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Barriers to entry in retail banking: the story of Capitec Bank

Nicholas Nhundu

The South African retail banking sector remains highly concentrated with six large banks accounting for more than 90 percent of retail deposits; namely, Standard Bank, Absa, First National Bank, Nedbank, Capitec and Investec.[1] Some of the small players such as Grindrod and uBank have been operating since 1994 and 1975, respectively, yet their deposits have not grown significantly in this period.[2] The sector has experienced few successful entrants since the establishment of Absa 25 years ago[3], and only Capitec has managed to penetrate the industry successfully.

Barriers to entry or expansion can arise as a consequence of the natural features of the market (structural barriers such as the presence of significant network effects) or can be created by the behaviour of incumbent firms (strategic barriers).4 Drawing on a recent study supported by the National Treasury as part of a broader study on barriers to entry, we consider the nature of barriers to entry into banking in South Africa and whether Capitec is the exception that proves the rule.5

International experiences of barriers to entry and expansion in retail banking

Notable investigations into barriers to entry and expansion in retail banking include the retail banking market investigation by the United Kingdom (UK) Competition and Markets Authority,[6] and the retail banking inquiry by the Netherlands Authority for Consumers and Markets.[7] The inquiry in the Netherlands focused on consumer switching behaviour, amongst other aspects, and found that although small banks offered higher savings interest rates consumers were not likely to switch to small banks. Only 13 percent of the consumers were prepared to switch banks while 50 per cent indicated that they have never switched banks. This highlights the challenges facing new banks in attracting consumers. Along with economies of scale it implies that entrants have substantial sunk costs in establishing the business before they reach a commercially viable operation.

The UK investigation specifically found that a wide branch network was one of the most important factors for SMEs and individual customers in choosing who to bank with. A high-street presence in terms of branch networks promotes brand recognition and loyalty for a bank. Establishing such a network implies various costs in terms of acquiring and maintaining branches which is a challenge for entrants in particular.[8] The study also identified costs of acquiring and setting up information systems technology, switching behaviour, high capital requirements and access to payments systems as potential constraints.[9]

The costs of complying with complex financial laws and regulations that frequently change were also identified by the Netherlands inquiry as a significant barrier, along with limited differentiation in the supervision of prudential laws and regulations particularly with respect to small banks. The assessment found that smaller banks pose lower systemic risks to the industry than bigger banks and thus do not warrant equivalent treatment relative to larger banks with higher risk profiles.[10]

Lessons from South Africa

The study of entry and competition in South Africa found that the leading South African retail banks can be said to enjoy market power derived from various factors including barriers to the entry and growth of smaller banks.[11] The main barriers to entry and expansion include regulations and scale economies (including the need to establish a branch network), and the required financial backing. The rivalry provided by Capitec, when it managed to overcome the obstacles to being an effective competitor, illustrates the benefits of competition as banks charges came down substantially.

The study demonstrates that Capitec's entry into the industry resulted in significantly lower bank charges which conservatively amounted to annual clients' savings of R19.9 billion in 2014. The savings were calculated from the impact both on those clients who switched to Capitec and the effect on clients who stayed with their existing bank but benefitted from reduced charges as the banks responded to Capitec's lower charges. There is a further set of important benefits associated with those opening accounts with Capitec who would not otherwise have done so.

The major South African retail banks were also observed to have taken advantage of various mechanisms (such as complexity of fees and lack of price transparency) to deter customers from switching.[12] The strong position enjoyed by incumbent banks is also reinforced by a regulatory environment which in its current structure makes it especially difficult for new banking entrants to participate in the market. Some aspects of regulation changed after the Competition Commission's banking inquiry, including the possibility of cash being drawn at supermarket tills which reduced the need for a nationwide ATM network to be established by Capitec.

The duration required for Capitec to build its business to the point where it was able to challenge highlights the size of the entry barriers. From its establishment in 2002 it grew slowly mainly due to lack of funding. The organisation struggled to raise financing and for the greater part of its infancy it was self-funded with significant portions of profits being retained and reinvested.[13]

However, the partnership with PSG (an independent financial services group) played a pivotal role in ensuring the survival

of the entity through providing equity financing.[14] Only around 2006 was it able to attract a notable amount of deposits.

Capitec overcame customers' reluctance to switch, a key barrier to entry in retail banking, by developing a simple product that is easily understood. It also worked deliberately to convert its lending clients into transactional service clients. For this reason Capitec employed dedicated staff to work on switching clients. Branch personnel were also trained to convert lenders and savers into banking clients. Initially Capitec's clients were 'cash convertors' who would take out cash soon after their salary was deposited, however the profile of these clients has changed over time to more mid-market customers who switched from other banks.[15]

The naturally capital-intensive nature of retail banking and the need to establish customer awareness and trust suggests that banking entrants may well be firms from other areas of business such as mobile telecommunications or supermarket chains, however, we understand that applications from such entities in South Africa for banking licences have been turned down by the Reserve Bank.

