



# **REWE/PLUS DISCOUNT merger**

**Case S 202/2008**

Lumír Břínek

Office for the Protection of Competition of  
the Czech Republic



# Jurisdiction over the REWE/PLUS merger

- **transaction:** REWE Zentralfinanz AG („REWE“) acquired 100% stake in PLUS – DISCOUNT spol. s r.o. („PLUS“) = acquisition of sole control = a concentration of undertakings both under Art. 3 of the EC Merger Regulation (139/2004) and the Czech Competition Act (143/2001 Coll.)
- **turnovers** of REWE and PLUS above thresholds set out in the EC Merger Regulation and the Czech Competition Act
- the concentration notified to the European Commission 2008), but ...
- ... a suitable candidate for a referral to the Czech Competition Authority under Art. 9 of the EC Merger Regulation (the concentration could affect competition in local markets for retail sale of daily consumer goods in the Czech Republic)
- REWE/PLUS merger referred in full to the Czech Competition Authority (the first time that a case of a merger was referred from the European Commission to the Czech Republic) – 1st phase case



# Parties' activities

## **REWE in the Czech Republic:**

- food and non-food wholesale and retail
- operates a total of 171 discount stores („Penny“) and a total of 181 supermarkets („BILLA“)

## **PLUS in the Czech Republic:**

- food and non-food wholesale and retail
  - operates a total of 146 discount stores („PLUS“)
- 
- ***upstream:*** procurement markets for food and non-food daily consumer goods
  - ***downstream:*** retail of food and non-food daily consumer goods

A close-up photograph of several wooden chess pieces on a board, with a king piece in the foreground and other pieces like a knight and pawns in the background, slightly out of focus.

# Retail markets

## **Product market: Daily consumer goods**

- sold in hypermarkets, supermarkets and discount stores („modern distribution channels“) – relevant product market different from retail sales e.g. at service stations, in neighbourhood stores, kiosks, specialized outlets or cash & carry:
  - a) wider range of products
  - b) larger floorspace
  - c) hypermarkets, supermarkets and discount stores perceive each other as rivals (small retailers not viewed as rivals)
  
- a basket of daily consumer goods sold in hypermarkets, supermarkets and discount stores:
  - 1/ consumable food products
  - 2/ consumable non-food products (such as toiletries, cleaning products)
  - 3/ non-consumable non-food products (such as domestic electric appliances, clothing, footwear, electric audio-visual equipment)



# Retail markets

- Consumable food products and consumable non-food products are purchased very frequently to meet recurrent household needs ...  
*while*
- ... non-consumable products are purchased at longer or irregular intervals.

## ***Market survey:***

- in the Czech Republic not only hypermarkets but also supermarkets and discounters offer non-consumable products (confirmed by rivals SPAR, KAUF LAND and NORMA)
- despite differences in the product range hypermarkets compete with supermarkets and discount stores with their full product range
- this question left open as the impact of the REWE/PLUS merger was the same regardless of whether non-consumable non-food products are included in the relevant market or not



# Retail markets

## Geographic market:

- until the REWE/PLUS merger, the Czech Competition Authority defined retail market for daily consumer goods as national
- the REWE/PLUS merger: more focus on customer – **local markets** – a territory where stores of a competitor can be easily reached by customers (20 – 30 minutes driving time): Local Administrative Units – „okresy“ in the Czech Republic
- although decisions on the product range, the assortment and advertising taken at a national level, retailers check rivals' prices at a local level and respond to them



# Procurement markets

## **Product market:**

- broken down in 19 product categories (1. meat and sausage; 2. poultry and eggs; 3. bread and pastry; 4. dairy products; 5. fresh fruits and vegetables; 6. beer; 7. wine and liquor; 8. alcohol-free beverages; 9. hot beverages; 10. confectionery; 11. basic food products; 12. preserves; 13. frozen goods; 14. baby food; 15. pet food; 16. body care articles and cosmetics; 17. detergents and cleaning agents; 18. other drugstore products; 19. newspapers, magazines): producers usually produce a single product or a category of products – *limited ability to switch to other products*
- procurement includes supplies by producers not only to retailers, but also to wholesalers, cash & carry, restaurants etc – no need to distinguish as the merger poses no threat to procurement markets.

