will obviously seek clarity from the enquiry which will .. enable a Mall through the sector in the competitiveness and growth out in benefitting the customer society as a whole. Thank you.

Competition Commission: Du Plessis

Thank you Mr.Korea just a few follow up questions for clarity from my side um I think let's first talk about the growth in independence the extent to which they are growing or not growing. Um and I have noted that you have indicated the number of members that you have and also your turn-over. Have you specifically noticed a change in the trained in terms of your member numbers or turn-over that suggests that you independence or independent retailers are not doing well?

UMS: Jose Korea

Ok the answer to that question the large independent players continue to grow they got to where they are because they are pretty good at what they do so they will continue to grow in spite of the economy but they grow at the cost of the big four or some other small independent retailer. However, the small medium sized independent retailer is shrinking because what happens with the advent of shopping malls or the independence have become quite big is the offer of myriad of products so it's a one stop shop. So, your small to medium size guy he only sells a limited range of product. Now a customer now a -days has little time to go shopping, he would rather go to a shopping mall or to a larger independent where he can get everything under one roof.

So your small to medium guys are taking and hammerin and yes unfortunately it's from the big four are the guys that are penetrating the market more for their independence. The large independent his business grows but it grows on the same side he doesn't open more than one store all he does is he grows his store bigger and bigger and bigger. So when he first started out in a garage he maybe now the size of a supermarket but he is not opening multiple stores, whilst your big four are opening, multiple stores and affecting all trade within the area.

Competition Commission: Du Plessis

Thanks, and do you have examples and if those examples are confidential then we will be happy to engage with you on that outside of this. But do you have examples of small medium retailers that were perhaps members of yours that have shown that they have not been growing or have closed down for example

UMS: Jose Korea

Yes, we have got that information sure

Competition Commission: Du Plessis

Thank you. The next question that I would like to ask you. You spoke about exclusive lease agreements the extent to which independent retailers should be allowed to operate in Malls. Um I want to ask you to maybe explain to us the type of retailer the type of independent retailer that would be interested in situating themselves in the Mall specifically the size and the profile of such a retailer. I am asking this in a kind of ... also made their representations here yesterday from Glo- Bakery who indicated that um he would not really be interested in opening up a shop in Mall of South Africa because of the high rent in the Mall and so on um. So, could you perhaps give us an indication on the profile on the type of independence that would be suitable to open up a shop in the Mall.

UMS: Jose Korea:

Ok, I think firstly we need to identify the Mall. As I mentioned earlier you have a Strip Mall which is a relatively small Mall and you have a huge shopping centre. Your Strip Mall should be favourable to even a baker at twenty square metres. Yes, the rent is a little bit more but that comes with the infrastructure you occupy. Now the type of

retailer now you have a grocery retailer, you can get a Fruit and Veg retailer, you can get a butcher you can get specialised departmental retailers and you get general retailers. Your general retailer would probably want more nothing than a thousand square metres in a Strip Mall, whilst your specialised retailer let's say your butcher, bake they want a smaller sight yes, your rentals are higher. Strip Malls become hubs, whereby the footfall the number of customers is visiting that site is increased dramatically so your sales should increase in a Strip Mall as supposed to you being in a street corner where there is no one else around you because remember like to go to places where there are a whole lot of different thing arounds you, services and products you can buy at one time. If I moved across now to now yes, the big shopping centres your small independent chap could not afford it but you have independence that have grown. So, in the .. today there are clear examples where you have guys running tuck -shops that at own a Spar today but that particular guy may want to move into a shopping centre although he has got to the level where can sustain a larger store with large rentals yes, those guys a fewer but they still exist and they still independent and those guys stand to lose more because the shopping centre kills more or takes them out of the market far quicker than a small guy because of the amount of money that is involved in the store. Have I answered your question there? So, it all depends on the size of the store. A very small guy would not want to go into a huge shopping centre, unless he is selling keys where you only need two three metres.

Competition Commission: Du Plessis

Another question. You can take this offline if it is confidential, but do you have examples of your members that try to get into a into a shopping centre but were not able to due to exclusive lease agreements.

UMS: Jose Korea

So, I might not have all that information but what I do have is a whole lot of members who come here as visitors who are happy to say we were not given an option, or we were not offered space. Understand nine times our out of ten when we the independent also try to find out about our shopping centre that is going to be built you are already in the what they call the tombstone stage, you going to start building at that stage the developers already knows all his tenants, no one knows about the Competition Commission's grocery retail market inquiry – Gauteng 6 June 2017

construction because your construction the landlords will go to the big boys and behind the scenes they tie pieces. So, those guys know exactly who their tenants are a while before the actually start building and by then ja we don't have an option it's gone.

Competition Commission: Du Plessis

Thanks, in one of your recommendations you indicated that exclusive lease agreements duration of the lease agreements should not exceed five years what how did you arrive at that five years, or what is the basis of that recommendation.

UMS: Jose Korea

So, we based that on a case in the UK whereby the commission dealt into exclusive leases and they came up with a five- year term. Five- year was considered a longer period whereby the centre becomes sustainable puts a new centre in other words you got over the hurdle of building the centre and at that stage surely that independent if it was Shop-rite, if they have been operating there for five-years surely, they would already have a competitive advantage why not allow an independent to open across on the other side of the ball. Remember he has been there five-year. He has built a reputation and, so there is still the exclusive lease. Do away with the exclusive lease and allow the independent to trade and compete with the shop that has been there five-years.

Competition Commission: Du Plessis

Ah thank you the five years specifically I wish you can unpack that a little bit. Um perhaps why give an exclusive why allow for an exclusive agreement from the start is there a rational for that?

UMS: Jose Korea

Yes, if we look at now the larger shopping malls, I suppose the developer wants to secure the viability of the centre. It's pointless putting up a huge centre for a fortune and you have tenants move in and out within the first twenty -four months. The viability of that centre is make or break within the first five-years so allow the centre to become viable hence the five-year period.

Competition Commission: Du Plessis

Thank you um then moving onto to regulations you have given a couple of recommendations in the regulations what I would like to know apart from that have you or your experienced specific issues with regards to the unequal enforcement of regulation or regulations that are there but are not enforced that in the end has had an impact on the ability to smaller players are there into the market or grow their businesses into the market

UMS: Jose Korea

Yes, that happens everyday and it's clearly visible when one moves down into the informal sector because you had so many of those traders because they are looking of anything or anyway to get business going they will put up a store or a table anywhere they find feasible and again it's not because the guy wants to put up a table there it's he puts it up there because he is trying to make a living. Secondly, he is unaware of the regulations you know nowadays if you got transport mode you will find the hawkers around the transport mode. So, he who here in this room knows what the regulations are around the transport mode in terms of who can and who can't who is unaware and to what extent. I guess we don't know, but we do know one thing ... often comes around and confiscate everything and they got to start all over again. So, it does exists and again it's something, that is unknown but it does exists or it's the enforcement that kind of lacks.

Competition Commission: Du Plessis

Thank you. um. Then moving onto the supplier relationship and the buy power issue um perhaps if you could go back to the slide setting out the structure of the market I think it is one of your first slides. So, does UMS with the bio-groups that you are aware of also have distribution centres of your own?

UMS: Jose Korea

No, we don't have. What we have is wholesalers. Our wholesalers are supplying retailers or small wholesalers or small supermarkets. So we don't have a pure distribution centre no, and if we did I suppose we would have, but Spars are not willing to pay us for that. You know it's pointless putting up a warehouse just to distribute if spar is not going to pay you for your trucks.

Competition Commission: Du Plessis

Then I think the point that you have made with regard to the lack of transparency and how prices are charged to vendors the large retailers I think we will take that point. What I would like to know in your view these price differentials is there any justification perhaps not to the entire differential but is there any justification for that difference that can be based on cost differences to the supplier verses supplier ... the retailers and I am now specially for example referring to the large retailers have a distribution centre of some of the independence stoned and perhaps some the self- emerged retailers purchase larger volumes compared to independence. Is there any differentials that can be justified on the basis of cost specifically in terms of supplier cost a large retailer versus an independent.

UMS: Jose Korea

No, I don't think so not at all. However, the extent of those discounts maybe. What I am saying is the following: Whatever those discounts are , those discounts should be available to everybody, so if it is a distribution allowance everyone should have the opportunity to negotiate a distribution allowance and if the rules to be imposed by the supplier in other words he will give you a distribution allowance but you can't have customers come through you got to have a so many trucks or even the rules maybe we are happy to abide by them we happy to go through the same hurdles or at least give us the opportunity to have access or to benefit from that allowance it's the same as I mentioned earlier call it a Pick n Pay no mane brand the multi programme why can't the independent get loyalty allowance if we offer the same service but in a different ,, why can't I be paid for it. Again the supplier pays for the big fall merchandising and I got to pay for my own so your merchandising is so what I am saying is listen allowances should be available to everybody the extent of those allowances so when I get five or two or ten varies on the service I offer to the supplier but at this point in time I am not offered that allowance at all you can't have it so I have to live with what they give me which is purely a volabry bate it do change I accept that volaby do change would have higher rebate that I am happy with it's just all the other allowances they don't give us .

Competition Commission: Du Plessis

Thank you then you spoke about the fact that there might be some of the large retailers that would go into a independent retailer shop to check what the prices of the products are and then if they are low compared to what they pay to what they get from suppliers in they would put their show on suppliers do I understand that correctly?

UMS: Jose Korea

Correctly

Competition Commission: Du Plessis

How would you come about knowing this is there a practice that is supplied for example call you to indicate that to say and what would the extent of that discussion be would they put pressure on you in terms of the prices you actually asking? what the prices would be?

