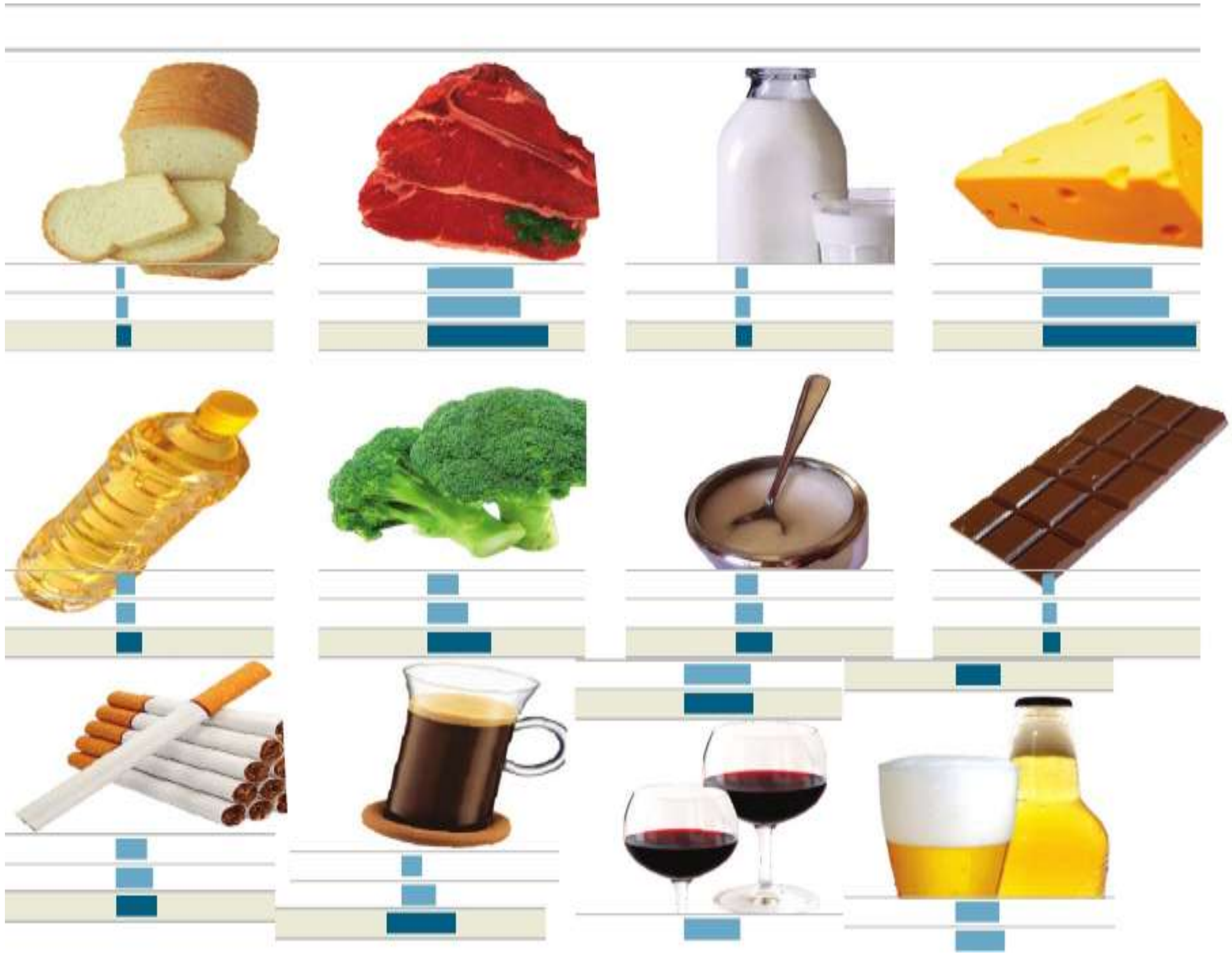

CHANGES IN FOOD RETAIL MANAGMENT

Kevin Korb

AGENDA

- CONTEXT
- FINDING THE BALANCE
- CHALLENGES

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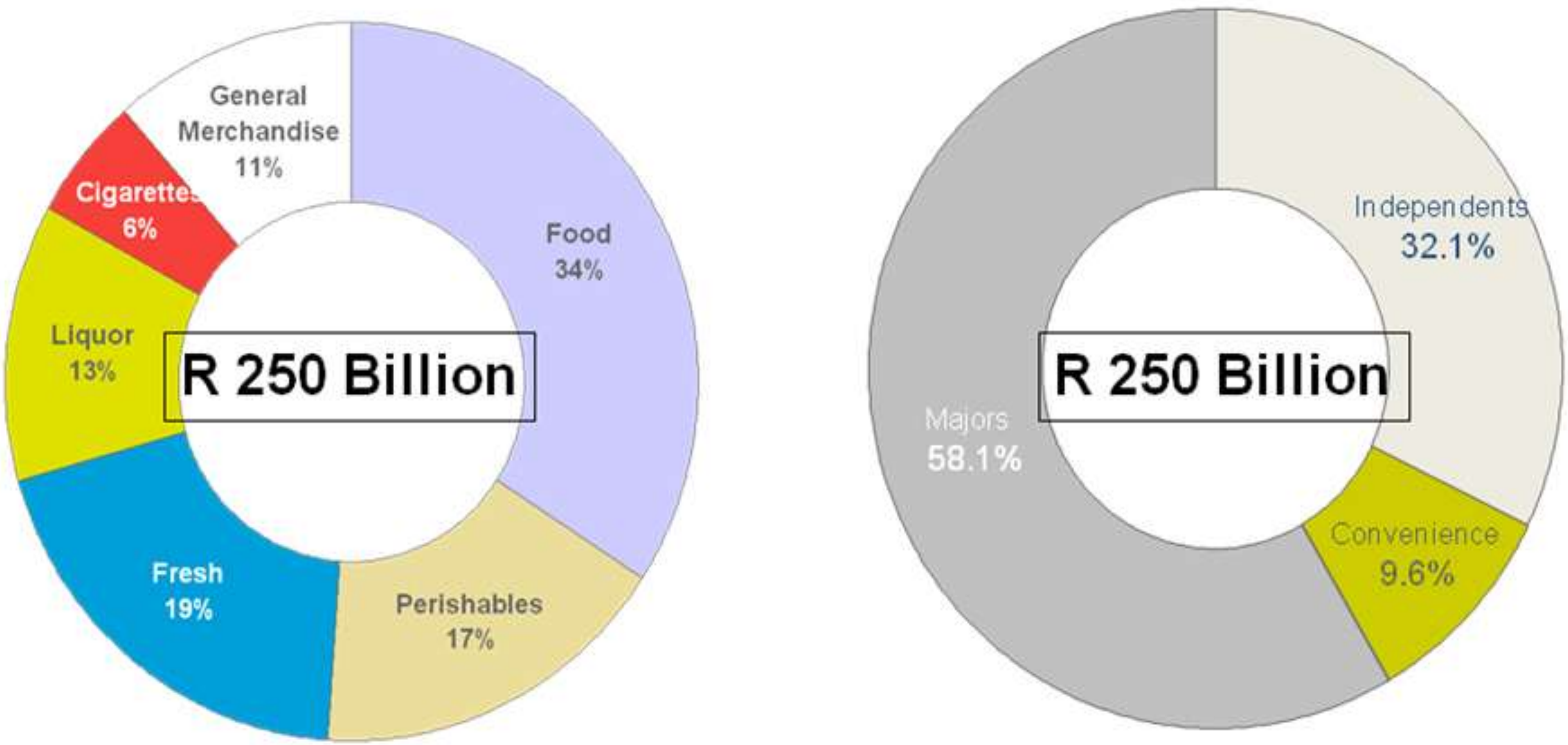
1. SA MARKET MIX

- A mix of sophisticated 1st World elements, and unsophisticated Rural components.

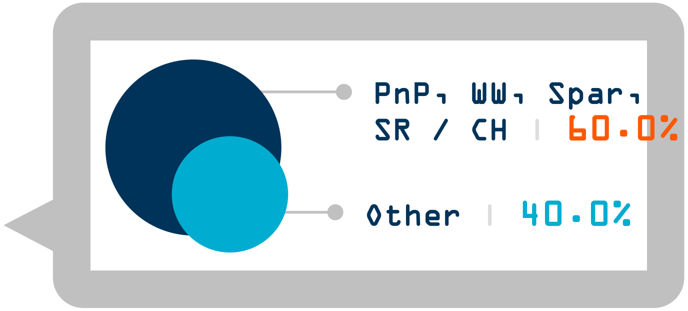
2. SA FOOD MARKET SIZE



Source: Nielson SA *(**Aug '13 estimate @ 338 BN)*

- 250 Rand BN (incl. Ciggs & Tobacco)
- Majors = greatest Mkt share
- Fresh & Perishables > 35%

