

'Balanced' win in Wal-Mart deal

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The South African Appeals Court on Friday upheld a decision made by the country's competition authorities to approve US giant Wal-Mart's acquisition of a 51% stake in Massmart (MSM), but imposed two conditions on the deal.



The Competition Tribunal approved the merger in May, subject to four caveats: existing labour contracts must be honoured, the re-employment of 503 retrenched Massmart employees, the establishment of a R100m fund to assist local suppliers and manufacturers, and no job cuts for two years.

However, three government departments and the SA Commercial Catering and Allied Workers' Union (Saccawu) contested the decision in October, shaking investor confidence and tainting the reputation of a country whose economic and political stability has been a draw card for investment. The appeal was heard in October.

While appeal court Judge President Dennis Davis on Friday upheld the tribunal's approval, he accepted that there were legitimate concerns about the effect of the deal on small producers and employment.

Study to be commissioned

He ordered a study be commissioned on how local small- and medium-sized suppliers could participate in Wal-Mart's global value chain and ensure that benefits from the merger flowed into this sector of the economy.

The court also ordered, in line with Saccawu's submissions, that the 503 employees retrenched by Massmart at its Game store in Nelspruit in the run up to the merger, must be reinstated.

After a long and arduous ordeal, Friday's stamp of approval means the transaction, dubbed a test case for SA in the eyes of global investors, has now been independently endorsed by all three arms of the competition authorities.

I-Net Bridge/*BusinessLIVE*'s senior financial reporter Zeenat Moorad interviewed Musa Capital director, Will Jimerson:

Q: Do you think the condition regarding the SMME (small and medium enterprise) study in Friday's ruling by the

Competition Appeals Court allows for further jostling on the part of government and unions in their pursuit to stymie the merger?

A: The study is a step in the right direction. The court's decision after not having enough data to determine whether or not R100m fund was sufficient enough was a prudent perspective. If anyone with a level of acumen looked at this opportunity in its entirety the combined revenue of Wal-Mart and Massmart make the R100m a rounding error of monthly income. So it's not enough, it's a short piece. Hopefully the study will have an impact in appeasing Saccawu and the ministers that were opposing the deal in that the fund is made to be a size that is meaningful. I don't think it opens the door for much more jostling - it will just be more about the size of the fund in its commitment and maybe more of what needs to be done and some clarification on how it is going to be applied. I think the ruling was a win for Wal-Mart. The only thing for Wal-Mart to ask Massmart to do is to re-instate the 503 employees.

Q: What do you think the deal means for Africa?

A: It is positive in a number of areas, the most salient of which - speaking as an investment and private equity professional is that it validates the asset class. It validates what has been the talk of the town for the last 18 months or so that emerging markets is where it is at now, considering the global chaos that is going on in developed market. One of the challenges though is that with all the talk there has been very little follow through - this isn't the first time that Africa has been the dish of the day. However, this merger, where one of the world's largest retailers is making a bed in Africa is a huge validation that the African opportunity is there and it can be executed upon and frankly that the rule of law will prevail. In many ways it was good that the tribunal ruling was tested because now corporates, investors and sovereign funds elsewhere in the world can look at this as a model that can be pulled off because Wal-Mart did it.

Q: Do you think the government might appeal Friday's ruling?

A: I don't think so, it would be like beating a dead horse at this point. I think it has played its course and hopefully the appeals are done, because it is probably not in the best interest of the country.

Q: How legitimate are government's and unions' concerns surrounding local procurement and the manufacturing sector?

A: Very legitimate, Wal-Mart built its business on bulk buying, low prices and beating up the little guy - running the little guy out of town - if you read the Sam Walton story, this is kind of what made him different from other retailers of his time. Low prices to the consumer mean low prices from the suppliers and so it's typically not good news for competitors. People like [Shoprite's] Whitey Basson are starting to scramble a bit now, as are Pick n Pay etc because there's new competition in town. In terms of suppliers those who can cut the grade will survive. Talking to some of the Wal-Mart folk, they think it's not practical to bring some of these products from China or the US so it will be an incentive for local SMMEs to step up their game and compete and be able to provide the services that Wal-Mart needs. It just logistically makes sense that they procure a lot of these things locally.

Q: What do you think government and union opposition to the deal has done in terms of investor perception of SA? Going forward, do you think other multinationals will be wary of investing in SA?

A: No more than they already were. It's no secret that the unions and labour are very strong here [in SA]. Obviously some would say it's a function of the country's history - that was a lot of how the market and locals organised themselves against political protest. So in some ways it [the opposition] was expected and it was tested and obviously it was not a 100% win for Wal-Mart. It was a balanced win I would say, because at the end of the day labour got jobs back, it got jobs protected. Looking at the summary, three out of the four major findings were job related and that's a big deal - but at the end of the day that's something that's par for the course and I don't think it necessarily hurts SA's perception any more than it already was.

Q: Turning our attention to the deal itself, analysts have touted Wal-Mart's entrance into the local retail market as a game changer, do you agree?

A: Absolutely. It went from being talk around the dinner table that they were coming; now they're here. If you're a player and you haven't started formulating your strategy on the reaction to this 800 pound gorilla coming in to the market you might look up in two to three years and not be around anymore.

It's absolutely a game changer on more levels than we can possibly fathom at this point.

Of course they're bringing muscle and might in terms of their balance sheet and access to capital but to be fair, SA is one of the very few EMs and probably the only one in Africa that can compete from a capital markets perspective.

Looking at Pick n Pay and Shoprite, there is demand in the market and supply of capital to support these platforms. Where the competitive edge may come from Wal-Mart is that they are drawing on a human capital pool from across the globe.

That's just not Americans but Brazilians, Chinese and Indians - they've been to all these places and this is going to be a test for local human capital.

If we have a disadvantage in any particular way across the competitive scheme it's our human capital - there's not enough of it that is trained to compete on a global basis.

My bet still goes with SA though - I think the local retailers are reacting - they know and understand the local market and I think there will be one or two players that will emerge from all of this and be able to take them [Wal-Mart] on. Wal-Mart doesn't control 100% of the market share in countries where it does business now; there are guys who are competing against them and once [South African retailers] learn how to compete against them here, they will be better suited to go to other markets and do the same.

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