## **Geographic market:**

- national



## Assessment – retail markets I.

- **National level:**

- combined market share: 20 – 25 % (REWE 15 – 20 % + PLUS 5 – 10 %)
- rivals: Schwarz 25 – 30 %, Ahold 15 – 20 %, Tesco 15 – 20 %, Globus 5 – 10 %, SPAR 0 – 5 %
- stiff competition
- growing demand
- barriers to entry not substantial – in terms of costs, time and administrative requirements

- **Local level:**

- 20 local retail markets where combined market share of REWE/PLUS is above 25 %
- 16 local retail markets where combined market share of REWE/PLUS is between 25 % and 50 %:  
rivals with comparable position in the market, financial and economic power and well-established trademark, entries by other competitors that will take place in near future and are confirmed = competition concerns cleared
- 4 local retail markets where combined market share of REWE/PLUS is close to or above 50 % (a way ahead of other competitors) – other factors could not outweigh the merged entity's strong position: competition concerns that would require an in-depth investigation in the second phase (REWE/PLUS avoided the second phase by submitting sufficient remedies):
  - 1/ Jablonec nad Nisou
  - 2/ Trutnov
  - 3/ Domažlice
  - 4/ Semily



## Assessment – retail markets II.

### 1/ Jablonec nad Nisou

- combined market share 50 – 55 %: REWE 35 – 40 % (1st place) + PLUS 15 – 20 % (3rd place)
- rivals: Schwarz 30 – 35 %, Ahold below 10 %, Tesco, NORMA and Coop each below 5 %
- entry by a new rival to take place within two years (in terms of floorspace this retailer will be comparable to Schwarz)
- remedy: REWE committed to divest PLUS's discount store in Jablonec nad Nisou in order to reduce combined market share of REWE/PLUS to 40 – 45 % (not taking into consideration the entry by a new rival)
- remedy + entry in near future = effective competition maintained

### 2/ Trutnov

- combined market share 50 – 55 %: REWE 30 – 35 % (1st place) + PLUS 15 – 20 % (3rd place)
- rivals: Schwarz 30 – 35 %, Ahold 10 – 15 %
- a new rival will enter this local market while one of the current rivals will open new stores within two years
- remedy: REWE committed to divest its supermarket (BILLA) in Trutnov in order to reduce combined market of REWE/PLUS share to 45 – 50 % (not taking into consideration the entry by a new rival and opening of new stores of a current rival)
- remedy + entry/new stores in near future = effective competition maintained

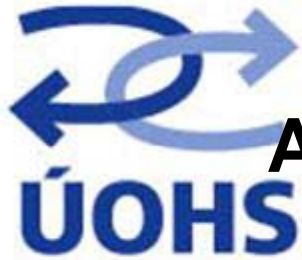
# Assessment – retail markets III.

## 3/ Domažlice

- combined market share 75 – 80 %: REWE 45 – 50 % (1st place) + PLUS 25 – 30 % (2nd place)
- rivals: Ahold and COOP each between 10 % and 15 %
- a limited number of retailers with few stores in this local market
- entry by a new rival to take place within two years (with the potential to become a strong player in this local market)
- remedy: REWE committed to its discount store (Penny) in Holýšov in order to reduce combined market share of REWE/PLUS to 55 – 60 % (not taking into consideration the entry by a new rival)
- remedy + entry in near future = effective competition maintained

## 4/ Semily

- combined market share 55 – 60 %: REWE 25 – 30 % (2nd place) + PLUS 25 – 30 % (1st place)
- rivals: Schwarz 10 – 15 %, Ahold, TESCO, NORMA and COOP 5 – 10 % each
- entry of a new rival to take place within two years (with the potential to become a strong player in this local market)
- remedy: REWE committed to divest its discount store (Penny) in Semily in order to reduce combined market share of REWE/PLUS to 40 – 45 % (not taking into consideration the entry by a new rival)
- remedy + entry in near future = effective competition maintained



## Assessment – procurement markets



- 15 product markets: combined market share of REWE/PLUS below 25 % - no competition concerns
- 4 product markets (pet food: 30 – 35 %; confectionery: 30 – 35 %; beer: 25 – 30 %; wine and liquor: 25 – 30 %): combined market share of REWE/PLUS above 25 %:
  - strong suppliers
  - if competition concerns are removed downstream (retail markets), no competition concerns arise upstream (procurement markets)



**Thank you for attention**