Funding remains a major problem in South Africa specifically for small enterprises and new entrants with no track record. Equity investors perceive these firms as unsafe investments whose returns cannot justify the inherent risk.[16] The initial funding is required for sunk costs which will not be recovered in the event of a failure.

Access to debt financing is a additional challenge in so far as new entrants cannot issue investment grade debt instruments given their size and the fact that they have no track record, in most cases. As such they are limited to the junk market which is not developed and relatively expensive in South Africa.[17]

Capitec indicates the burden on a smaller entrant. Capitec had a lower debt relative to equity financing than the incumbents and the industry average (Figure 1). The lack of access to debt financing especially during infancy does not only impact the entity's ability to expand its operations, but it also affects profitability given a low financial leverage.[18]

Regulation

South Africa has a world-class banking system regulation that compares favourably with most developed countries. Although the strict regulations have safeguarded a healthy and stable retail banking industry, they have also restricted the proliferation of new entrants and the growth of small and medium-sized banks. South Africa has a world-class banking system regulation that compares favourably with most developed countries. Although the strict regulations have safeguarded a healthy and stable retail banking industry, they have also restricted the proliferation of new entrants and the growth of small and medium-sized banks.[19]

The Banks Act requires that any organisation that wishes to operate as a bank in South Africa acquire a banking licence. However, the process of applying for a banking licence has been described as onerous, extremely complex and time consuming. [20] In addition to the R250 million required as capital,[21] the Reserve Bank also scrutinises aspects such as the directors, the business plan, products, risk management policies, corporate governance, internal auditing, external auditors, anti-money laundering measures and IT capabilities.[22] While these are standard requirements in most countries, it is