UMS: Jose Korea

No, they put pressure on us to actually indicate you cannot sell again I am not going to give you well they try and dictate the price to us first of all. So, if you are advertising Coco Cola caller number ninety nine I would say that you may not advertise at that price anymore and they would also in conjunction with that not afford you better deals going forward, allowing you to discount.

Competition Commission: Du Plessis

How often does this, first of all do you get this communication through telephone call or a e-mail and how often did that happen?

UMS: Jose Korea

Very often, it happens very often

Competition Commission: Du Plessis

Thanks. Then just coming back to the impact of the large Malls to operation of independence. Have you noticed from your members specifically an impact on the amount of goods your members purchase or just a general indication that your member is not doing well on the following entry of a Mall in a specific area. Have you

come across specific examples like that where immediately following the Mall that that in one of your members are doing badly as a result of the independent trader.

UMS: Jose Korea

It does happen but the independent trader is a strange chap he the more successful guys will change their operating style and manner to compete and eventually after a long period as customers come back and then he comes back but at that stage the guy is gone through quite a bit of negotiation from the time the Mall opens to the time he gets the customer back. It takes a long time but yes there is definitely an impact I am here to see somebody says there isn't

Competition Commission: Du Plessis

You have also indicated that you have seen that specific groups are doing badly or specifically the bio-groups are doing badly or are negatively affected by the conduct of other major retailers for example through the pressure that lies on suppliers. Who would that be impacting negatively on I understand what the impact on the bio-group will be but would independent retailers might have a tender to buy somewhere else and from one of the wholesale legs of the retailers instead of buying from a bio-group what would the within that context what would the impact actually be on the independent retailer self as a result of the pressures that are placed on the bio-groups?

UMS: Jose Korea

So, first and foremost our larger wholesalers, our larger customers prefer not to buy from the before because it is their direct opposition and these guys are significant with the amount of stocks. It is not as I say it is not an option for them to be direct from the big four what aboutwhich brings me to another element. As I mentioned earlier a bio-group what we do as a bio-group we bring the supplier into contact with another retailer and together we work out a relationship that allows the business to grow. If the independent is now going to stop buying from the big four or call it wholesalers they losing contact with the supplier and over time the independent is only paying on price and cannot offer the customer anything else but ... then again it's not just about price there is service departments, there's promotions, there's a whole myriad of intellectual information that suppliers offer an independent retailer. I will give you a good example like toothe-paste. Colgate is the number one toothe-paste manufacturer in this country.

So colgate should have parmalet two metres of shelf space and you move to your other manufacturers now overtime you may touch of what is going on purely because you are only in one little area. You lose touch with the market, one you don't know what the new products are. What the truth buyers are not coming to tell you about promotions, about the drives they were doing because remember suppliers also drive their business at a independent level but they do that through the buying group. So if I have my customers who are participating in our promotion you will get .. and other half won't the other half will be I am losing out by not being part of the promotion and eventually it catches up on them. So, it's not in the independence favour to be buying from the big four. Again, it's the opposition that used to sell the other time the big four don't increase their pricing.

Competition Commission: Du Plessis

Have you noticed the difference the agree of pressure that has placed entrepreneurs by retailers when you look at the size of the supplier in other words have you noticed that there is more pressure placed on smaller suppliers just as large as spars.

UMS: Jose Korea

No, not necessarily. Remember our largest supplier goes to a larger basket in a corporate. So no not necessarily look you get a small supplier that's the choice either to go with the big corporate or to the independent. We have quite a few suppliers in the country who don't deal with the corporates. They choose not to but they are small and why because they are not prepared to give out the stock for nothing. They are unable to it's they sell eighty percent of their stock at no margin and try to recover the other twenty percent from the independents they prefer to set in the independence and a lot of those smaller manufacturers they do so yes they are original in other words they don't have the capacity to trade to supply all of South Africa so they supply certain suburbs or regions or provinces.

Competition Commission: Du Plessis

Ok, um then maybe if you can just go through the final recommendations that you have made on every objective um so the specific regulations that you talking about here perhaps if you give us just an exact example of specific regulations other than

the ones you have just provided with the five-year limit on other particular regulations that you would recommend in addressing this issue.

UMS: Jose Korea

So, if we take a new development and there is a supermarket down the road surely that individual would be given an offer up a lease in the new development so you have the option of taking local businesses bringing them to the Mall and you also have or you also want to impose any traders not necessarily into the Mall but around the Mall you will set up facilities around the Mall which become more cost effective for the smaller individual.

Competition Commission: Du Plessis

Ok, then unless you have anything to add to these recommendations we can go to the next

UMS: Jose Korea

The ... and zonings

Competition Commission: Du Plessis

Ok, the next one anything you would like to add here specially, then let's go to the recommendations on objective five. Greater transparency in the pricing terms and conditions offered by manufacturers and I think you have also recommended that this be monitored and regulated. In what way do you propose that it be monitored and regulated.

UMS: Jose Korea

So, the first thing is that on Ombudsman for the sector that's the start.

Competition Commission: Du Plessis

Ok, if you can just give me five minutes to check if I have any additional questions then I will get back to you. If you could perhaps just go back to the slide sitting at market shares ok that one. Ok I see you have estimated shares not on by supplier under report, if you could just probably give us a quick overview of how you arrived at those market shares in terms of what you used just for clarity from our side.

UMS: Jose Korea

So, one source is most probably Which is known as trade intelligence it's a form within the industry and what they do is compile information on the major players within FMCG so that's where that information comes from.

Competition Commission: Du Plessis

Thanks. Then um then other component that you have a seven percent on who would more or less make up that seven percent?

UMS: Jose Korea

Oh ja I see, you have independence that are not affiliated to a bio-group and obviously not a corporate you do have them

Competition Commission: Du Plessis

Thanks then I think the very last question from my side is that we have noted all the recommendations on the information you have provided to us and thank you for that. I want to give you the opportunity of maybe just taking a step back. Is there may be anything else that you think hinders the growth of small retailers in South Africa other than the factors that you have put up here?

UMS: Jose Korea:

You know the risk of repeating myself, we not looking for any handouts we are not looking for monetary handouts from Government or from the sector. All we want is a fair share of the pie, in order to get heat fair share we have got to be given the same opportunity as everyone else, but unfortunately the economy or the sectors growth and so on and so on in the last twenty years that the big have become too big and the small will never get into this trade, unless they have regulations to assist that's about it.

Competition Commission: Du Plessis

Thank you Mr. Korea, we appreciate your submissions. I would suggest that we have a fifteen minute coffee and comfort break and then we will resume with the next presentation.

Thank you

SESSION 2

Competition Commission: Chair

Ladies and gentlemen I think we are ready to resume now, our next submission is from Miss. Bongo Sepeng of OBC Garankuwa Butchery, sisi over to you.

OBC Garankuwa Butchery: Bongo Sepeng

Thank you very much to be giving this opportunity this morning to tell you who am I and to be listened to and listen and maybe listen to my challenges as the entrepreneur. Eeh my name like they said is Bongo Sepeng, I come from Garankuwa, I own the home of chicken and meat that is now in Garankuwa and is a franchising business because to me it was the ultimate way to achieve business success and I was helped by South African Franchise warehouse and they objectively introduced me into the ins and outs of franchising and the pros and cons of the industry. I knew at an early age that I wanted to be my own boss, pursue my own dreams and control my own destiny. Eeh it was the design of the business model that swayed me in favor of OBC with the co product of affordable protein serving a target market of middle to low income families, stores that are strategically (*someone coughing*) located near the mass market communities and transport modes, that's where you find my store OBC.

Eeh initially in 1990 to 2004 I was a Restaurateur in the same complex and 2004 to 2017 I was blessed to be the landlord. In year 2004 to 2017 as the Landlord I practice, I practiced what the previous landlord was doing because the the the they had a mix of shops of retailers in the complex that is we had specialized retailers, they had

specialized retailers there was clothing store, a restaurant which I happen to be the one to be the owner of the restaurant before I was the landlord and then there was a grocery store there was a butchery there was a bakery there was a bottle store and hardware that is why I call them specialized retailers. To me they complimented each other and they shared the market, whenever a customer came there obvious will go through the shops so this makes me this gives me the impression that if the shops if the retailers if they specialize then we don't have a problem in the area the market we share the market because once we have one then they will go through all the the shops, we had an anchor tenant in that particular mall and taking over I practice the same principle that that was practiced, but unfortunately the anchor tenant left eeh that was the butchery and the tenant started to complain because the the the feet in the complex where lessened so even though I never wanted to be a tenant of my to be my own tenant I was forced because the challenge was draw feet so as a result I went for the OBC franchise.

Eeh this market really gave me a lot of challenges, the challenges that I encountered started when new things started to happen in Garankuwa, the changes that came up into Garankuwa initially or before we knew that the retailers were specializing, if you where a manufacturer your manufacture and supply to retailers, if you were a wholesaler you would be a wholesaler and supply to to to retailers in the vicinity where I stay. Well we do have a complex a big complex that houses Checkers and other big shops it never gives me it never gave me a problem is an OBC franchise franchisor franchisee it never gave me a problem instead the blessings to me were it keeps the people who have money in the township they don't have to drive and go out of the townships to remain there the only thing that was good for me that's why I went for the franchise was if you compare I specialize with chicken as special as with red meat, if you go to big shops such as Checkers ok they will be selling all types of whatever but as it comes to meat and chicken I was better than they would do and I mean the customers they know what they want then the'll often come to me to buy.

