

**In the large merger between:**

**Bid Industrial Holdings (Pty) Ltd**

**and**

**Magnum Security (Pty) Ltd**

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**Reasons for Decision**

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**APPROVAL**

On 29 January 2002 the Competition Tribunal issued a Merger Clearance Certificate approving the merger between Bid Industrial Holdings (Pty) Ltd and Magnum Security (Pty) Ltd in terms of section 16(2)(a). The reasons for the approval of the merger appear below.

**The merger transaction**

Bid Industrial Holdings (Pty) Ltd ("Bid Industrial"), a wholly owned subsidiary of the Bidvest Group Limited, is acquiring as a going concern, the guarding security business of Magnum Security ("Magnum"), via Shield Security, a Bidvest subsidiary.

**Rationale for the Transaction**

It seems the security guarding industry is very fragmented and the merger will allow the companies better opportunity to compete and give them "critical mass". It would also facilitate economies of scale with respect to operations in the smaller geographical areas such as Richards Bay and East London.<sup>1</sup>

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<sup>1</sup> Record, p 281

## The relevant product market

The acquiring firm is engaged in a number of activities, including freight management (Bidfreight); catering, hospitality & foodservice (Caterplus); outsourcing of cleaning & laundry services (Bidserv); combined foods; travel-related financial services (Rennies Financial Services); corporate services, fastenings and packaging (Bidpac) and commercial office products (Bidoffice).

Bidserv entered the security industry in 1998 through the acquisition of Shield Security. The target firm, Magnum, is involved solely in the business of guarding.

The provision of guarding services occupies the largest percentage of the security industry in general. The security industry can be divided into the following services none of which are substitutable and can therefore constitute separate relevant product markets-

1. design, installation and maintenance of electronic security products;
2. monitoring and response;
3. handling of cash and high-value goods, prisoner services;
4. consulting and investigation; and
5. guarding services<sup>2</sup>.

The Commission confined its analysis to the **market for the provision of guarding services** because it is only this activity in which the target firm, Magnum, is involved, hence the only product overlap.

Guarding involves the safeguarding of fixed assets and property; patrolling privately owned and public spaces and policing strike actions.

## Geographical Market

The parties provided the Commission with market shares based on geographical markets that coincided with provincial boundaries. On this approach the geographic overlap is Western Cape, Eastern Cape, Gauteng and KwaZulu Natal. Nevertheless the Commission defined the geographic market as 'local', by which we understand them to mean an area smaller than a province. This is because according to the Commission customers typically employ guarding services in closest proximity to their premises. From information submitted by the parties at the hearing to the effect that most security contracts require a local infrastructure, the Tribunal endorses the view that the market is in all likelihood, local. However, no market shares as to local area had been submitted by the time of the hearing.

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<sup>2</sup> That the security industry comprises these different categories is evident from a market report conducted by Credit Suisse First Boston, wherein it estimates that the guarding business accounts for approximately 55% of the industry.

We were nevertheless provided with the provincial post-merger market shares, which are as follows<sup>3</sup>:

Gauteng	7%
KZN	5.5%
E. Cape	1.5%
W. Cape	3%

Upon the request of the Tribunal panel, the parties furnished additional data delineating figures per local area, based on the total number of employees employed by each respective firm in the relevant area. These employee figures comprise only security guards employed in the guarding sector, since these are the individuals required to register with the security Officers' Board, by law. The parties argued that these employee numbers give an accurate indication of market shares, and are an accepted industry proxy for determining a firm's market position.

The employee figures revealed that the combined entity's market share in any one locality would range from between 1.4% and 25% (the higher percentages arising in areas where one or other firm was not previously engaged, therefore this transaction will not change the competitive position in those areas at all). The parties pointed out that the percentages were illustrative of the top 5 to 10 companies only in each particular local area.

In areas in which there is a consolidation of operations of the two firms, the combined employee numbers post-merger, as well as ranking by firm size, is set out below<sup>4</sup>:

***Richards Bay***

<b>Magnum</b>	<b>Shield</b>	<b>Combined Entity in Local area</b>
45 employees	38 employees	7.1%
Size ranking out of 11 firms		5 <sup>th</sup>

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<sup>3</sup> This information was based on data obtained from Credit Suisse research as well as from the Security Officers' Board, a regulating body with whom all security officers are required to register in terms of the Security Officers' Act.

<sup>4</sup> The remaining data supplied related to areas either in which neither firm was active, or areas in which only one party had a presence. Accordingly, the competitive situation in these areas would not change.

### ***Pietermaritzburg***

<b>Magnum</b>	<b>Shield</b>	<b>Combined Entity in Local area</b>
29 employees	11 employees	3.3%
Size ranking out of 11 firms		<b>11<sup>th</sup></b>

### ***East London***

<b>Magnum</b>	<b>Shield</b>	<b>Combined Entity in Local area</b>
208 employees	18 employees	9.6%
Size ranking out of 12 firms		<b>3<sup>rd</sup></b>

Accepting these employee figures as a reliable proxy for market shares, the Tribunal determines that the merging parties will not be dominant in any particular local area.

### **Barriers to entry**

There are approximately 2,776 security firms that employ 145,000 guards competing with the merging firms. The parties estimate that over 1,000 firms have entered the market over the last six months. This significant number of new entrants implies low entry barriers. The industry is very fragmented, the top 12 firms having a combined market share of just 12%. A plethora of international investors are also entering the local market by means of either new acquisitions or by expanding local activities.

### **Countervailing power**

The parties also submitted at the hearing that insofar as the consumer generally tenders for security services, the pricing is dictated by the market and not by the industry. The provider of security guarding services is not able to dictate a particular price, since it is negotiated with the client. The presence of competition from the array of other security guarding firms in each locality will serve to restrain price increases.

### **Public Interest Issues**

There will be no retrenchments since employees from Magnum will be transferred to Shield without any conditions of employment alterations.

## **Conclusion**

The Tribunal endorses the Commission's finding that this transaction will not substantially lessen or prevent competition in the relevant market and accordingly approves the transaction unconditionally.

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**N.M. Manoim**

**6 February 2002**  
**Date**

**Concurring: D. Lewis, C. Qunta**