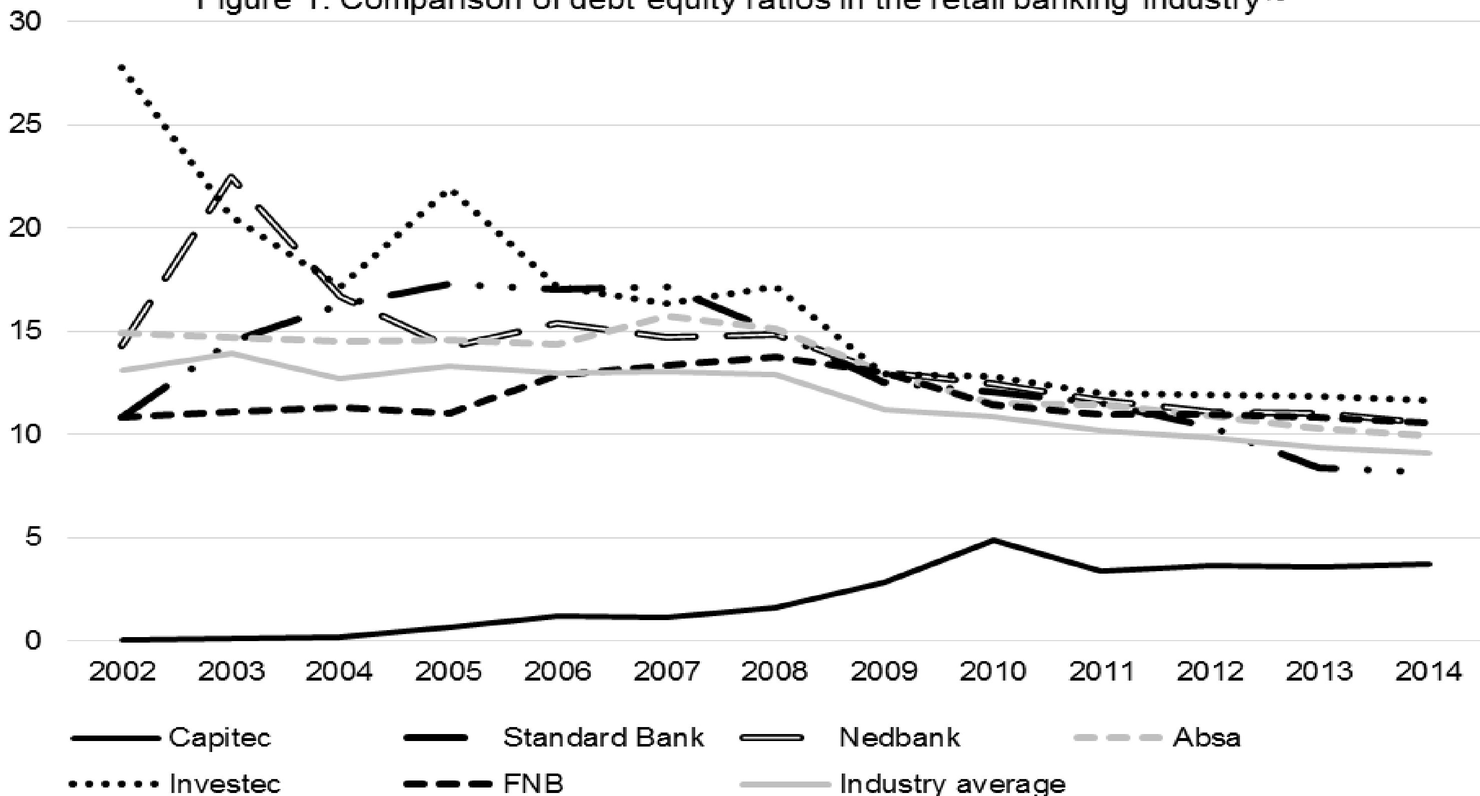

Figure 1: Comparison of debt equity ratios in the retail banking industry[18]

significant that only one banking licence (Finbond Mutual Bank) has been issued in South Africa in the last 15 years.[23] Capitec was able to benefit from accessing the licence held by PSG.

There are also prudential laws that include capital adequacy ratios that have to be maintained on an ongoing basis. Capital adequacy is a proportion of a bank's capital that has to be set aside (in very liquid assets) in case of an unforeseen event that may cause the bank to fail.[24] They are meant to protect customer deposits and ensure that banks are able to absorb losses. For new entrants and other small- to medium-sized banks, capital adequacy ratios mean that they need to devote part of their limited capital to meeting capital requirements only.[25] This is a substantial cost for new entrants given that capital set aside for adequacy requirements has to be in very liquid assets that bear little return.

The balance in regulation between the clear prudential rationale and the chilling effect on competition is contested. Easing regulation enhances competition and promotes efficiency, while strict regulation brings about stability by providing incentives and protections that restrict businesses strategies in the interests of preventing risky behaviour. Currently there is no consensus as to which competitive structure optimizes both competition (efficiency) and regulation (stability).[26] However, it is apparent that neither extreme is ideal. The costs of limiting competition are generally less well understood and there is a danger that the balance is tilted in favour of protecting the established position of incumbents under the rationale of prudential requirements. Other means of guarding against risky behaviour such as through closer bank supervision should not be forgotten.

Conclusion

Retail banks play a pivotal role within the economy and the degree of competition in the retail sector matters for the efficiency of production and innovation not only in the retail banking industry but the economy as a whole. The study demonstrated high client savings on bank charges as a result of Capitec's entry into the market. Furthermore the study also illustrates that Capitec's entry provided the incentive for incumbents to cater for the low income segments of the market, thus promoting financial inclusion.[27]

The findings are also supported by recent studies in the role of competition in banking which point to the fact that competition in banking promotes financial inclusion, efficient functioning of financial intermediaries and markets; and financial stability.[28]

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Aggregators and emerging competition issues in mobile money

Anthea Paelo

The complexity and range of mobile money-related services provided in various African countries has grown significantly from 'basic' money transfer between people with customers storing currency in a mobile wallet via a handset, to include savings and loan products, insurance and bill payments.[1] Much has been written about the benefits of this functionality including through accessibility, convenience, speed, privacy, cost-effectiveness and control over financial transactions.[2]

Innovation and competition on the supply-side

Through various mobile money platforms a customer can now pay for utilities such as electricity and water, make bill payments such as to schools, hospitals and restaurants, and make every day purchases for groceries and services using mobile payments.[3] Merchant payments grew by 58.5% globally from 2013 to 2014 with a third of this growth occurring in East Africa.[4]

In some countries Mobile Virtual Network Operators (MVNOs) have entered the market to take advantage of the rapid growth in the sector. An MVNO is a company that provides mobile telecommunications services without owning any telecommunication infrastructure of its own, leasing instead from an existing MNO.[5] Equitel in Kenya and Smart Money in Uganda are examples of MVNOs that supply mobile money services. The rise of MVNOs has also led to the growth of aggregators and enablers who serve as intermediaries between incumbent MNOs and smaller MVNOs.[6] Aggregators provide the platforms and technical know-how to link payments between the MNOs and MVNOs while enablers in addition to the function aggregators serve, may also sell services directly to customers and billers such as utility companies, schools, hospitals and other retailers.[7]

Aggregators and enablers stimulate the industry by bringing on board more clients and billers to make use of the mobile systems and infrastructure. They are also usually at the forefront of creating and developing technology to facilitate mobile systems.[8] This could result in a larger customer base for MNOs. Some aggregators such as Ezee Money in Uganda also have agents that increase public access to mobile money services. However, by having direct access to customers and billers, enablers may appear to position themselves as rivals with MNOs. Moreover, most of these firms are network agnostic which grants customers on a network with less subscribers, access to a variety of products and services including transfer of products to customers on a more dominant network thus presenting a threat to an incumbent MNO's dominance.