The only thing that changed the situation of the the the the color of my of my business because what is happening right now as I had a complex like I said is the complex that belonged to me and I'm the tenant operating the OBC at certain stage I could not service the bond I couldn't service the pay the refund because I got a funding from Competition Commission's grocery retail market inquiry – Gauteng 6 June 2017

from business partners and it was an effort of Jobs Fund that is a project of treasure through the government project of treasury, I couldn't service the bond initially I was able to the problems of me encountering problems of now starting to have problems to service the bond were when we started around our area we had Metro, Metro was the wholesaler, Metro wasn't selling to end consumers. I could be it client of Metro and I knew that the target my target market would not be customers to Metro but when things changed the very same Metro was now bought by group of Portuguese guys I'm told after I established myself around the area they fortified and attracted their brothers and now they have a more muscle than they have economic muscle than I have now so when they do they manufacture processed meat, they are wholesalers they pre-packet, there it's a one stop shop the challenges on all my tenants like I said my tenants there is a clothing shop there is a restaurant there is a grocery shop there is a butchery which happen to be OBC there is a bakery, the bottle store and a hardware the only thing that they don't do is the hardware.

So what I was what my concerns were as government supposed to protect me because I've created employment for twenty people, the employment that I have created I've put I'm putting food on top on the table of twenty families and I have to fund that I must repay a loan that I must repay, there's this people who just came in the corner they bought Metro now the relation the mode of business as changed because they target they are big they have a storage facilities my shop even though is a franchise it is limited with the products I have so we always complain that they set up they come up with they have policies, government has policies they have ideas they set up beautiful things they have fund fund funded me but when it comes to after care to see what happens they never come as a result it is way complex because I nearly lost it because I couldn't service the bond the payment of the bond fortunately I got somebody who wanted to buy me it's registering for sure in two to three days time it will be registered in somebody's name and mind you the complex I bought 2004 I have never you know made any loan I've been having the title deed I only shifted my title deed when I ask for the loan from business partners because I thought creating employment is what the government want and the protection we will get ,we also have a problem with the informal informal businesses.

The informal businesses I was counting yesterday before I came in just to get an idea of what what what why do I have to see informal informal business are my challenges are challenge when I drove around I saw I counted hundred informal businesses in the very same area I reside, when when it was hundred I stopped counting all these informal business are Pakistan's what they do I was reading I was going through your document and then you are seeing the informal businesses are small informal businesses that I'm talking about in Garankuwa are not small they're very big and the what is us mostly is there non-compliant.

I am a compliant business that pays tax that hires from the township these guy's they don't hire anybody they use our houses they sleep in the houses they don't have overheads. Eeh I don't even think they have health certificates I don't have a month passing by without being visited by people from Labour from the Health from you know to tell to try to see if my business is something that could be trusted and to trade to to the community saw I was very interested and I was happy when I got a visit from the ladies who came to inform me of this commission because I said to them all the dreams that I had and all the challenges that I thought I will shoulder on my on my I will shoulder is very difficult because if you don't have the support of the government you don't have anything.

We I I I asked from the bottom of my heart that there be control if a business is a wholesaler let it be the wholesaler if it is a manufacturer let it be a manufacturer. The contracts that they are talking about the exclusive exclusive contracts I'm using it at my complex and they serve me well in the sense that the tenants that I have in the shop you know they don't pay the same per square meter and then if I if I have an anchor tenant who tells me that I will trade only in a particular like I will be selling grocery only and then I want a contract for ten years and is a big company it tells it helps me to relax and it helps me to plan for future to expand, so for me having eeh Checkers e Checkers those big shops that I mentioned they do we do have in Garankuwa is the draw card for me because I know that with chicken as I specialize with chicken they don't specialize with chicken because they don't specialize with chicken the clients the chicken people who consumes of chicken will come to to to to my shop.

There it's very difficult to can one to challenge them in the complexes and be in big complexes because rental there is very expensive I wonder whether you have realized that most of the shops are today there tomorrow they're closed even in my complex if any person comes to want to to let I sometimes feel pity because rentals are so exorbitant they never last so if we have if we have big shops in our areas the only thing we ask is let be controlled let's not see complex's springing at all corners like for instance next to my complex there is build build build it build it build it Build it, I think its a hardware you ask yourself we were never contact we were never consulted I am I'm a community member I mean already my tenant is coming to me to tell me if ever is it possible for it will he'll have problems to survive he'll have problems to to cope because of the changes, we feel the playing field is not leveled. and as the government we ask from the bottom of our hearts that let the play-field be leveled let it be leveled to an extent where we can all play accordingly as we are asked to comply let everybody be compliant probably from the your questions I'll be able to elaborately more than I have said cause I'm just talking from my heart.

Competition Commission: Chair

Sisi, how how big is the property that are that you currently own you said you are in the process of selling I'm correct?

OBC Garankuwa Butchery: Bongo Sepeng

The complex?

Competition Commission: Chair

Yes you are in the presence of selling but you still own it, (Yah). The property.

OBC Garankuwa Butchery: Bongo Sepeng

The property I had I had plans with the property I have pictures that I wanted to your property to develop it I have the square metrerage and I have the competition you can see me before I opened the OBC we made the research of all the shops that are around the area and where I am placed and how I was going to operate but like I said all this plans all of a sudden because of the wholesaler that just prang around my area Portuguese guys. Can I give you that the?

Competition Commission: Chair

Yes, I was gonna ask you if you would let you give us copies of what you have that and can we keep them or would you like us to make copies.

OBC Garankuwa Butchery: Bongo Sepeng

Alright. This is what I intended to do.

Competition Commission: Chair

Can we keep them or would you like us to make copies?

OBC Garankuwa Butchery: Bongo Sepeng

Make copies. And then this is my Franchise but for me to establish the shop I got a loan for 3.4 million.

Competition Commission: Chair

My question is how big is the property itself, the complex how big is it.

OBC Garankuwa Butchery: Bongo Sepeng

I don't have the measurement with me but it has ten shop down stairs, ten shops and then upstairs it has offices.

Competition Commission: Chair

Is the offices for the for the various ten shops that are operating?

OBC Garankuwa Butchery: Bongo Sepeng

No, no, no. Sorry I forgot to switch this off. Offices for for tenants

Competition Commission: Chair

You you you also if you employ twenty people, are these people employed in the butchery or both on the property side or in the butchery business, what is the split of these twenty people that you have employed.

OBC Garankuwa Butchery: Bongo Sepeng

The twenty people are in OBC that is the butchery and the grocery shop.

Competition Commission: Chair

And you also mentioned that that Metro there was a Metro in the area which was then a bought by Portuguese people. What year was this and what, do you know the name of the company do you know anything about them.

OBC Garankuwa Butchery: Bongo Sepeng

Initially this please I think they are letting, it was me a Metro I don't know before Metro who is the owner but presently I know that the letting out.

Competition Commission: Chair

You said Metro what was the what was the what what business was operated by Metro at the time before before the Portuguese people came and bought it over.

OBC Garankuwa Butchery: Bongo Sepeng

A wholesaler

Competition Commission: Chair

A wholesaler and afterwards they became a hybrid business.

OBC Garankuwa Butchery: Bongo Sepeng

Definitely, one stop shop they sell almost anything and I said they manufacture they pre-pack.

Competition Commission: Chair

And how far is that business from your complex?

OBC Garankuwa Butchery: Bongo Sepeng

Within 50 metres. Let me say 5200 metres but it is very nearby.

Competition Commission: Chair

You also touched on the benefits of exclusive, of exclusive leases for you as a property owner. I would like to understand from you especially as a small player in the township because what you are saying to us today kind of, kind of aaah, aah I will say conflicts with other players in that market who feel this kind of exclusivity makes properties in a area inaccessible to them. An therefore if for example as an inquiry we were to find

a midway where we accommodate you as the property developer as well as enable those who still want to position their business or have access to property to mall or shopping centres in your kind of areas. How would, what would could be the length of exclusivity that you, that can be opposed if we were to require any through this process cause we've seen exclusivity for example ranging or going up to 25 years, 30 years would you say you need that long to have that sense of comfort as you indicated or would it be less, if less how long. Do you have any proposals on that.

OBC Garankuwa Butchery: Bongo Sepeng

The exclusive contract that I have at my complex has been ten years. And as I say you can plan, you can plan. It makes you to plan forward. You know you have this tenant for so many years. And like I said exclusive trading I never, never had a problem with it so long as I was controlling them on specialty . Like I remember when we had the anchor tenant before OBC came was whatever you sell no other tenant in the complex will sell the particular product. Like when I established OBC I told myself I will never have a bakery within, a have a baker so I have to protect, he has to get the market share.

So what I believe in is rather than we could have these big retail shops but let them not be one stop stations, let them not have like a chemist and whatever because I have a chemist around if I allow a big retailer to come in there and get a exclusive contract and open a chemist it will be a disadvantage on the other, on the other on the other retailer. So what I did was I made an agreement with whoever comes into the complex that you have, I'll give you whatever years that want but maximum let it be ten years but provided you to take in whatever any other person sells you don't sell. Like aah this bakery it is a franchise what do you call it in other areas they sell food but with me I said no you don't have to and when you when you tell the things before they start they agree unlike when you let them come in and change when that when you are with them.

So what I said is I have I can put you you can be my tenant provided you are not going to sell food you only concentrate in bakery. You don't say what the other person is selling so that what I believe in is compliment you know each hand must wash each other. When we see clients coming in we mustn't panic and fight for them we know Competition Commission's grocery retail market inquiry – Gauteng 6 June 2017

that they will go through all the shops and that has been a very harmonious situation that I built in the complex.

Competition Commission: Chair

You say your exclusivity has been ten years what happens beyond the ten year period.

OBC Garankuwa Butchery: Bongo Sepeng

If they want to renew I don't have a problem.

Competition Commission: Chair

And you still keep they renew and still keep exclusivity beyond the ten years. If if they what was your plan I'm trying to, I'll tell you why you asking this question we are I'm not sure if you, you indicated that you were here yesterday but I wanted to. Were you not sorry. We we just want to understand as a resident as a business owner in the township is this is this a market is this a growing cake or is it a cake that is only a certain size and therefore is it a cake where you can say protect me forever because this cake never grows or is it a cake where you can that grows and all the protection that I need is just to grow my name grow my brand and be known and after that I can deal with competition what kind of protection would you say that the township businesses or atleast in your area require.

