
SOUTH AFRICA / JUDGMENT

JDG Trading (Pty) Ltd v Rochester Home Furnitures Ltd (LM103Aug15) [2015] ZACT 81 (17 November 2015) [2015] ZACT 81

COURT

Competition Tribunal

BEFORE

Yasmin Carrim, Medi Mokuena, Andiswa Ndoni

CASE / FILE NUMBER

LM103Aug15

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COMPETITION TRIBUNAL OF SOUTH AFRICA

Case No: LM103Aug15

In the matter between:

JOG TRADING (PTY) LTD

Acquiring Firm

And

ROCHESTER HOME FURNITURES LTD

Target Firm

Panel

: Yasmin Carrim (Presiding Member)

: Medi Mokuena (Tribunal Member)

: Andiswa Ndoni (Tribunal Member)

Heard on

: 4 November 2015

Order Issued on

: 4 November 2015

Reasons

Issued on : 17 November 2015

Reasons

for Decision

Approval

- [1] On 4 November 2015, the Competition Tribunal ("Tribunal") unconditionally approved the merger between JDG Trading (Pty) Ltd ("JOG Trading") and Rochester Home Furnitures (Pty) Ltd ("Rochester").
- [2] The reasons for approving the proposed transaction follow.

Parties to transaction and their Activities

Primary acquiring firm

- [3] The primary acquiring firm is JOG Trading, a private company incorporated in terms of the laws of the Republic of South Africa. It is a wholly owned subsidiary of JD Group Ltd ("JD Group") which is ultimately controlled by Steinhoff International Holdings Ltd ("SIH"). Relevant to the proposed transaction is SIH's 43% shareholding in KAP Industrial Holdings Ltd ("KAP")

which controls Restonic (Pty) Ltd ("Restonic") and Vitafoam (Pty) Ltd ("Vitafoam").

- [4] JD Group's activities can be divided into the following broad categories: (i) furniture retail; (ii) consumer electronics and

appliance retail; (iii) building material and DIY; (iv) automobile retail; and (v) finance and insurance services.

Primary target firm

- [5] The primary target firm is Rochester, a private company incorporated in terms of the laws of the Republic of South Africa. It is a wholly-owned subsidiary of Geros Retail Holdings (Pty) Ltd which is controlled by Geros Betriligungsverwaltung GmbH ("Geros Austria").
- [1] Rochester does not control any firm.

- [6] Rochester is an independent furniture retailer.

Proposed transaction and rationale:

- [7] In terms of the proposed transaction, JOG Trading intends to acquire Rochester's furniture retail business as a going concern.

- [8] The JD Group submits that the proposed transaction will enable it to reposition its business model away from the lower LSM market, in which the granting of credit remains challenging, towards the higher LSM segment where there are opportunities for growth. Rochester

submits that the proposed transaction will place these furniture stores in a stronger financial position and facilitate their continued growth.

Relevant Markets:

- [9] The Competition Commission ("Commission") identified the relevant product markets to be the broad market for the retail of furniture and the narrow market for furniture retail targeted at middle-upper income customers (LSM 6-8) as Bradlows and Morkels, which form part of the JD Group, and Rochester compete in this segment.[2]
- [10] The Commission found the geographic markets to be national in scope.[3] Further, in its investigation, the Commission found that generally in areas where there are more than six stores there is sufficient competition. However, in the Carnival/ Brakpan and

Klerksdorp areas there were fewer stores which indicated a high level of concentration. The Commission accordingly identified that these areas posed potential competition concerns and considered the impact of the proposed transaction on these regions in particular.

Impact on Competition:

- [11] The Commission found that a horizontal overlap exists in the activities of the merging parties in the broad market for furniture retail and the narrow market which is focused on middle to upper income customers. In each of these markets, the Commission found that the merged entity's post-merger market shares will be as follows:
- 19.4% (2.2% accretion) in the broad national market for the retail of furniture;
 - 18.3% (3.6% accretion) in the national middle-upper furniture retail market;
 - 36.8% (22% accretion) in the middle-upper furniture retail market in Carnival/Brakpan; and
 - 31.7% (10% accretion) in the middle-upper furniture retail market in Klerksdorp.
- [12] The Commission concluded that there were no competition concerns in the broad national market for the retail of furniture and in the national middle-upper furniture retail market because the market share accretions were low and the merging parties would continue to face significant competition from market players such as Coricraft, House & Home, the Lewis Group and Ok Furniture.
- [13] The Commission found that despite the relatively higher post-merger market shares in the Carnival/Brakpan and Klerksdorp areas, the merged entity would continue to face significant competition from market players such as Coricraft and the Lewis Group post-merger. In any event, the merging parties drew attention to the fact that the Commission

identified at least six competitors in these regions signifying sufficient competition. They further submitted that customers in the LSM 6-8 segment are mobile customers. They generally have access to transport and are likely to travel outside of these regions to obtain their goods. For example, customers in the Carnival/ Brakpan region might travel to Springs or Benoni where there is sufficient competition from a number of furniture retailers.[4]

- [14] Based on these market shares and the fact that the merged entity will continue to face significant competition in the affected markets post-merger, the Commission found that the proposed transaction would not result in unilateral effects.
- [15] In its vertical analysis, the Commission found that a vertical relationship exists as the target firm procures mattresses, base sets and foam mattresses from Restonic and Vitafoam which are subsidiaries of KAP. The Commission found that this vertical relationship would not result in foreclosure concerns as Vitafoam's mattress amount to 1.1% of its bedding turnover whilst Restonic's bedding sales to Rochester amounts to 0.1% of its turnover.
- [16] The Commission accordingly concluded that the proposed transaction is unlikely to substantially lessen or prevent competition in any of the relevant markets.

Public interest:

- [17] The Commission concluded that there are no public interest concerns likely to arise from the proposed transaction.

Conclusion:

- [18] In light of the above, we agree with the Commission's analysis and conclude that the proposed transaction is unlikely to substantially

prevent or lessen competition in the relevant market. In addition, no public interest issues arise from the proposed

transaction.

17 November 2015

DATE

Yasmin Carrim

Medi Mokuena and Andiswa Ndoni concurring

Tribunal Researcher: Ammara Cachalia

For the merging parties: Heather Irvine, Norton Rose Fulbright

For the Commission: Maanda Lambani

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- [1] Geros is a company incorporated in accordance with the laws of the Republic of South Africa whilst Geros Austria was incorporated in accordance with the laws of Austria.
- [2] The Commission based its market definition on previous cases where the Tribunal has held that furniture retailers diversify across LSM categories to capture customers within the umbrella of a single brand. More specifically in the Relyant/Ellerines merger (case no: 62/LM/Aug04), the Tribunal noted that 'the relevant markets were determined by a threefold segmentation of furniture consumers into a low income category (LSM3-5), middle income segment (LSM 4-7) and an upper segment (LSM 8).' See also the Steinhoff/JD Group transaction (Case no: 013672).
- [3] The Commission based its findings on previous cases and a number of other factors. These factors include the following: (i) furniture stores with national presence set their prices and key trading conditions nationally, (ii) the merging parties' stores are located nationally and (iii) both the JD Group and Rochester follow a national pricing policy.
- [4] See page 5 of the transcript from the hearing.
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