Recent cases in Uganda and Kenya

There is a growing record of MNOs in the region engaging in practices (some of which are anti-competitive) in an effort to protect their dominance. These interlinked practices include refusal to have interoperability[9], agent exclusivity, and margin squeeze in relation to Mobile Virtual Network Operators (MVNOs) where access to platforms is required as discussed in previous editions of this Review.[10] Aggregators and enablers are particularly susceptible to anti-competitive conduct by MNOs because they are dependent on the MNOs for access to essential facilities such as USSD codes and to the mobile network.

In Uganda, MTN, the dominant firm in the sector was fined Ug Shs 2.3 billion (approximately $662 000) in 2015 for alleged anti-competitive conduct.[11] Ezee Money had obtained a contract in which MTN would supply them with digital transmission as well as 30 fixed lines. It then contracted Yo! Uganda Limited, an aggregator, to implement the service which would enable Ezee Money customers to subscribe for 'e-money' services. However, MTN withdrew the contract citing Ezee Money's position as a rival. It went further to pressure Yo! Money to breach its contract with Ezee Money and also restricted its mobile money agents from dealing with Ezee Money. MTN's actions in this regard resulted in a 79% drop in the number of transactions that Ezee Money's agents handled. The court found MTN to have acted anti-competitively. MTN's defense for the allegations was that Ezee Money is not a licensed communications provider.[12]

A similar case has been lodged against Kenya's dominant mobile money operator, Safaricom. In November 2015, Lipisha, an aggregator that enables businesses to conduct bulk payments through mobile money, accused Safaricom of coercing Lipisha to stop services to their biggest customer, BitPesa.[13] A court ruled that the case can go ahead and currently awaits another court appearance. A favourable judgement would mean that bitcoin could also be transferred by means of a mobile network such as Safaricom or Airtel,[14] thus adding a completely new dimension to mobile payment systems. Safaricom argued that it was complying with anti-money laundering regulation. In July 2014, Safaricom used a similar argument when it objected to Equity Bank's launch of 'thin sim card' technology.[15]

The two cases illustrate that while aggregators and enablers perform an important role in stirring innovation and competition, driving subscriber growth and facilitating bill payments, incumbent MNOs face incentives to restrict their growth in the market. Even as regulation continues to develop to govern the industry, there is a need to consider the role of smaller players such as the MVNOs, aggregators and enablers given their contribution to the industry. These intermediaries have

the potential to enhance growth in the industry particularly in countries like Uganda where the evolution and adoption of mobile money offerings has been very slow especially when compared to their East African counterparts. Aggregators and enablers develop and maintain the platforms necessary to process bulk and merchant payments which are growing significantly. They also play an important role in customer acquisition and retention allowing the MNOs to more efficiently use their infrastructure.[16] In countries where there is no competition law or competition authority, such as Uganda, there is a clear role for regulators in preventing the foreclosure of these players in the industry.

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Barriers to entry in grocery retail: FVC and the growing independents

Shingie Chisoro Dube and Reena das Nair

This article draws insights from the study of Fruit and Veg City Ltd (FVC), as a successful entrant into the formal grocery retail market, and further considers the growth of independent retailers.[1] The study is part of a programme of work to understand Barriers to Entry in the South African economy, supported by National Treasury.

The supermarket industry in South Africa remains concentrated, with four large supermarket chains Shoprite, Pick n Pay, SPAR and Woolworths holding the largest shares of the grocery retail market.[2] These supermarket chains have a wide geographical presence in all provinces of the country accumulated over several decades. High levels of concentration in grocery retail potentially limit gains to consumers instead resulting in high prices, poor quality or limited choice.

Fruit and Veg City has achieved tremendous growth since its inception in 1994 with over 100 stores to date. It has grown to be an effective competitor in the retail industry, entering originally as a part-line retailer focused primarily on fruits and vegetables. Independent retailers on the other hand, have successfully entered the retail market through the use of buying groups. Independent retailing represents an alternative model of entry for small players as opposed to the traditional supermarket chain model. The independent retail market is growing and accounts for approximately 30% of the total retail market. Although national retail chains account for the larger share (70%) of the total retail market, some estimates suggest that their share is declining every year.[3]

The growth of Fruit and Veg City and independent retailers provides innovative insights regarding how local supermarkets have devised ways to become and remain competitive and overcome the high barriers to entry in the supermarket industry. These insights provide policy makers with a framework for developing institutional support to facilitate the entry of new players.

Key barriers to entry

Direct procurement is crucial in retail through cost savings derived through avoiding marked-up retail prices. The national chains have the financial strength and buying power to source directly from suppliers and manufacturers affording them significant cost advantages due to economies of scale and scope.

The Fruit and Veg City case study provides useful lessons regarding cost savings through direct procurement strategies. Fruit and Veg City sources its fresh produce directly from municipal markets which aids in cutting costs and allows the firm to charge competitive prices between 20% - 25% lower than major retailers.[4] As Fruit and Veg City gradually expanded its footprint in the market, it could support further investments in distribution centres and logistics networks.