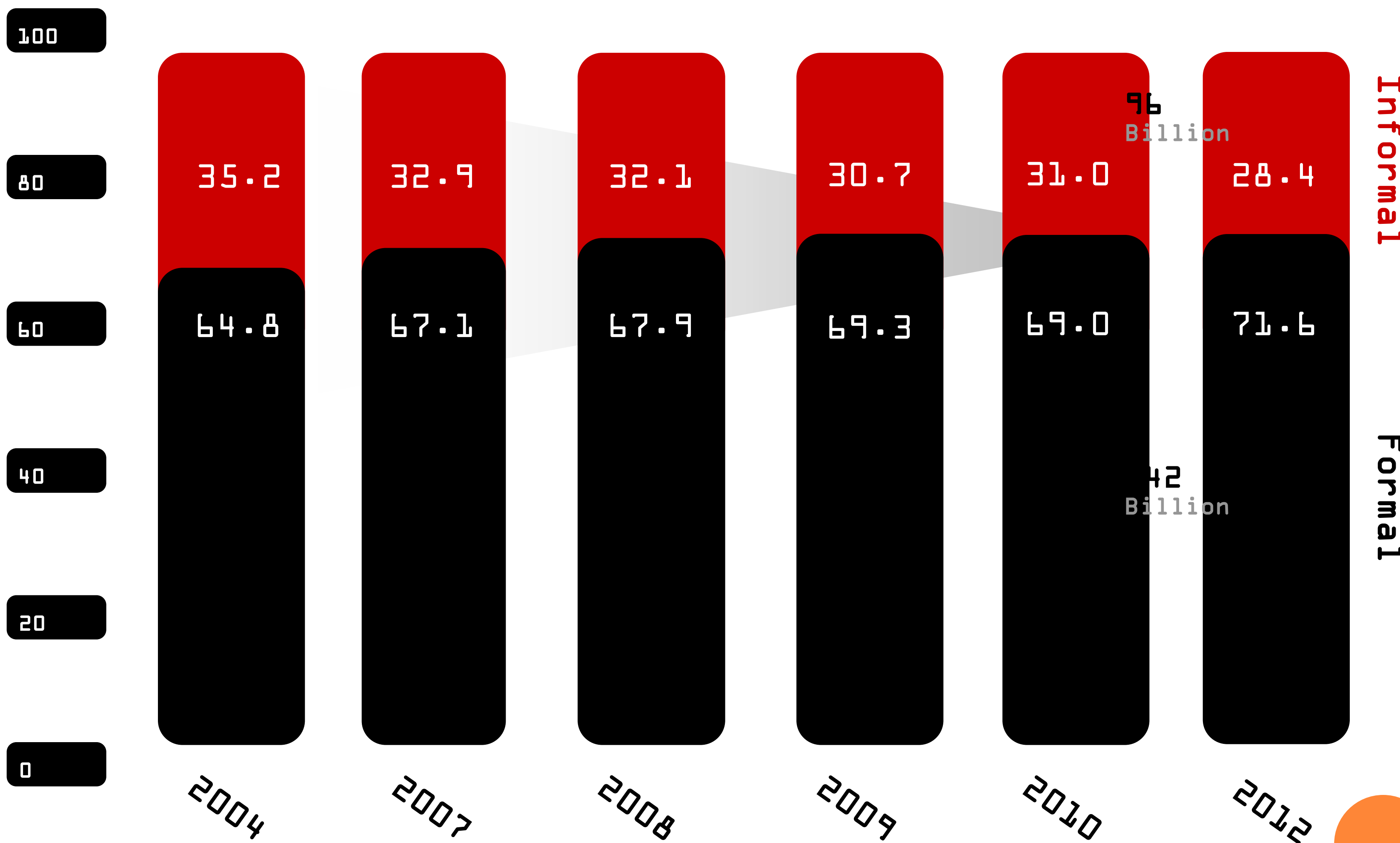
3. MAJORS DOMINATE



- Less than 5% of stores
- But over 60% of the Food Retail Share
- Low margins, competitive pricing
- Movement into peri-urban and rural areas due to new retail space availability & township development
- Sophisticated systems, partial or fully centralised head office operations
- Centralised Buying, with regional buying for Fresh & Regionally based suppliers
- 1st world distribution centres in major CBD areas
- Highly competitive advertising and marketing programs
- Increasing focus on 'higher margin' categories
  - Liquor, Clothing and General Merchandise
- Varying investments into 'social conscience'
  - Food Safety and Regulations compliance
  - Resource protection and Sustainability
  - Investments into the community