OBC Garankuwa Butchery: Bongo Sepeng

Yah the business isn't in the townships will never given a chance to grow we're never given a chance to find ourselves you know it just happened over night that we see things coming in and operating in challenge you. What I would like to say is I was never you know in there I never believed that I will have a manufacturer there was a Metro that I was buying from and all of a sudden comes another a brand which manufacturers and does everything on its own you know everybody you know when you have people coming the end up there you know the we have a lot of things coming in like stokvels, we have this feeding schools you know they are government subsidized.

You ask yourself how do you feature how do you come in is difficult for me to come in the sense that never you know if it feeling of the ground and got grounding you know

maybe this thing what I'm asking is it doesn't have to go forever obviously but after some time then we can be you know with time you leave yourself, its a child who is growing and you can leave the child now to walk on his own. But like I said all the things we're never given a chance like South Africa never prepared us for foreign traders and like we say they are full up, truly speaking this xenophobia I sometimes ask myself am I xenophobiac or not but when there is problems and the shops are closed I make a lot of money and that would make me happy obviously so I tend to ask myself what is the problem, why do this people have to be making why are these people so much that am able to compete with them I would never compete with them like I say is, they don't have overheads, they sleep in the houses you know they find the poor family having a spaza shop they come and go to the next door to tell the next door will pay for your rent, we'll pay for the lights we'll give you a grocery free of charge. Just give us the business and who would not like to have that because once they give you all that is all what you want they give you grocery there is no, you don't have any risks that you are faced with so as a result ones they are there, ones you allow them you go to their shops the stock that they have you will understand why sometimes mealie meal that I sell for R120 they sell it for R90 because they do bulk buying. I sometime, okay because I depend on OBC to supply me with stock but sometimes if I don't have stock I go to the nearest advanced stocks, advanced shops.

The advanced shops there even this thing of religion goes a long way because the Pakistans they group themselves they go there they negotiate for less discounts. If I go there I negotiate for discount I don't get the discount that they get and even tell me where buy at this advance that they give they give them more because the buy in bulks so there is no way that we can compete with them and this thing of saying they are small they aint.

Competition Commission: Chair

When you say they are not small aren't these spaza shops, when you say isn't a spaza shop small bites but it's definition so can just expand on that.

OBC Garankuwa Butchery: Bongo Sepeng

When they get into a house the bring in a container, a container in most cases I remember there's a container that was 9m in length and in breadth it was six meters

and then even though they have the whole stock packed in there I don't know somewhere in Marabastat there's where they use a place as storage and then they have the vans that transport if ever for instance he is running short of something you see the other helping him but I would say they're not spazas.

According to the way I understand a spaza I mean can't be complaining that can compete to spaza those are not spaza shops. You must be graded to another level so that they could be you know graded to another level so they can compete and that is why with this foreigners we no longer have spaza owned by black South Africans. Very source somewhere us there's but the black South Africans why don't they compete with them how will they compete with them because in the first place if money, secondly is when they they buy in bulk like they help each too you know we don't know where they get the money but they have money and then when they come in I mean if like for instance if it if they can come to me and say we take your shop we give you the rent you want and I mean out of the rent I will be making my profit and no risks we shift all the risks I will I will take, I will give him because I'll be getting that but unfortunately they sleep there they don't you know I don't know what to say about those guys but the business they have business, they have money they buy in bulk ,they sell in bulk you know you sell Glenryk i'm sorry Lucky Star for R18 he says it for R15 throughout and you ask yourself you know I sell it for R15 when its on special and my special lasts for five days and when its on special I make R0.50 cent profit when I sell it for R15 they sell it for R18 throughout, throughout, throughout the year. So you can compete with that type of, the play field for me its not leveled and they don't employ anybody.

Competition Commission: Chair

You also mentioned that in your property or your centre you had a supermarket but that supermarket left, which supermarket was that.

OBC Garankuwa Butchery: Bongo Sepeng

It was a butchery owned by a white guy and then as soon as Meat Good the shop that I am talking about came he was not making it. And I thought coming up with a grocery, a butchery and a grocery and a franchise I will be it will to to to managed in the playfield but like I said he regrouped to get more people as shareholders so as to buy

more, manufacture more. And you know in our area in the townships we have two types of people but still behave the same way.

I target the lowest of the lowest and the middle class, the lowest they don't care of the quality they buy anything so the processed meat that I sell I have different suppliers and then there is their there is the list supplier you would never eat the process meat that they are selling but that's the one that is bringing in money because it competes what they are selling because they manufacture the process, the process, the process meat. They manufacture the polonies and you know the hawkers and everybody. Hawkers are our main customers and our main hawkers sell this Phatlu you know, and this spatlo they make it up with atchar and polony and they manufacture the polony themselves. So for those people to come and buy the polony they go where the polony is cheap because he is manufacturing it, I'm buying it, I'm getting it from from a distributor and they distribute at the same time. The second thing is the poor of the poorest they don't mind they want quantity than quality.

Then we go to the next level of people for them for the mere fact that even if its a franchise and is a black women in front they prefer going to Portuguese the reason I don't really know because sometimes when I get there my meat is cheaper than their meat but they still go there and what that tells me is because of it's a one station, one stop shop maybe it's what beats me. The other thing is that they run competitions they have so many things that they do to attract customers and that it's a lot of money because the stokvel people every month they save money, there is a card that they are given at the year they can use that money to buy a grocery or as at want . They save whether R100, R20 they save and let's say month end if he feels he needs to go buy he uses that money to buy. They have cards they call it bonzela, bonzela I'm trying to find out what bonzela is I googled what bonzela is and they say this bonzela they get it from pasela, the Sotho name pasela from a Zulu name banzela, its a free gift. It's a draw card so that's what makes people to flow there, I don't have to go to that level to go to that extent but I'm still crawling. I just got into this business in 2004 before I could I can find myself the competition such that out of market already.

Competition Commission: Chair

Thank you.

Competition Commission: Du Plessis

Who is the supermarket currently in your shopping center who is what is the name of the supermarket

OBC Garankuwa Butchery: Bongo Sepeng

It's me OBC

Competition Commission: Du Plessis

So has there ever been another supermarket in your in your center for example a Pick n Pay or a Shoprite.

OBC Garankuwa Butchery: Bongo Sepeng

No.

Competition Commission: Du Plessis

You indicated that some of your tenants pay a different rentals per square meter. Can you perhaps explain why why that is the case and what the rationale behind that is.

OBC Garankuwa Butchery: Bongo Sepeng

The turnover, I look at their turn-over so that I can allow them to to grow to be where we are because they have to be somewhere and if I don't allow them to be somewhere and give them the same rental per square meter like OBC I mean I will never develop anybody so what I do is according to what you sell and I look at the turn-over to give you an opportunity you can rent at a lower rate per square meter. Like I say the exclusivity that I have given to these bigger ones they give me an opportunity to let this person grow because it's like he's carrying him.

Competition Commission: Du Plessis

Thanks. With the, with the exclusivity that you have in your in your contract and the last I mean you've had the shopping center for since 2004 to 2017 so during that period of time was there anyone that came to ask you if they could expand your product line or they wanted to enter your mall when they would have competed with another shop that was already there. Was there people or businesses that that approached you that

wanted to open up but that could not because of the exclusive lease agreements that you have.

OBC Garankuwa Butchery: Bongo Sepeng

I think all of them have been happy and in fact they are attracted by the way I operate because I protect them and in protecting them you have meetings where we talk about our products. And then we have meetings with if ever there's any complaint I listen to their complaints you know it's like I said to them we should operate in such a way that we are two hands not two competing hands but complimentary hands. So we have meetings if ever there's anyone who sees like for instance I have a Chinese shop that sells clothing and sometimes you find them selling chairs and I have a hardware that is selling chairs. So we come to a consensus where we agree that I mean this is what should happen if you prefer you prefer to go more than you are doing that in that case I'll be calling you on one on one it means that your rental has to grow up, it has to go beyond because you are competing with that person and his competition is lesser you are even doing clothes, he is just on hardware and you going into his field, his territory So it means now you are telling me that you are a grown up person you can grow all the money that you were supposed to paying per square meter.

Competition Commission: Du Plessis

Ok thanks , the wholesaler that is now opened up close to to your shopping center that has a negative impact on your on your shopping center. Did they ever approach you to perhaps open up a shop in in your shopping center or did you maybe approach them inviting them to open up a shop in your shopping center.

OBC Garankuwa Butchery: Bongo Sepeng

Unfortunately in the townships the atmosphere is that we don't build each other, I believed what should have happened is we need we need we need expertise we need we need ideas we need to be big we want to be big also but I feel the first thing that was supposed to have happened is partnership you know this people as they come townships and they want to operate anything because the target is us they should have the decency of merging, they should merge with me I believe if they would have merge with me I mean he's not throwing anything away because they benefit and I still benefit.

Competition Commission: Du Plessis

Ok, you also say that that wholesaler and perhaps shops like that more generally is non-compliant can you maybe be a little bit more exacting what they not complaint.

OBC Garankuwa Butchery: Bongo Sepeng

Normally when I get visits from inspectors they inspect me on. When they get that site I don't find out in this. Cleaniness I do not see it, the type of meat they sell is not what I sell. The type of chicken they sell is not what I sell, is really of low quality when I look through my eyes. The polonies that they're processing.

Competition Commission: Du Plessis

Then, do they do they actually sell at low prices then you do or is it more the one stop shopping experience that that you think this is taking away customers from you.