Independent supermarkets have also found alternative ways of procuring products with significant cost savings. They have adopted the use of buying groups to achieve cost savings in procuring their stock. Buying groups negotiate better pricing deals with suppliers and manufacturers and purchase in bulk on behalf of small supermarkets. Although buying groups reduce the barriers faced by local supermarkets in terms of achieving efficiency in their buying, lack of access to distribution centres and procurement logistics reduces their ability to store and distribute products, manage cash flows, and ultimately compete.

A majority of retailers interviewed as part of the study confirmed that the inability to make extensive investment in advertising and promotions used to create loyalty and attract greater footfall is one of the primary challenges for small supermarkets and suppliers. Incumbent supermarkets spend significant resources on advertising. To gain market share, new entrants have to match this expenditure out of a much smaller revenue base. This puts new entrants wishing to compete directly with large supermarkets at a huge cost disadvantage. Access to finance for the investments required at the start-up is an additional challenge.

Advertising costs place a significant burden on small local supermarkets with single outlets. However, small supermarkets have found ways of overcoming advertising barriers through the use of buying groups. Buying groups assist small supermarkets with advertising and promotions through the use of knock and drop advertising, direct marketing and credit support. For example, Unitrade Management Services organises and promotes store competitions for retailers which increases footfall and sales.

Lack of business management skills and retail capabilities in a highly competitive retail environment increases the rate of exit among small local supermarkets. Management skills and experience are crucial for successful retailing. Buying groups continue to play a crucial role in skills training and development of local supermarkets by providing training to small retailers at little or no cost.

Similarly, retail experience and management skills are critical aspects of successful models. Fruit and Veg City's retail experience means that it developed a greater understanding of the retail industry and could easily identify opportunities for entry and growth. For example, FVC was able to identify a gap in the market for fresh fruits and vegetables, quickly differentiating itself from other supermarkets by focusing on an area where the major supermarkets traditionally did not have

a strong focus. The firm successfully adopted a flexible business model which allowed it to diversify into other formats and markets. This flexibility appears to have allowed it to seize new opportunities and to adapt its format quickly from its initial niche advantage in fresh fruit and vegetables as demonstrated through its full-line Food Lovers Market offering.

A lack of access to prime retail locations in shopping malls and retail centres is a major barrier to entry for small local supermarkets. Location is obviously a critical issue in supermarkets' attractiveness to consumers. Customers consider location when choosing a store and location provides the firm with strategic advantages.

Property developers interviewed as part of the study confirmed that the practice of long term exclusive lease agreements entered into by incumbent supermarkets and property developers in shopping malls heightened barriers to entry for small local supermarkets. This practice denies new entrants and specialist retailers such as butcheries and bakeries access to retail space in prime locations with greater footfall. Fruit and Veg City in 2009, lodged a complaint with the Competition Commission of South Africa regarding the conduct which prevented it from locating in certain retail centres. This problem is acute in smaller shopping centres located in rural areas.

Recommendations

The entry of Fruit and Veg City and the growth of independent retailers demonstrates the competitive value of a diversity of retail business models for consumers and for suppliers and emphasises the importance of keeping the retail space open to entrants. Entry and rivalry between retail groups not only benefits consumers across all income groups through improved pricing, quality and choice but ensures economic participation of local farmers, producers and manufacturers or suppliers in supermarket supply chains.[5] This is especially relevant in South Africa where there are significant challenges to economic participation of local entrepreneurs, black ownership and control of productive assets in the economy. Barriers to entry undermine and in some cases deter economic participation of small- to medium-sized local firms.

Policy makers have a central role to play in developing institutional structures that will help create a conducive environment to facilitate the entry and growth of new players into the supermarket industry. It is necessary for there to be complementary measures addressing obstacles at different levels. For example, urban planning policies at the municipal level can make a big difference to issues of space through ensuring open and flexible retail space allowing for a mix of formats. This can be pursued alongside addressing exclusive leases in partnership with competition authorities.

Given the lack of access to finance among new entrants, there is a potential role for government in providing financial assistance to set up the necessary infrastructure in terms of distribution centres and logistics networks. The government has made significant progress in making available funds for small- and medium-sized enterprises such as the Black Business Supplier Development Programme (BBSDP) and the Sector Specific Assistance Scheme (SSAS). However, accessing these funds is associated with administrative inefficiencies making it almost impossible for local entrepreneurs to benefit from them. Application processes with complicated and extensive paperwork force small businesses to use consultants at their own expense. Direct one-stop call centres with qualified personnel could provide assistance in this regard.[6]

In addition to financial assistance, skills training and development through fostering long-term, public-private partnerships between key suppliers, wholesalers, buying groups and independent retailers would ensure successful transfer of knowledge and skills (in advertising, marketing, cash flow management, inventory and waste management etc.). There is also an opportunity to provide training subsidies to firms, for instance buying groups, to assist small suppliers and independent retailers with skills training and development.

