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Walmart turns up the heat

Walmart International's R16.5bn takeover of local wholesale group Massmart Holdings has prompted a raft of criticism from labour unions and Government, which say it will hurt local jobs and manufacturers, but the US retail giant is fighting back, arguing that the purchase will lower prices without hurting local suppliers.

The American company claims the first two sales promotions it instituted at Massmart, which ran for 10 weeks each in January and October 2011, have already saved local consumers over R100m. Now, at least one local manufacturer also seems to be on the cusp of benefiting from the Walmart-Massmart tie-up.

Cape Town-based Econo-Heat Energy Efficient Appliances (Pty) Ltd, which manufactures wall-mounted panel heaters, is in talks with Walmart about supplying its stores in Canada and the US. Already a successful exporter to 38 countries, Econo-Heat has submitted the necessary paperwork to Walmart Canada about supplying its products to stores in that country and is also in talks about stocking a further 400 stores in the US.

"We've had a very firm indication from Walmart Canada – they seem to be the first in the group to say they'll list our products for sale," says Pieter Bräsler, the 63-year-old owner of Econo-Heat, who is a qualified chartered accountant and a for-

mer divisional manager at Old Mutual. "We have been included in their planogram for the 2012/13 northern hemisphere winter."

Econo-Heat was started in 1990 by father and son, Rod and Russell Davis, and was acquired by Bräsler in 2004 after he sold his electronics business. Since acquiring the company, Bräsler has helped boost the company's production of its flagship panel heater from around 400 units a day, to between 2 000 and 2 500 units a day currently. The company will shortly be able to boost its maximum production capacity to as many as 5 000 units a day following a R60m investment in new facilities and equipment.

"Without investing in new buildings and machinery, we wouldn't have been able to cope with Walmart-size orders," says Bräsler. "We're now ready to produce the sort of volumes that Walmart can give us."

Bräsler says that talks with Walmart began last year thanks to the efforts of Jon Martinek, who is leading the integration of Massmart into the US retailer's global footprint. As a long-time Massmart supplier, Econo-Heat's 400-watt panel heater, which Bräsler says can heat a 12 sq m-room using the equivalent power of just four light bulbs, could become one of the first South African manufacturers to benefit from the buyout.

Walmart is also believed to be in talks with an SA stepladder manufacturer about listing its products, although the company in question declined to be interviewed or named by *Finweek*. Should the talks pan out, it would no doubt help Walmart meet the goals of its R100m supplier development fund, one of

the conditions imposed on it by the Competition Tribunal for approving the Massmart takeover.

Still unions will argue that the meagre size of the fund, less than 0.003% of Walmart's \$422bn in annual revenue, means that the US company will give fewer opportunities to local suppliers than it could have, had the competition authorities stipulated a larger fund size.

It has, however, benefited black-owned wine farms, as Massmart has increased the number of their wines it stocks at its liquor outlets.

Walmart also claims to have assisted local beneficiaries of its Thuthukani empowerment scheme to the value of R735m. Nevertheless, that's largely due to a surge in Massmart's share price to around R181 at the time of writing, from R148 at the time of the Walmart takeover.

Shares were originally issued to the Thuthukani Trust at R49.98, resulting in a significant windfall for the beneficiaries.

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Pieter Bräsler