OBC Garankuwa Butchery: Bongo Sepeng

Initially they were very very expensive at first before I opened OBC, but when I started with OBC what they do they sent someone sometimes to take pictures of my price they don't put prices on like for instance the shelves of the display cabinet for meats, they don't put the prices. My franchises insists that I put on a price and I think it's best I don't understand the reason why don't I have to put on how much I am selling my stew meat or my whatever they don't and they come pictures and then lower their prices. If my meat for example is R59 per kg and theirs the time was R74 they change immediately its what they do.

Competition Commission: Du Plessis

You indicated earlier that government provides a lot of opportunities and does a lot of good things but they are after care is not always that good. Can you maybe give us a little bit more information on the type of off ticket that government could have given you in this instance that would have helped you.

OBC Garankuwa Butchery: Bongo Sepeng

When I when I went for this franchise it was in open key business. I was not supposed to be owing anybody I was supposed to be owing only the funders, there was business partners and then I chose this franchise. Now when I opened the business I was owing

suppliers and there was a fee that they contributed before I could be allowed to get the funding that was R800 000 and then the loan was 3.4 million but at the end the shop needed about 4. point something million and that I got from, the rebates that I got from tax from tax that was R460 000 is was taken to pay the service providers that I believe that the 3.4 million that OBC required was not enough to cover everything. And when I opened the shop in 2004 there was, it was during this load-shedding and unfortunately there was no facility of the generator I lost a lot of stock through that, there was cable theft I lost a lot stock through that and throughout I was taking them onboard.

The very first month they opened to the shop I took them onboard telling them about my challenges and I hope they will come in and intervene because I have to service the loan. Now like I said it's difficult for me to service the loan, I'm losing my complex, fortunately somebody approached me to want to buy and he's buying everything and everything has gone well . Before the end of this week it will probably have registered so that I can pay business partners and if government was there like I've been I'm communicating with government through job, job fund their money's also involved they saw at an early age or at an elementary stage that is going to be difficult for me to service the bond because stock is king. If I do not have stock I will not be able to service it. Like I said I lost a lot of stock.

Secondly with government they want us to comply to have the documents but we see people operating around without documents this isn't for, these Pakistans that I am talking about I'm talking about. We we see the by laws are not respect, in our complex you see you know ten all over you know even if sometimes my tenants complain that visibility is not there I mean they have to be visible you know where competitor his fortunate because he operates in a premises like it's a factory, it's built like a factory so it's a high up so even when they put the advertisements is such that the person moving in the street will be able to see it. With me ok I am next to the street but in front of the street tents, informal all over bylaws not respected. I once approached them and I was never ever, no good answer came up I do not know what the reason was and even if you to an extent even when you ask them these guys, you know in challenging them you know I said come inside the complex come inside my yard, I'll offer you a table you will pay me R20 then you can you can display what you are

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selling you not to show them that they are part of me because if I don't do that is it township I can run the risk of my shop being burnt down.

So I my level best to make the relationship, the relationship that I do with them come in give you a table they don't want they want to be hanging outside because you know they sell more than what they are selling. So government really was on our side when especially I'm not saying I don't see they have to nourish me and feed me and spoon feed me but for the mere fact there are 20 lives that I am saving there like if for instance if I talk to you now I do not know after selling the complex I want to continue being a tenant there. And it means as I am talking to you now it means probably next month I will not be having a OBC. Those twenty people will be home without work. So I'm just seeing the support I want from them is not money, I don't want them to give money I am already in a point but look at our challenges and attend to them. Like the franchise that I'm in to, check into whatever we you know what ever happened, what what is it that happened let them come in see, check my books when am I not making it. When in the business plan I was supposed to be making, three four five six and I am making two. And other thing like a say because the emphasize to us that you must have papers , everybody who operates a business must have papers.

Let's see them moving around in our township looking for those papers then we see that they're supporting us. Let's see them you know let them come like for instance I'm saying I am unable to survive because of this shop, come and check whether what I'm saying is right or not. Whether they make initially before in the estwell government operating according to your specifications, you will never be allowed to operate beyond your specification. If you are a wholesaler you are a wholesaler they. benefit because I'll be buying from them but now the even go to the end user, end-user consumer whom am I targeting. Which is a problem because they prepack, they can pack in small quantities according for the consumers and al those that are beyond my control.

Competition Commission: Du Plessis

Ok, and you also say that all you want is for the playing field to be to be leveled and I think you've given some examples of how that can be done through regulations now, is the any other way in which the playing field can be can be leveled.

OBC Garankuwa Butchery: Bongo Sepeng

Like for instance we once had a problem of the bottle store. Is just a pity I don't know the rules of bottle stores but what the what the my tenant was telling me was for another bottle store for us to have another bottle store in the vicinity it has to be within particular kilometers but like I say we have three, two bottle store around my area.

The other one is just a stone through from my table, that other table has another bottle store from that table to the end of the business is another bottle store. So the the laws previously were such that you know, they should be we don't refuse to have bottle store all over but there must be distance. Like say to me if I have to give in honest example the complex where where Checkers is it doesn't affect me there's distance and secondly I sell chicken and if you go and you go to Pick n Pay, if you go to Checkers you'll find that they chicken they are selling it ha even changed colour its, white, its frozen mine is ever fresh because I specialize with it but I know they will go to OK but they would come to me for chicken, if have funerals they will come to me because I sell in large quantities and according to specifications. Those who, the thighs they get the thighs, an its very difficult to get such things at big retailers. So what I am saying is let there be control, there must be space between, I must be protected. If I am selling here, I know you are selling but at a particular distance there must be distant control. And specialization if we specialize I think we will be living in a harmonious area don't think we'll be having this this is infights and whatever but because the way we fight for for the for the bread as you know the big attacks they will never stop and what happens is every time when there's a problem at the Union Building we also are forced to closed also because they loot all the shops.

And we never had this things before the Pakistans came to our area but now since they have been there every time there is a strike we lose those days, we don't operate if you operate you are targeted. I remember the other time one of my tenants with the bottle store was targeted they broke into the shop, they stole alcohol all this and he was saying you have to protect me and it really I don't know how, how can I protect a person like that the protection that we need is from the government because when they fight the government we suffer on the ground. It happened, it happened three

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times, ten times is still going to happen. I think you are addressing superficial things deep down you don't go. You are leaving us out in the township, you think on our behalf, you seat and look at the gap you think you are addressing it because you want money in your pocket. The only thing that you are bringing is more problems. When you were a township operating on our own we were comfortable when we started developing thinking you are it's a development is growth on the part of the end of the townships bringing all types of people to the townships that is now when you oppressed the township person. And now you we are sitting here thinking that we are resolving their issues we are not if you want to resolve the issues go to the township. Go house to house sitting here talking about us you aren't doing yourself a favour instead you putting yourself into more trouble I was listening sitting at the back here listening to this guy presenting, I feel its for her, its for his benefit and if you're not careful we'll be sitting again here and the townships will be burning. Go to the townships come to my shop spend the day with me. And stop sitting comfortable chairs and talking about us. Thank you.

Competition Commission: Chair

I just want to find out the you said at some point you went out and looked around and identified 100 Pakistani shops around the area and you also mentioned a specific one or specific ones specific ones that were of the specific shop that would come and compare their prices with yours have you have you come across a situation or do you know of a situation where this kind of competition on price or occurs where for example they look at how other shops are pricing that these are these Pakistani shops that is they, look at the prices and then they lower their prices and then the minute you close down they push up their prices that kind of situation does it occur or do they continue to sell at a lower price and therefore draw in customers even when the competition has been lodged out.

OBC Garankuwa Butchery: Bongo Sepeng

You the foreigners what they do is they do not close shop they operate 24 hours so we close, I close at six o'clock and when when I close at six o'clock obviously it is what they do prices go up that's what I also tend to do on Sunday because my competitor is closed I tend to use his prices, then I go up to cover up for the six days that they lost which is not good business.

Competition Commission: Chair

So are you saying in a Pakistani shops after six the prices they charge before 6 pm are different to the ones are they charge after, before 6 they are lower after six they are higher.

OBC Garankuwa Butchery: Bongo Sepeng

That's why they operate 24 hours, that's why they don't close, that's why they sleep in the premises that they sale that gives them the advantage.

Competition Commission: Chair

Thank you. OK ladies and gentlemen we will now adjourn for lunch up until two o'clock
Thank you. Whispering happening. Sorry just give us a second. We just got a note that lunch will be served at 1:30 so is it fine now? OK lunch will be served from one o'clock up until two as we did yesterday you'll be getting your lunch voucher's at that registration desk and that's the lady over there that will be giving you your lunch vouchers. Thank you.

SESSION 3

Competition Commission: Chair

OK we are now ready to proceed with our after lunch session. We will be hearing from much a Masha logistics. The Person presenting from Masha logistics is Mr Tisetso Masha. Over to you Mr Masha.

Masha Logistics: Mr Tisetso Masha

Thank you very much. I speak on behalf of my family business that was started and founded my my father, Micah Masha. Over twenty years he's been in the business. Of. How can I put it retail market basically. From wholesalers straight to

the consumer, right, so within this journey I had the privilege of studying through his expertise and how he started his own company.

The advantages or the disadvantages rather that we are facing currently is because of a of a broad spectrum and we speak of those as we see that OK Let me first just say that. It's just going to be brief what I'm going to talk about. So the disadvantage we are of facing right now is with the foreign, foreign traders.

Competition Commission: Chair

Sorry Mr Masha, do you mind mind just starting by telling us the business, when it started just the whole big round on the business itself before you go into into the concerns and the disadvantages if you don't mind. Thank You

Masha Logistics: Mr Tisetso Masha

Okay, the the business, my family business is split into two into two categories. Basically it's the logistics side and it is the retail side. The retail side it started over twenty years ago or twenty plus years ago. As my father did sweets and sweets and stack distribution and he also did manufacturing of product called atchar, right. This is where he started his foundation and he started his business. Over the years he has also started to he changed his market because of of the market itself as it grows and he also went into retailing and this we talk about grocery retailing and a little bit of wholesale.