It is important to level the playing field for smaller firms and new entrants by encouraging suppliers to offer fair prices and terms of supply (comparable to what is offered to large supermarkets, based on fair commercial considerations). This could be done through obligatory codes of conduct between producers, wholesalers and retailers enforced by government ministries or competition authorities. For example in Australia retailers and wholesalers sign a written notice to the competition authority which binds them to write down their supply agreements, act in good faith and prohibit retailers from threatening suppliers with termination of contracts without reasonable grounds. The code sets guidelines with regard to how retailers and suppliers ought to conduct business and stipulates that this information should be made available to all suppliers at all times.[7]

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Reflection on the Future Life and Pioneer Food Group merger

Lauralyn Kaziboni

In April 2015, Pioneer Food Group (Pioneer), the leading breakfast cereal producer in South Africa, with popular brands such as ProNutro, Weet-Bix and Bokomo Limited[1] announced that it was planning to enter into a joint venture (JV) with Future Life Health Products (Future Life), a scientifically formulated nutrient-dense functional food products company.[2] The merging parties cited improved product efficiency and learnings as crucial benefits of this arrangement.[3] The JV was contested by Kellogg's, the second largest breakfast cereal producer, as it would likely result in the removal of an effective competitor.[4] The Competition Commission of South Africa (the Commission) recommended that the merger be approved without conditions. However, the Competition Tribunal of South Africa (the Tribunal) approved the merger with conditions on 9 November 2015.[5] This article reflects on the key considerations of the competition authorities regarding the merger, including the removal of an effective competitor in Future Life.

Background to the merger

Currently Future Life has JVs with Clover and Pioneer plus two more in Uganda and Angola, and another to follow in United Arab Emirates.[6] The joint venture (50/50) with Clover was intended to launch a ready to drink version of Future Life in 2015, with other variants to follow. In this arrangement, Clover is in charge of production, sales, distribution and merchandising, while Future Life contributes its expertise in cereals and functional food.[7]

The joint venture between Future Life and Pioneer provides an opportunity for both companies to combine their expertise in the food and beverage and functional foods sectors in order to explore profitable categories outside of their traditional markets, and to unlock new product opportunities. The partnership will afford Future Life the opportunity to expand the company's exposure to the corporate-based health and wellness market. Pioneer indicated that the venture would complement their existing product portfolio with the addition of the health brands as both companies would be able to combine their expertise to produce new products that they would not be able to manufacture individually.[8] These agreements may be driven by the desire to overcome certain barriers to entry such as brand loyalty and access to markets, where the larger incumbent firms have well-established distribution and marketing presence in the various countries.[9]

The merger was contested by Kellogg's which viewed the transaction as the removal of an effective competitor following the Commission's recommendation to approve the merger without conditions. According to Kellogg's, ProNutro and Future Life are in the same market and this merger would lessen the competition in the market by reducing their incentives to compete. On this basis, it assumed that the merger would lead to a combined market share of 50% for Pioneer and Future Life in the ready to eat (RTE) market. However, the Commission concluded that ProNutro and Future Life operated in different markets and, therefore, did not compete with each other.[10]

The merger was subsequently approved by the Tribunal subject to certain comprehensive conditions. Behavioural conditions were enforced on the merging parties to ensure that ProNutro's development continues for the next three years and to safeguard competition. The conditions that were applied specifically to deter information sharing and coordination can be summarised as follows:

1. The founder shareholder of Future Life will exercise final and determinative power regarding strategic marketing and/or pricing policies for Future Life and its products.
2. None of Pioneer's representatives appointed to Future Life's board will directly partake in any of the day-to-day management and/or oversight of Pioneer's operations or be a member of Pioneer's executive management team.
3. Pioneer shall be administered as an independent unit, in accordance with its business trading policies and practices as at the implementation with certain exceptions.
4. The merging parties shall establish 'ethical' and/or 'invisible' and/or 'Chinese walls' so as to restrict the flow of sensitive information between the parties.
5. Future Life's members (at the cost of Future Life) shall undertake regular training and/or awareness sessions from and with legal and/or other professionals, in relation to the Competition Act, its impact on Pioneer.[11]

Conditions of this nature are often necessary in mergers involving competitors or firms in adjacent market where there is likely to be cross-directorship or partial ownership between the firms. O'Brien and Salop consider that partial ownership mergers, are not likely to restrict competition as there is typically limited control by acquiring firms or partners over the management and day-to-day activities of the other firm.[12] In instances where the JV partners share control, there is likely to be collusive behaviour and information sharing which may hinder competition. Total control by a particular company is usually advisable in JVs whereby the likelihood of a conflict of interest is reduced and one partner is then in charge of decision making in the best interest of the JV. In the case of horizontal JVs where the two companies have competing products, such as in this case, conflicts of interest may be a concern given that the firms may have less of an incentive to compete aggressively.[13] In a full merger, merging firms that are close competitors are able to internalise losses suffered from market strategies (prices increases) which drive cus-

tomers to consume the products of the other merging party.