SA estimated food market size | R338 BN

Incl. liquor and cigarettes



Source: Nielsen estimation re-extended coverage

SA store numbers change 2012 vs. 2007

	2007	2012	Inc. Dec vs.
Total PnP	355	488	133
Total Shoprite / Checkers Group	525	786	261
Total Spar	757	811	54
Total Woolworths	272	345	73
Total SR / CH | PnP | Spar | WW	1637	2430	793
Urban Independents	36,036	60,257	24,221
Rural Independents	52,737	37,547	-15,190

1. Additional retail footprint of 793 stores
2. Retail migration in peri-urban areas

5. THERE IS FIERCE COMPETITION FOR SHARE OF SHOPPERS 'WALLETS

Store offerings need to fulfil

- different shopper needs and
- different trips

Some facts to consider:

- On average shoppers do about 10 trips a week.
- There is a blurring of channel offerings. Retail, Convenience, Hybrid Retail & Wholesale, Category Killers, Banking & E/Services @ Retailers……
- 1 out of every 2 shoppers will buy more than they planned.
- Only 1/3 of shoppers walk most of the store.
- What they claim to buy and what they buy are 2 different things.
- A large part of shopping behavior is unconscious.

A RETAILER'S CHALLENGE:

"Create offerings that meet shoppers needs on specific shopping occasions".

6. GLOBAL FOOD TRENDS HAVE PROS AND CONS

a. READY SHELF PACKAGING = REDUCTION OF IN STORE LABOUR & STRONGER BRANDING

b. INTRODUCTION OF BULK PACK SIZESS = MEETS ADDITIONAL SHOPPER NEEDS & LOWERS RETAILER MARGINS

c. DIRECT ONTO FLOOR (FRESH PRODUCE)

= LESS 'HANDLING' & BETTER QUALITY; < LABOUR COSTS

d. FOOD RETAIERS OFFERING COMPLETE CATEGORY SOLUTIONS:

E.G. BABY: FOOD, ACCESSORIES, CLOTHING.

= SHOPPER CONVENIENCE, BUT DILUTES FOOD FOCUS

7. IN STORE EXPERIENCE IS KEY

WHAT SHOPPERS DON'T LIKE.

- **Layout**:
  - Changing Store Layout is frustrating: Change inhibits shopping speed..
  - Poor/ illogical store layout (e.g. razor blades)
  - Dislike circular layout that used to exist
  - Layout designed to put pressure on buying sweets (e.g. WW queues past sweets)
  - Frozen sections scattered all over the store
  - Piles of stock merchandised on the floor. e.g. 5l water bottles along the floor in aisles
  - Cigarettes and magazines beyond the till
- Obscured/ tiny / no **aisle indicators.**
- **Fresh produce** that looks dirty, dull, limp.
- **Difficult to find price reference.**
- Promotional /cleaning ladies – that get in the way and cause obstruction.
- **Out of Stocks**. And they do not believe supplier out of stock stickers.
- Preferred **brand/ pack size** not available when shopping for dry goods.

WHAT SHOPPER LIKE.

- **Fresh produce** – clean, fresh, bright, perfect shape/colour, the usual with a touch of something interesting.
- **Butchery** – "clean meat, fresh meat, no visible blood, clean butchery, helpful butcher.
- **Bakery**: with "home industry" standard not mass produced standard.
- **Speciality** and imported goods.
- **Cheese** bar- nice cheese + lunchbox cheese.
- Wine cellar.
- **Dry goods**: cleaning, grooming, eating – extensive range and choice.
- Easy access to shelves…no prom ladies, no cleaners, no merchandisers in their way.
- Logical layout, with visible aisle indicators, that don't change.
- Visible prices/ All items **priced.**
- **Full shelves**, all items in stock.
- Trusted brands readily available, with intrinsic food safety values & integrity

8. ADHERING TO FOOD SAFETY IS VITAL

- Global & local food scares have gone a long way to influencing consumer buying patterns, and
- Has resulted in an increase of new Govt. legislations
  - Consumer Safety Act
  - Packaging Legislations
  - Product naming regulations
  - Packaging ingredients declaration regulations
  - Global WHO code

WOOLWORTHS ESSENTIALS

  - In SA, Pick and Pay & Woolworths are the benchma
  - E.g. Pick and Pay has 80+ technologists , dieticians and food experts.

9. INVESTMENT IN COMMUNITIES IS STILL A CHOICE

e.g. PnP

"Doing good for the community is good business practice".