That business also did not last very much because of the market change anything else and currently we're trading on liquor and ABI products. And the logistics side is of distribution of this product primarily .

Competition Commission: Chair

of Liquor

Masha Logistics: Mr Tisetso Masha

Yes. The reason I went that way was basically on the market itself and we decided that because most of the foreigners do not trade in that that's what we thought would be competitive for us and that's what we leaned over to. But the margins are much more better in the grocery side than the regulations also are not that very well in the liquor side because you have regulations stating what time you can open and close and you are. In a nutshell that's that's that's our family business and that's what we've been trading on for the last twenty years. Yes.

Competition Commission: Chair

You are talking then you starting to mention the disadvantages. Can you go into the disadvantages. And when you say changes just spell it out to us what changes are you talking about .

Masha Logistics: Mr Tisetso Masha

So the disadvantage started when we saw a downfall in turnover and this was basically because of competition which we are not afraid of it's just that the mass of competition and the inflow of it within within a specific region within we traded became too much to handle because of various foreign nations and the way they trade. So basically what they do is they are I can say they trade within a group and what they use is their religion to to to trade and they use their religion to get how can I put it to get discounts and to to to basically trade and that has been a disadvantage for us because. In the same breath I can say people talk about xenophobia and say xenophobia is wrong yes it is wrong I still stand against it but in the same light when somebody uses their religion to get a discount what Isn't that a disadvantage to me as a local? It is and this is what they this is what is happening at the present moment whereby people use their religion, they call each other Muslim Brothers right and they get a discount I'm not not saying it's wrong but then that's how they it's happening and this is how they getting advantage over others.

And within, to touch on that as well the advantage to us is that our black communities do not look at quality like the previous speaker was here saying they normally look at quantity and because of poverty nobody can actually say it is wrong for somebody to do that. It's because everybody needs to eat and everybody needs to

survive and the survival of the fittest. At the present moment everybody is suffering and it's all because of the market in the economy where it is right now.

I don't know. If I don't know what to speak about because I didn't prepare for this so questions will help me to answer.

Competition Commission: Chair

Sorry, when you say the foreign owned business owners use religion can you expand on that more. How is that used to their advantage and how does that disadvantage, How are you excluded? . Because it's almost like an exclusionary kind of situation for you.

Masha Logistics: Mr Tisetso Masha

OK, with most wholesalers and retailers that are owned by Muslim Brothers, preference is given to them first, so I'll give an example with my family business when we doing when we still doing the ABI distribution right. So we did the ABI distribution, ABI is bought from only one company and that's ABI, right, and what they would do is go to the biggest wholesaler and and purchase from there but then look at how they distribute, they distribute the mini stores that are within the neighborhood are primarily most of them owned by your Pakistanis and Somalians right.

So what they do is collectively, they they go to that supermarket and they buy from it and they get a Muslim discount just like at the bank when you get the Sharia law the same principle applies within the wholesale industry. Some groups because of their religion they it's like they demand like they say with Pick n Pay and and the four big groups they demand and that's how they also operate. They also demand and say listen a collective of us are willing to buy this much if you give us this price and because in our community we don't have people working in that collective sphere or that belief or religion we do not get that discount and we do not align ourselves together to get that discount.

Competition Commission: Chair

Before the arrival of the foreign owned, the foreign nationals in South Africa, because there was was, their arrival is confined in terms of time where were you purchasing Competition Commission's grocery retail market inquiry – Gauteng 6 June 2017

and why were you not able to source your goods from those previous sources after the arrival of the Muslim brothers or the foreign nationals?

Masha Logistics: Mr Tisetso Masha

Basically everybody could buy where ever they would like to buy and prices back then did not people were not how can I put it, the wholesalers did not, the wholesalers didn't have a break even point for anybody or did not have you could buy whatever you wanted where ever right. Prices were not determined by how much you bought, the prices were were well regulated but nowadays because of anybody's looking for sales they inside do their own trade and look at benefit so everybody is given a target. It's like being a sales person they tell you you need to sell ten cars the person that's. His job is on the line and they'll do what ever it takes to get the ten sales.

So our community is really dying because our black owned enterprises are have depreciates , so. If you look at the stats the foreign owned companies or the foreign owned spaza shops shops are more than the local own spaza shops so basically what they do is it's it's it's very simple. They'll give it to the people that have the money. And In the same breath I'd say where does the money come from because if you look at the small business enterprise that you speak about or the small spaza it runs with let's say a normal spaza shop that was locally owned would run with a capital of R80 000 but if you look at a foreign national spaza shop , it would run with R300 000. And they have no overheads and.

We can all say that they get funding from somewhere and we don't know where. Whereas as our local guys would never get funding from anywhere because we started off selling from a table you gradually grow, you save your money you buy a container, you gradually grow and you build but the regulations that South Africa puts on to us it's very steep but it's very lenient to the foreign nations so we still ask the question are we going to grow or are we going to lease out to everybody that's coming into our country?

Competition Commission: Chair

You mentioned that you were initial in retail, and then went into liquor, and liquor distribution. Are all these business located in the same area and what area was this, is this?

Masha Logistics: Mr Tisetso Masha

The businesses are in the same area. What we did was strategic change I could put it that way. We strategised according to the market and we looked at the market and said it's going to swallow us if if we do not change.

Competition Commission: Chair

Where are you located?

Masha Logistics: Mr Tisetso Masha

We are located in Mamelodi . So we looked at the, we looked at the business itself and we saw that it's going to swallow us if we continue trading in the same market as our competitors so we decided strategically to to change and that's how we have been stayed afloat but still I forecast that in the near future or five years to come we're still going to have the same competitive competition because what they're going to do is that when the market is already how can I put it bought out and they're operating most of it they are going to jump into liquor and how they're going to do it is that what what they're doing right now is marrying South African people to get liquor license and everything else so five years from now I forecast that. It is going to happen they are going to change and they are going to infiltrate the liquor. And broaden their buying capacity I think.

Competition Commission: Chair

What is your, what would you propose or how do you propose that they be regulated or would you want the same regulations that apply to local businesses be made applicable to them will that be a solution for you at the moment to revive business in your areas including the ones that you lost? All the businesses that have been affected by this phenomenon.

Masha Logistics: Mr Tisetso Masha

I would say regulations has to be a little bit tighter on foreign nations firstly because they do not give or they do not help positively to our economy. Some of the monies that are done are not, how can I put it, some of the money that they trade in are not visible to to our economy because we do not know how they generate this money, where is the investment coming from. Whereby we literally locals have to go to the bank to get a loan. You don't automatically understand where you got the money to start up the company but somebody comes today, tomorrow they have stock worth R200 or R300 000 yes I understand maybe they are a collective of people that contribute to that but then how sure are we. So I would say regulations has to be a little bit more tighter. Asylums have to be.Asylums have to be monitored and the people that are actually doing business has to be registered.

Why is it that somebody can just build up a spaza shop today and just start working.

Competition Commission: Du Plessis

You indicated that regulations with regards to liquor is a bit restrictive can you maybe tell us all about the regulations that you are facing with regards to the sale of liquor.

Masha Logistics: Mr Tisetso Masha

The sale of liquor up basically, the only restrictions that are there are trading times. And obviously there is an age barrier to that so you cannot sell to anybody that's younger than eighteen. So that already is a restriction and it's a very good one because alcohol is not supposed to be sold to anyone under the age of eighteen and the trading times. On Sundays if you are a bottle store you are not allowed to trade until four o'clock. If you are a distributor not until one o'clock so automatically a Sunday is gone. And various other factors that the taxes normally go up every time on liquor and that's one of the challenges

Competition Commission: Du Plessis

And you also said see that margins in liquor are much lower than in groceries how big are the differences in margins.

Masha Logistics: Mr Tisetso Masha

Well within liquor everybody buys liquor is not a need I can put it that way and that is why I would say that the margins are they are actually I could put this it's vice versa. It's all it all depends where you selling your liquor and it all depends on how where your supply is we normally know that there's only one big supplier of liquor. And it's regulated by them so that's why I am saying with liquor the margins are a bit small because you only get it from one source and groceries you can source it from various counterparts so that's why I would say that liquor is lower and groceries higher. The margins it all depends on the person that actually is selling.

Competition Commission: Du Plessis

Are there other types of businesses that you have seen pop up as a result of the increased competition in groceries there that you've been facing. So you've now an example for years you've you focused on liquor are there and other other industries that that some of your colleagues have focused on as a result of the increased competition in grocery.

Masha Logistics: Mr Tisetso Masha

Gambling is one that people have resorted to. Because of this unstable market so with gambling if you put R5 they promise you R1 500 in return. But it's. Not promised but they get to profit R5 and they can forecast how much they're willing to gain.

Competition Commission: Du Plessis

Any other industry such as maybe freshly prepared food or any others.

Masha Logistics: Mr Tisetso Masha

Yes there is. A huge increase in that. Where I live I've seen it and. With it it's all about service and they rely on customer service they rely on relations and they rely also on on basically service, that's it. And what has also increased the hardware industry whereby people are resorting to that but it's also a bit tight because how many

people have the money to build when they don't even have money to buy groceries or to buy bread.

Competition Commission: Du Plessis

Is there a shopping mall close to where your business is.

Masha Logistics: Mr Tisetso Masha

There is one that's being renovated or being enhanced near us that due to open in 2018 in March. I am not too sure who the developer is but there's one very close to us about ten to fifteen metres away.

Competition Commission: Du Plessis

Metres away?