The breakfast cereal market

In 2014, the breakfast cereals market, was valued at R4.3 billion per year.[14] The table below illustrates market shares in the breakfast cereals market. Pioneer is the leading company followed by Kellogg's, Tiger Brands and Nestlé, respectively.

Table 1: Breakfast cereals market shares[15]

Company	Market share
Pioneer Foods	32%
Kellogg's Co of South Africa	26%
Tiger Brands	18%
Nestlé	10%
Other companies	14%

The smaller cereal companies in this market include Pouyoukas Foods, Alpen Food Company, Simply Cereal and Future Life. Future Life is growing rapidly and, according to Kellogg's, is an effective competitor in the breakfast cereals industry. In this industry, consumers have limited disposable income and are less inclined to spend on cereal. However, there is a desire for alternatives among health-conscious consumers typically in higher Living Standards Measure (LSM) categories which Nestlé, Tiger Brands and Future Life are increasingly targeting.[16]

In a previous Tribunal case between Pioneer Foods and SAD (2002), Pioneer was found to operate in the ready-to-eat (RTE) cereal market through ProNutro.[17] Similar to ProNutro, Future Life is a cereal which is prepared through the addition of water or milk. Numerous internet sites by health trainers and dieticians consider ProNutro and Future Life to be in the same market. This is evident in various articles that compare these cereals where their consumers indicate the pros and cons of each product.[18] Based on customer perceptions, these products may be in the same market although pricing data and other information would have been considered by the authorities to make a determination.

The proposed acquisition of Fruit and Veg City (FVC) by Pick n Pay (PnP) which was prohibited in 2007 raised similar issues regarding the removal of a (potential) effective competitor where products are close or potential substitutes. FVC was a start-up part-line grocery retail firm that grew exponentially and was positioned to be an effective competitor to PnP in the fresh food market. In 2006, FVC had been in existence for 13 years and had 80 stores across South Africa focusing on the supply of fresh fruit and vegetable. PnP was the leading retail supermarket which was rebranding to attract consumers of higher LSM categories.[19]

PnP withdrew the proposal to acquire FVC due to the prohibition recommendation by the Commission. The Commission argued that the merger would limit or prevent competition in the fresh food market. In the future this would reduce the prospects of product diversity and competitive pricing.[20] The effects of the prohibition are evident today where FVC's annual turnover increased by approximately 300% to R5 billion over 10 years.[21] FVC's portfolio has since diversified to include bakeries, butcheries and delis in 114 large stores, allowing the retailer to provide effective competition in the grocery retail market.

As with most mergers, there are likely to be significant efficiencies derived from a partnership between Pioneer and Future Life and the competition authorities would have considered the importance of permitting the partnership in order to preserve these likely gains to the economy. Limited information is available publicly regarding the precise efficiency gains expected to be derived through the merger. It is clear however that the Tribunal has anticipated that the JV was likely to result in commercial links between the firms which would undermine their incentives to compete in the market including through making further investments in the development of each brand. This would amount to the removal of an effective rival in the markets where there overlap in the firms' activities. In some cases, behavioural conditions are sufficient to address concerns relating to information sharing in particular, although it is clear in the theory that total control, outright prohibition or divestitures are typically more reliable 'remedies' in situations where effective rivals or potential competitors seek to merge.

Notes

1. *Who Owns Whom. (2014).* Manufacture of breakfast cereals.
2. See note 1.
3. Botha, A. 'Clover and Future Life 'milking it' together' (17 March 2014). *Moneyweb*.
4. Peters, F. 'Kellogg delays Pioneer's cereal merger' (27 October 2015). *Business Day Live*.
5. Pioneer Foods. 'Pioneer Foods and Future Life Announce Joint Venture to Unlock New Product Opportunities' (23 April 2015).
6. Moorad, Z. 'Future Life to expand into Emirates'. (09 April 2014). *Business Day Live*.
7. Harris, S. 'Clover Industries: bringing more variety' (27 March 2014). *Financial Mail*.
8. See note 6.
9. The Competition Tribunal. (2002). In the large merger between Pioneer Foods (Pty) Ltd and SAD Holdings Limited, Case No: 23/LMA/Apr02.
10. Peters, F. 'Kellogg delays Pioneer's cereal merger' (27 October 2015). *Business Day Live*.
11. Competition Tribunal of South Africa. (2015). In the matter between: Pioneer Foods Proprietary Limited and Future Life Health Products Proprietary Limited. Case No: LM017May2015.
12. O'Brien, D. P. and Salop, S. C. (2000). Competitive effects of partial ownership: Financial interest and corporate control. *Antitrust Law Journal*, p. 559-614.
13. See note 12.
14. See note 1.
15. See note 1.
16. Schmalenensee, R. (1977). Entry Deterrence in the ready-to-eat breakfast cereals industry.
17. See note 9.
18. Based on a collation on the comments gathered from the online sites. Muscle and Strength. 'Future Life vs ProNutro??'. *Muscle and Strength Forum*. (14 August 2011); Anabolics Steroids SA. 'Future Life cereal'. Anabolics Steroids SA Forum. (27 July 2012); P.H. Fat. 'Battle of snacks: ProNutro or Future Life?' (25 April 2013).
19. The Competition Commission of South Africa. (2007). 'Competition Commission recommends that Pick n Pay should be prohibited from acquiring Fruit & Veg City'.
20. Das Nair, R., and Dube, S. C. (2015). Competition, Barriers to Entry and Inclusive Growth: Case Study on Fruit and Veg City. CCRED Working Paper 2015.
21. Shevel, A. 'Fruit & Veg looks healthy' (11 November 2012). *Business Day*

