



ÉXITO-SÚPER INTER MERGER

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Introduction

In 2014, Almacenes Éxito (Éxito) and Comercializadora Giraldo y Gómez & CIA S.A. (Super Inter) presented to the Superintendence of Industry and Commerce, Colombian Competition Authority, a request for pre-evaluation of a merger operation projected between these two companies belonging to the retail market. This merger consisted in a purchase and sale of assets.

Considering the importance of a correct definition of the relevant market to determine the effects of a merger, the Economic Affairs Group and the Mergers Group of the Superintendence of Industry and Commerce analyzed each of the isochrones in which the transaction would have effects in terms of economic competition. In each of them, we used the IHH market concentration index -before and after the merger-, a dominance analysis based on the Stenbacka index, an analysis of asymmetry and potential competition, as well as an analysis of the vertical effects.

All the analyzes allowed this Superintendence to approve this merger under, certain conditions in order to preserve effective economic competition in affected markets.

Therefore, the purpose of this presentation is to briefly present the Éxito - Súper Inter merger, emphasizing on the economic analysis carried out, concluding with some aspects derived from this exercise.

Agents





Merger description

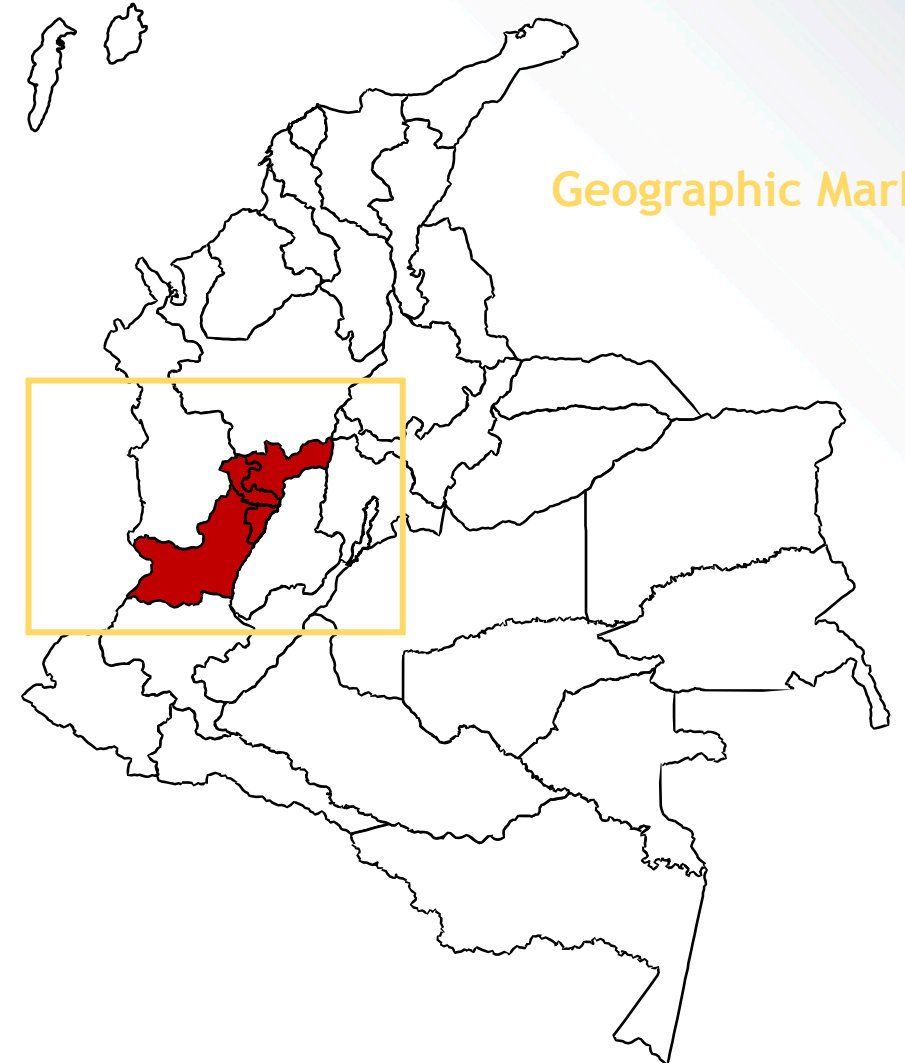
According to the information submitted, the Éxito - Súper Inter merger foresaw:

- A purchase agreement through Éxito acquires the ownership of 19 commercial establishments.
- An operating contract through Súper Inter empowers Éxito to operate 29 Súper Inter commercial establishments and 2 commercial establishments that Super Inter planned to open in 2014, one in Armenia (Quindio, Colombia) and the other in Cali (Valle del Cauca, Colombia).
- A license agreement through Super Inter grants the use of its brands to Éxito.
- A purchase option contract, through which Súper Inter grants Éxito the possibility to acquire, in the future, under certain conditions, the 31 commercial establishments mentioned in section ii. If the purchase option described in this section becomes effective, Éxito will assume ownership and control of the 31 commercial establishments that it has been operating under the operation contract described in section ii.

Market definition



Market product



Geographic Market

Market definition

Considering the product market, the choice of purchase place is highly influenced by the distance between the customer's address and the establishment, which implies that the proximity is a critical decision variable for the consumer in this type of markets.

A pricing policy application at a particular establishment, as well as the opening of new establishments, all companies consider competitors close to that establishment.

Based on isochronous methodology, we conclude that the geographic market isochrones defined around the establishments that will be the object of the projected transaction.

An exhaustive analysis of competition and affectation levels were carried out only for isochrones where there are warehouses that are currently owned or operated by Éxito (23). Likewise, market shares of each participant were presented, taking the value of the consolidated sales of 2013.

The IHH was calculated for each of the isochrones for the current scenario as for the simulated scenario after the merger. Then, to identify isochrones that have a high IHH or a high variation in the IHH, the Superintendencia of Industry and Commerce constructed an index that includes these two effects:

$$index = \sqrt{IHH_{after} \times (IHH_{after} - IHH_{before})}$$

Then, the Stenbacka index was used to determine the dominance level in the different critical isochrones found.

Finally, to evaluate the asymmetry level in the isochrones that remain critical after having made the corresponding analysis of concentration and dominance, this Superintendencia used the Kwoka index.

Vertical effects

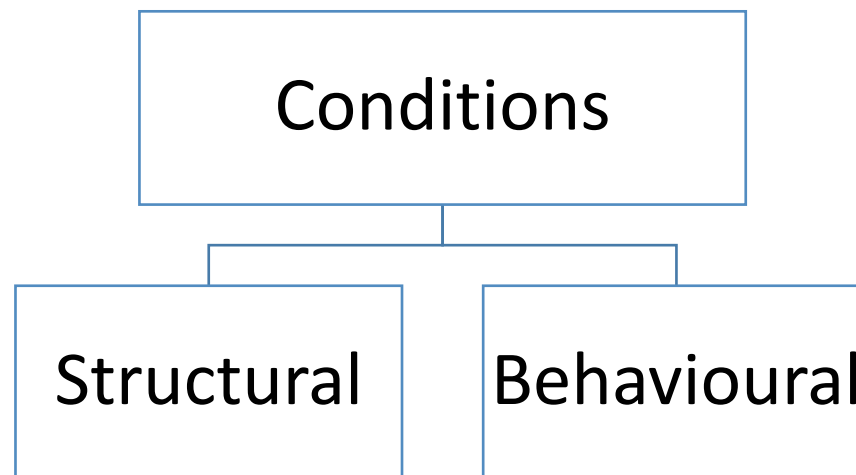
Supermarkets and hypermarkets act as customers of the companies that supply the products they offer to the final consumer.

Éxito would enter to have a greater capacity to supply products. In addition, an important customer (Súper Inter) would be eliminated for the suppliers of the market. The main effect would be the increase in operating costs, given changes in commercial conditions they have with Súper Inter, which would result in higher prices for consumers.

Thus, this Superintendency finds that the proposed merger would presumably have harmful effects on the normal development of suppliers' economic activities, thus generating a possible undue restriction of economic competition.

Conclusions

- For the 50 isochrones defined in the present analysis, 23 of them have a matching presence of establishments.
- Six turn out to be critical due to their high degree of affectation, given the absence of a competitor strong enough to counteract any attempt of the merger entity and considering the high increases in the degree of asymmetry of the market competitors.
- Therefore, in the six isochrones, preventive measures had to be taken. Thus, the projected merger was approved under the conditions that allow to preserve effective competition in the affected markets.





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