Masha Logistics: Mr Tisetso Masha

Ys, that's not too far right

Competition Commission: Du Plessis

And that's the one yeah and that's the one that's existing not the one that's being refurbished.

Masha Logistics: Mr Tisetso Masha

Its the one that existing and being refurbished.

Competition Commission: Du Plessis

When did it open up?

Masha Logistics: Mr Tisetso Masha

About 5 Years ago from now, five years but not too sure but you

Competition Commission: Du Plessis

And in that time when that opened up where you still busy with . was your business still focused on groceries.

Masha Logistics: Mr Tisetso Masha

Yes, What we actually did was we opened up a store at the mall when it opened but the feedback was not that good we closed shop. One year, six months into it. The re return on investment was not that well and we went back to our initial location but we were still trading so what we did is we traded in sweets and snacks from at the new mall to see if we do. But it wasn't tat good so I guess, it was trial and error.

Competition Commission: Du Plessis

And did it when the mall opened up apart from you also opening up a shop in the mall at the time and you still had to shop at your original location what was the impact on your shops' turnover when when that mall opened.

Masha Logistics: Mr Tisetso Masha

Well it didn't have a massive turn turnover difference because the mall was how can I say it. It was something very new to our community and the shops that were there were not very... They didn't have so much of an impact. People still referred to that as being expensive. It was a franchise mostly most of them were franchise stores and people didn't quite understand their policies or right now because of the I don't know increase in LSM it's a little bit different but at the time that it opened, No it didn't have so much of a big impact.

Competition Commission: Du Plessis

Is there a liquor shop in the mall?

Masha Logistics: Mr Tisetso Masha

Yes. Liquor boys.

Competition Commission: Du Plessis

And do you think the fact that they are operating a few meters from you in that mall does that have an impact on your turnover now that you have at your liquor shop now?

Masha Logistics: Mr Tisetso Masha

A slight one they only normally affect us due to if they have specials because they buy under the Liquor Boy's name at the one source that we all buy from and they get a bit of pricing but that's not that has not impacted us in a very big way they only impact is maybe during the month end when they have these specials but no not really.

Competition Commission: Du Plessis

Just one last general question from me with regards to regulations in general. I am not meant necessarily focused on on your competitors. What are the are the regulations that apply to you? Do you know exactly what they are and is it easy to adhere to those regulations?

Masha Logistics: Mr Tisetso Masha

For the liquor Yes. There's a constant reminder of of the regulations that we need to follow and. The reason being is that you are threatened with your license if you do not adhere to them your license will be evoked. So yes, there's a constant reminder and we know exactly what we're supposed to do.

Competition Commission: Du Plessis

And then more generally with regards to your I think you grocery business that have now closed down. What was, were were you aware of the exact regulations that were applicable to you then and was it easy to adhere to?

Masha Logistics: Mr Tisetso Masha

Yes Like I said, with locals the emphasis or the regulations are harshly implemented. But when you look at the foreign nations they get away with more than murder so I would say yes.

Competition Commission: Du Plessis

In terms of that, do you think what would you think would rectify the situation ould more policing and just active enforcement of their regulations assist.

Masha Logistics: Mr Tisetso Masha

It is only a couple of years ago that have I now seen certificates of SARS being put up by the foreign nations, so I think if more focus will be put on that and more focus will be put on regulating them and making sure who they are within every shop and when they leave they actually have to report that it's not the same person anymore operating the store then would identify how many stores exactly they are and also put a regulation to say if because at the present moment you get seven stores in one street and it's just I would say it's a strategy by them because they build a wholesaler and. All of them go to the same wholesaler to get the same stock so basically they buy a consignment and and that's how they they actually stay afloat and that's how they beat us because the one how I can put it, I will call it a hub. They all buy from one hub that is their wholesaler and that's how they infiltrated the market.

Competition Commission: Du Plessis

Thank you.

Competition Commission: Chair

I just want to understand this which I could have asked from the previous speaker as well. When they come together they come together, do they come together because they are all coming from the same country, they are of the same origin or do they come together because they have co-ownership of these businesses. So would you say these business are owned by a group of people that is they have established, formed a group and they own a number of stores or are these stores owned by individuals in the group.

Masha Logistics: Mr Tisetso Masha

Yes, I know. There's a group of owners and if you everybody else are employees, are employed basically. So everybody in the store most of them are not the shop owners. They are shop owners that own it and distribute their products into like a D.C. It's basically that they have a funding model by whoever I don't know who it is and they fund who ever who wants to work and they open the stores and that's how their chain works.

And. It's not work together they're two separate people. There are Somalians and there are those from Ethiopia and they are those from Pakistan. So, it's three different nations but they all look at the same concept.

Competition Commission: Chair

OK let's say if for example you dealing with the Somalians would you find that if you looking at the stores, can you trace ownership to, do the establish themselves into some kind of formation, organization, company where you can say there's one ownership it's many people behind that. That's what I'm trying to understand is that individuals that just work together, pull resources together from what from what you see or is it just one entity with a number of people behind the scenes.

Masha Logistics: Mr Tisetso Masha

We wouldn't know for sure but what I can say is that we know that most of the people that are in the stores are not the owners and you would never trace it back to the original owner, never.

Competition Commission: Du Plessis

How many employees did you have in your your previous business.

Masha Logistics: Mr Tisetso Masha

We had 20, no excluding us as immediate family. We had 14.

Competition Commission: Du Plessis

And now how many do you have now?

Masha Logistics: Mr Tisetso Masha

Six.

Competition Commission: Du Plessis

When did you when did you when exactly did you have to close down and retrench as people.

Masha Logistics: Mr Tisetso Masha

The grocery store we had to close down about three years ago and lease that to some of the Somalis.

Competition Commission: Du Plessis

In terms of I mean is that the comparison of the rent that you would get out of that lease and the ultimate profit that you would make out of the shop how did the two compare?

Masha Logistics: Mr Tisetso Masha

Yho, The lease is bare minimum it's just to stay afloat.

Competition Commission: Du Plessis

I guess and other which are a lot less than a typical profit that you would make.

Competition Commission: Chair

On the mall that you said is being refurbished and you said this mall was built about 5 years ago. 5 years ago when it was built what kind of stores were in that mall which and what stores are there now and what kind of stores are they? Can you speak more to it .

Masha Logistics: Mr Tisetso Masha

How many grocery stores? There was two grocery stores; Pick n Pay, Nassims and the rest, the rest were convenience stores. Your clothing, your banks your, at one stage your food outlets your Romans Pizza, your KFC and now ; Shoprite, Game, Woolworths, all the big names are coming to that mall.

Competition Commission: Chair

And Nassims is a butchery.

Masha Logistics: Mr Tisetso Masha

No, no, no its a Grocery store.

Competition Commission: Chair

So with the refurbishment that will be completed in 2018, the Shoprite will also be part of of, so there will be Pick n Pay, Shoprite as well as Woolworths. What is the name of the mall.

Masha Logistics: Mr Tisetso Masha

Mahube, Mahube MaxCity as it is right now, its going to be ..Mall next year.

Masha Logistics: Mr Tisetso Masha

Mahube, Mahube MaxCity as it is right now, its going to be ..Mall next year.

Competition Commission: Chair

That MAHUBE. Thank you very much. We don't have any further questions and thanks lot.

Our next admission will be from Khazimla IT Solutions. Mr Simphiwe Nkula would you please come over.

Khazimla IT Solutions: Simphiwe Nkula

Good afternoon everybody. My name is Simphiwe Nkula. I am from Khazimla IT Solutions: And I'm a founder of the info trade App. I too wasn't quite prepared to come to make a presentation but I thought it important to come in just to listen. Being the Competition Commission being on radio and T.V.

The app is a cashless to Lucian for the informal traders. It is aimed at effectively introducing a trader to a distributor to supplier and an end consumer point of sale solution. It's also a. It's also a what do you call a stock level management solution.

Our system leverages current technologies and innovations in creating a balanced and effective ecosystem for consumers, traders and key distributors and suppliers. So, when I came in the morning the first gentleman that was presenting

had a slide which resonates with us. And why we even exist so we had a slide at the top they FMCG which is the supplier which is split into two. So we must remember that the supplier's main mandate is to get their goods to the household. So splitting to the left it goes to the formal market right, which is a straight line to the household, no complications there so it's the big four down to the suppliers.

When you split it to the right there's informal and there's a whole list of kind of plug points until it gets to the household. So the reason why we exist is because of. The many ways in which a supplier can get their goods to the consumer and one of which is the route to market.

The router market is split into many different facets one of them being for example the key distributors the DC.'s like the gentleman said as well so. With that as well, I can say a lot of people and small business owners here are frustrated at the fact that they can't there's a lot of barrier to entry. So for example. They found that the Pakistani, the foreign nationals are taking over for example I found that through the system that we've produced. And through the partnership with FMCG companies. They could easily join the key distribution models right where prices are competitive to what the foreign nationals are getting from wherever they're getting their products from because the FMCG's contract the key distributors and they have prices right there have they have that are set right, so that our people, South African people can also take part and not be afraid of the competition so to speak.

Yeah so. So how the system works. Is a simple trader right if they are part of the key distribution model right they can simply sign on to the App. When they demand products to come through they can order through the App. But before ordering through the App, they must make a deposit into any major retailer at the kiosk so when they deposit the cash they get a notification on their cellphones. For them allowing them to check their balances and also to start purchasing through that App. There after they are they make to order.

It deducts from their virtual wallet and the key distributor makes a delivery right at their door. So this part is very important because the barrier to entry is well you know you Competition Commission's grocery retail market inquiry – Gauteng 6 June 2017

know that cash is king so for somebody that's trying to make a living and wanting to open up a spaza shop may not necessary for a truck to to do that. May not have perhaps the buying power that the foreign traders have. So through the initiatives that the big FMVGs have they could they could make their orders that way. So, that's basically it.