Quarterly competition case update - Mergers and acquisitions			
Country	**Target**	**Acquirer**	**Status**
Botswana	Jwayelani	Choppies Enterprise Ltd	Approved
	50% of the shares in Botswana Insurance Company Ltd (BIC) through the purchase of shares in Teledimo	Botswana Insurance Holdings Ltd	Approved
	KFC franchise restaurants	Callus	Approved
	62 Ellerines and Beares stores in Southern Africa (25 in Botswana)	Lewis Group	Approved
Kenya	10 Ukwala Supermarket stores	Choppies Enterprise Ltd	Ongoing
	Yako Supermarkets	Nakumatt Holdings	Approved
	Transit Freight Forwarding	Frontier Services Group Ltd	Approved
	Suzie Beauty Brands	Flame Tree Group	Approved
	Greenspan Mall	Stanlib Investments	Approved
South Africa	Everlytic	Vox Telecom	Approved
	Al Noor Hospitals Groups	Mediclinic	Approved
	Altech Autopage's subscriber bases	Vodacom, MTN and Cell C	Approved
	Uvundlu Investments	Clarkbiz Trading	Approved
	AngloGold Ashanti (Ghana) Ltd	Randgold Resources (Ghana) Ltd	Approved
	Union Motors Lowveld and Union Motors as South Coast Dealerships	NMI Durban South Motors	Approved
	Olifantskop Feeds	Quantum Foods	Approved
	Galleria	Redefined Properties, Pivotal Fund and Abshelf	Approved
	The Competition Tribunal has ruled that the content deal between MultiChoice and the South African Broadcasting Corporation (SABC) does not constitute a merger		
Swaziland	FeedMaster Ngwane Mills	Greystone Ltd	Approved
Tanzania	25% of Swala Energy	Tata Petrodyne (TPL)	Approved
Zimbabwe	Pure Oil	National Foods	Ongoing
	Breathe Away	National Foods	Ongoing
	Borrowdale and Bulawayo Food Lovers Market	Takura	Ongoing
	Cairns	Takura	Ongoing
	Actis	Food Lovers Market	Ongoing

Note: Based on competition authority websites and publicly available sources.

Quarterly competition case update - Main enforcement cases	
Country	**Case summary**
Egypt	The Egyptian Competition Authority has referred four pharmaceutical companies to the prosecutor general for collusion. They are alleged to have jointly agreed to reduce credit periods and cash discounts to small- and medium-sized pharmacies.
Kenya	The Communications Authority allocated equal shares of 800 MHz frequency necessary for rolling out high speed internet following a complaint from Airtel and Orange that the regulator was favouring Safaricom when allocating spectrum.
South Africa	The Competition Commission has decided not to pursue an abuse of dominance complaint brought against the Airports Company of South Africa (ACSA) by Skywise. The Commission took the view that it was a contractual rather than competition law matter to be pursued in civil courts.
	The Competition Tribunal approved a request to lift merger conditions preventing relocation of a plant imposed by the Competition Commission in the merger between Zimco and anodes producer Atlantis Metals. The conditions restricted the Atlantis plant from being relocated from Brakpan.
	The Supreme Court of Appeal upheld an appeal by Premier Foods against a decision by the North Gauteng High Court which enabled victims of the bread cartel, for which Premier Foods had received leniency for its involvement, to obtain a certificate from the Competition Tribunal allowing them to initiate civil claims against the firm for loss or damage suffered through the cartel. The Commission has lodged an application for leave to appeal the decision.
	Construction firm Murray & Roberts has been fined R64.1m for collusive tendering in addition to the R309m it was to pay for its role in collusive tendering for the construction of stadiums for the 2010 FIFA World Cup.
Uganda	MTN Uganda was fined Shs 2.3bn (approximately $662 000) for anti-competitive conduct towards aggregator Ezee Money. MTN was alleged to have cut off services to Ezee Money, induced a supplier to stop dealing with the aggregator and to have restricted MTN’s agents from dealing with Ezee Money.

Note: Based on competition authority websites and publicly available sources.

SENIOR/RESEARCHER CONTRACT POSITION(S)

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