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BY E-MAIL

Attention: Ms Louise du Plessis
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Dear Sirs

GROCERY RETAIL SECTOR MARKET INQUIRY: COMMENTS ON THE DRAFT STATEMENT OF ISSUES

1. We refer to the draft statement of issues ("**statement of issues**") published on 17 May 2016 for comment. Set out below are Spar Group Limited's ("**Spar**") comments in this regard.

2. The description of the structure of the South African grocery retail sector in paragraph 13 includes the following stakeholders: (i) manufacturers or suppliers of grocery retail products; (ii) buyer groups and distribution centres; (iii) wholesalers; (iv) hybrid wholesaler retailers, national supermarket chains and independent retailers (formal and informal); and (v) consumers.

3. Spar seems to be considered a national supermarket chain according to Figure 1 and paragraphs 24 and 27 of the statement of issues.

4. Spar is not a national supermarket chain but is rather a chain of independent retailers, supplied largely (though not exclusively) from Spar distribution centres. Spar's operating model may fall within more than one category identified by the Panel.

4.1 A national supermarket chain typically describes a chain of stores that are owned or controlled by a single entity.

4.2 In Spar's case, Spar Group Limited is a wholesaler and distributor of groceries. At the retail level of the value chain, the majority of "Spar" stores are owned and controlled by independent retailers.

4.3 This distinction should be made as a number of concerns affecting independent retailers, as identified by the panel in the statement of issues, may affect Spar's independent retailers.

4.4 National supermarket chains have the ability to conduct business differently to a chain of independent retailers like Spar e.g. national supermarket chains are able to cross-subsidize between stores whereas Spar is unable to do so.

5. Spar should therefore fall under a separate retail category that we propose be called 'chains of independent retailers'. Spar may also fall under various other categories identified by the Panel, depending on how these are ultimately defined, including under the 'buyer group' and 'wholesaler' categories.

6. Tops liquor stores are independent liquor store retailers that are separate from the grocery stores and are commonly under separate ownership even if located close to a grocery store.

7. The statement of issues suggests that the inquiry will be conducted from the premise that there are barriers to entry to the grocery retail sector (see for example paragraphs 35, 36 and 40). There

has been significant entry into the grocery retail sector and new entrants have been able to expand rapidly over the past few years.[1] For example, recent research shows that Choppies and Fruit and Veg City stores, as well as independent retailers supported by wholesalers and buying groups, have been growing rapidly in South Africa.[2] Fruit 'n Veg City appears to be one of the five major national retail chains identified by the Panel in paragraph 24. It is therefore submitted that it is inappropriate to start from the premise that barriers to entry are high. Whether or not the barriers to entry are high is one of the issues that the panel should investigate.

8. The statement of issues also suggests that the inquiry will be conducted from the premise that the sector is highly concentrated (see for example paragraphs 24, 54 and 76.3). Prior to concluding that the sector is concentrated, it is submitted that the Panel should define markets, assess market power and then assess levels of concentration. For example, in paragraph 24, the Panel suggests that there are <u>five</u> national supermarket chains that account for 80%-90% of *food retail* in South Africa, while in paragraph 54 that the <u>four</u> largest supermarket chains account for 80-90% of *food and grocery* sales. By contrast, recent research estimates that *'independent retailers account for 40% of the total food retail market, while formal chain supermarkets account for the balance in South Africa'*.[3] Since there are at least 4 or 5 supermarket chains (using the Panel's definitions) that would account for 60% of food retail sales, and assuming that each of these chains has roughly an equal market share, this would suggest that the sector is relatively un-concentrated. The level of concentration, therefore, depends on the definition of relevant markets, and an assessment of market power.

[1] We note that Massmart's expansion concerns not only 'fresh foods', as suggested in paragraph 25 of the statement of issues but includes the expansion of the sale of non-perishable goods at Massmart stores as well.
[2] See Das Nair & Chisoro (2015), cited above. See, for example, pages 6 & 7, Table 1, Figure 1 and section 4.
[3] See Das Nair & Chisoro (2015), p. 13.

9. Please let us know if you require clarification or further submissions on any of the issues raised above.

Yours faithfully

Bowman Gilfillan Inc.
Per: Jean Meijer and Sandhya Naidoo