So the price is there are regulated. Because the the big FMCGs would give discounts to the key distributors and the key distributors then are told through broadsheet how much the product are. And so the prices would be a little bit competitive is what I found. That's it.

Competition Commission: Chair

Obviously from what you have said, you are sort of, your business connects the suppliers to informal traders on the ground. So, who are your actual clients? Are these parties both your clients then?

Khazimla IT Solutions: Simphiwe Nkula

Yha, Both are clients. But our clients are the key distributors and the FMCG companies. The traders who already, who have, what can I say a relationship with the key distributors already know each other but our clients essentially have, to answer your question, are the key distributors and clients, the supplier, sorry.

Competition Commission: Chair

And And how how is the membership to that key distribution model structured. Do parties make application? Is is advertised? How would you inform all traders on the ground get to be members or form part of that distribution model so they can take advantage of the or make use of your App to access your services for example.

Khazimla IT Solutions: Simphiwe Nkula

Currently we are in our second month of the POC. Which is a proof of concept. However I'm not too sure how a typical trailer kids into the key distribution

model but I know in Soweto one of the big guys is called the Keys Distribution. In Pretoria there's a guy called Cliffy he own Logistics. His company is called Logistics

Competition Commission: Chair

So so you saying that from what you are saying you're implying that the distributors themselves it's the distributors themselves who then try and list their informal traders into their system. That's what happens.

Khazimla IT Solutions: Simphiwe Nkula

That's correct, Yes

Competition Commission: Chair

And you also spoke about the the prize benefits because it kind of cuts the middleman you know between the supplier and the actual trader on the ground. What are you are aware of what is what how this is done? What research has been done into into looking at the prices on the ground especially given what we've heard on how the foreign nationals price and how difficult it becomes to compete even for established businesses at times how how do you make sure or how is this how does the system make sure that the pricing is actually beneficial to enable them to compete because it's one thing to be told that the price is low it's another to be faced with a low price on the ground and then you actually know there's no actual benefit so how how is this measured and how is it monitored by in this is in the App is this by the distributor just speak more on that.

Khazimla IT Solutions: Simphiwe Nkula

So as far as we know the pricing are based on discounts that the FMCG themselves give the key distributors, right, so they can only go so far in terms of discounts so that they also make a profit. So they've got something that's called a broad sheet right where they have set the percentage right that they take giving in discounts to the key distributor and therefore the key distributor also gives their own discount or gives a price from that discount to the traders. For the traders to start to the consumers.

Competition Commission: Chair

And then going just above the distribution level , were you you also mention that you've got a partnership of a partnership relationship with FMCG manufacturers. can you speak more on that and which manufacturers and how relevant are these to the traders on the ground and how has this worked. Just expand more so that we have a sense of what it is that you're doing and whether it is a solution at all to the kind of challenges that we keep hearing and we know we're going to keep on hearing as we take submissions from these traders.

Khazimla IT Solutions: Simphiwe Nkula

So for example how I started was saying we are doing a POC . We're on our second month. So one of the companies that we are engaging with is Unilever and Nestle right. So the relationship there is we know that they are desperate in getting their products to the consumers that is their mandate it right. Also through the key distribution model. We know that a lot of the guys get hits because the drivers that deliver to each and every single spaza shop what they do there's collect money. So through our system the traders can make sorry can make pre deposits into their virtual wallets which then cuts away the cash element of it and what an added value to signing up onto infotrade is the guaranteed payments for the FMCG companies through their KD's and in turn for the traders they get their stock at their doorstep.

Competition Commission: Chair

And at the distribution level who owns that segment? Are these independently owned or owned by the FMCG companies.

Khazimla IT Solutions: Simphiwe Nkula

They are independently owned. So what you'd find in a key distribution center is multiple FMCG products. So from Tiger brands, pioneer foods, so it's a big warehouse and it's a it's Independently owned.

Competition Commission: Chair

OK, I just want to hear this again and this is the model of your business is directed at assisting local owned informal traders to compete better or is it for everyone is it, could

be would it be accessible to also foreign national for example or would it be exclusively for local owned nationals or businesses.

Khazimla IT Solutions: Simphiwe Nkula

We were not going to be limited to just South Africans also informal traders can take part. In making sure that perhaps they don't keep the money underneath the mattresses or whatever. But they have a virtual wallet where they can shop when they need any stock.

Competition Commission: Du Plessis

Their distributors is there any limit or is there any minimum amount of volume of products that they would have to deliver in order for them to actually make a delivery to a trader?

The distributors themselves do they need a specific minimum volume to be ordered from them by trading in order for them to make it worth their while for them to the trader and to deliver this product.

Khazimla IT Solutions: Simphiwe Nkula

So the key distributors have got set dates in any case where they go and deliver goods to the traders. So they don't have a minimum or maximum it's totally up to the trader because he would know that he's perhaps short of forty shrink's of OMO for example. There's no there's absolutely no limits for for the deliveries.

Competition Commission: Du Plessis

And how often do they then deliver if they have set dates on which them make the deliveries how often is that.

Khazimla IT Solutions: Simphiwe Nkula

That's between two or three days two and three days per week.

Competition Commission: Du Plessis

Thanks and then you said that the way in which traders can participate or use this App is to make a deposit at the closest retailer. Is this a once off deposit? Is this how how does it work? Is it a once off? Is it a large deposit? How hard is that part work?

Khazimla IT Solutions: Simphiwe Nkula

So I'll start by explaining the different kind of tiers of traders. So you get like you very small traders. Who are your vendors for example because they also take part. You get your second tiers of traders the guys that are selling through the window those guys' stock is between R500 to R1000 and and then you get the slightly bigger spazas which is about a R1000 and R2000 and then you get your very big ones they go up to forty thousand for example.

So the number of times that you can deposit is unlimited. You could you could deposit as many times as you want. But obviously that is joined with the amount of times that you buy the stock as well. So it also you know the App also helps with the management of your business as well. In keeping up with your books as well as a small business.

Competition Commission: Du Plessis

Thanks.

Competition Commission: Chair

I think I missed something that I picked up from the questions that you asked so they deposits by informal traders are made at a retailer, are these grocery retailers? Have you considered that Ok, I am not an IT person what confidentiality exists if they come and make these deposits at let's say Spar, Shoprite. Is it possible for the for that specific retailer which the deposit is being made to pick up to pick up these deposit is that these deposits that are intended for this for this kind of trade. Do there is is there any confidentiality is a platform that they can access. Can they see what's going on because I'm thinking given what has been said we've had a lot of submissions that have complained about supermarket chains on how they're trading and we had a buyer group here yesterday saying it is a fallacy by supermarket chains that are operating in the townships to come and say to this inquiry that they don't compete with

informal traders and to be then required to come and deposit money to actually place order for your stock with your competition and your competition gets to see what it is that you are ordering and how much you are ordering that's what I'm trying to get to, will they be able to can the actual retailer be able to access that information?

Khazimla IT Solutions: Simphiwe Nkula

That's a good question. It's like sending money to to a loved one OK. But that's how our business is run so. It's not like you saying I'm depositing this cash to buy goods somewhere else but what a trader would do is go to a Pick n Pay kiosk and say or a Boxer or whatever and say I'm depositing this money. And then simply walks away it's it's basically a send i mali so to speak. Yes, you are depositing money.

Competition Commission: Chair

The thing that I am clueless on is how that money is accounted. How is it accounted for. What what kind of confidentiality exists from the time it is deposited with the retailer and then the time when it gets to the supplier or wherever it's supposed to go or wherever it's sitting. Does the actual retailer that is this where you actually make the deposit able to see how much is being deposited are they able to know that all that money, all those funds sitting there for example we can all be depositing they can see that they're small amounts, R10, R100 and then there are these big amounts and there is this big fund. This big amount of money and they would d know that huge amount of money, its doest's matter I don't want them to see what I'm trying to understand it's not them seeing who the individual depositor is but knowing the destination of the money and therefore are they able to determine that or establish that this deposit all that money sitting there is actually destined for that purpose because to me that purpose is viewed at times from the to be a purpose that competes with the retailer.

Khazimla IT Solutions: Simphiwe Nkula

I think through our strategic partners which is Easy Pay. So you are using Easy pay to deposit money right so the confidential confidentiality there is already stablished where a typical trader is depositing saying what we do is we generate an Easy Pay number for you as a trader. It's as simple as it's four digit number with your cell phone number for example. You go there with that. You give them that number they deposit and then you walk away. So there's the within the stores the confidentiality is

and any kind of agreements have already been said between Easy Pay and the big retailers.

Competition Commission: Chair

I think it's something that I would still like to understand more but maybe it's not something that will lie with you the answers may not lie with you maybe Easy Pay can make it clearer to me because I am concerned about that because if they are currently if you if you placing in stock you don't want your competitor to know how much stock you're placing and how much competition is coming and what the implications are for their business and whether and how much growth is coming to their competitor and you know. That's what I'm trying to understand here but I hear what you're saying that there are confidentiality agreements they'll be between the retailer and Easy Pay. Thank you. OK, thank you Mr Nkula.

OK ladies and gentlemen unfortunately we've had a lot of cancellations today. The city of Tshwane which was supposed to have started this afternoon consult because of it double booking from their side that's what they told us. The person who was supposed to come and present could not come because he was asked to attend another meeting and then he chose that meeting over the inquiry. And then the other smaller players that we have on our schedule even though they had confirmed even by yesterday have not turned up this morning or this afternoon so this means that we are now forced to adjourn for the day and we will reconvene tomorrow morning. I think our starting time will also be 9:30 again. Let me just check

Yes, we will commence at 9:30 tomorrow. Thank you very much and please do you have coffee tea and coffee because we didn't have our tea break before you leave.