Balemi Ba Lekoa Farm

Before and after intervention

SOURCE: PNP ANNUAL REPORT F2010

10. INVESTMENT IN PEOPLE CREATES CORPORATE SUSTAINABILITY

- Creating sustainable new employment and investing in people
- Building capability, depth and breadth

Training

Employee Benefits

Community Investment

Tertiary education support

Low Cost Medical Aid

Subsidised Canteens

Safely guarded Pension Fund

11. FINALLY , THE FIGHT ON ‘PRICE’ IS COSTLY

*Especially in Food commodities.
and more recently ‘Category Advertising’:
E.g. Baby, Health & Beauty,
Home ware, Small Appliances.

This added competition puts
additional pressure on Food margins,
as ROI in these non food areas is lower, due to smaller volume off take in these categories.

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HOW DO FOOD RETAILERS CONTINUE TO OFFER FOOD AT:

GREAT PRICES,
GREAT QUALITY, AND WITH
GREAT INNOVTION.
AS WELL, AS ENSURING CORRECT FOOD SAFETY, AND
MEETING ALL SA REGULATIONS.

AT THE SAME TIME, FOOD RETAILERS NEED TO:

CREATE SUSTAINABLE NEW EMPLOYMENT,

LIST AND NURTURE NEW & EMERGING SUPPLIERS,

HANDLE CUSTOMER COMPLAINTS, AND

SATISFY THEIR CORPORTE SUSTAINABILITY STRATEGY.

A 'tough' challenge, that can be quite costly, if not strategically thought through.

1. INVEST IN A FOOD SAFETY PROGRAM

- Investment in a Food Technologist team
  - To conduct annual Food Safety Audits across th supplier base,
  - To conduct 'own product' testing
  - To ensure 'own brand' suppliers comply with Retailer recipes, sustainability rules & packaging specs
- Investment in an In – house 'compliance & audit/risk' team
  - To conduct annual departmental 'risk' profiles
  - To monitor & access the impacts of legislation, both current & pending

2. INVEST IN SUPPLIER COLLABORATION

- Allocate resource to Collaboration projects
  - Buying & Category Planning
  - Supply Chain initiatives
  - Better In Store shopper experience
  - Joint sustainability initiatives
    - Food safety audits, packaging initiatives, resource protection
    - Not doing business with non compliant suppliers, or those who refuse to participate
  - Sourcing projects
    - Local Farmers
    - Joint investment in best practise initiatives
  - Investment in Small & Emerging suppliers
    - Listing in relevant & sustainable categories
    - Assisting with non-stringent business financial terms

3. WORK TO 'REDUCE COSTS'

- Minimise waste in the retailer value chain
  - 'Between 20 and 30% of the words' food is wasted somewhere along the value chain'.

Source: Mckinsey Quarterly ' A Resource Revolution 2013'

- Assist with the reduction of the cost of 'product manufacturing"
  - Wal-Mart stores has implemented a sourcing strategy that aims to reduce supplier packaging from 2008 levels by 5% by no later than 2013, and estimated saving of $3.4 BN
  - The only commodities that have not gone down in price since early 2009, are natural gas, chicken, prawns, wood and olive oil.

Source: Mckinsey Quarterly ' A Resource Revolution 2013'

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WHAT ARE SOME FOOD RETAIL CHALLENGES?

1. Addressing Food Safety Security whilst satisfying all company stakeholders.
2. Ensuring all existing products on sale already, meet new legislation passed e.g. New Labelling, no 68 of the 2008 Consumer Protection Act.
3. On-going communication of sustainability risks, opportunities & requirements to all suppliers.
4. Innovating on 'Own Brand' with a limited local supply base & keeping manufacture costs down vs. global low cost exporters.
5. Growing small and emerging companies in SA, when national known brands have a 'large & trusted' consumer following.

Growing corporate scorecard compliance with the increasing no of guidance & legislative bodies e.g. JSE RSI Listing, Carbon Disclosure, Waste Volumes Recycled, Energy Use per sq.

WHAT ARE SOME JOINT INDUSTRY CHALLENGES?

1. **Shopper education at shelf on sourcing, product health benefits, nutritional benefits.**
2. **Reducing costs in the overall product lifecycle to shelf to consumption costs.**
3. **Working with government to both ensure on-going & improved 'Food Safety' but without introducing new costs into the value chain.**
4. **Working with Farmers to 'innovate' locally & minimise import of niche & potentially expensive product. E.g. Fresh Produce.**
5. **Working with Farmers & Manufacturers to both introduce mechanisation & best practise methods, whilst minimising impact on local employment. E.g. Farming hydroponics to recycle water supply.**

A 'TOUGH' BUT ACHIEVABLE CHALLENGE……

THANK YOU