

# Suppliers

## MANAGING RELATIONSHIPS WITH THE GROUP'S SUPPLIERS

Strengthening relationships and partnerships with Group suppliers is important to ensure loyal, transparent dealings and reliability of supply. Open communication also allows the Group to identify business opportunities timeously, while reducing costs in the supply chain by identifying potential improvements to profit margins.

Retailers also have a responsibility – to their customers, society and the environment – to source their goods and services from suppliers who are responsible. Reputation risks arise, for example, if suppliers are not compliant with basic human rights and environmental standards. By ensuring that its supply sources are sustainable, the Group can be assured of reliability of supply.

### Policy and approach

The Group maintains a relatively close relationship with its suppliers and has an open door policy with them, through which it aims to learn from such interactions in order to adapt its business models towards growth in the long term. The Group constantly searches for ways to improve supplier processes and relations.

### Management actions during the period under review

Suppliers were engaged regularly at various levels, from production selections and transactions to contract negotiations and enterprise development initiatives. Senior management regularly interacted with suppliers personally to monitor their performance.

## PROMOTING LOCAL PRODUCTS

Economic, social and environmental benefits arise from supporting local suppliers. It also allows the Group to support a diverse group of smaller businesses, which reduces logistical, price and quality risks while also stimulating the local economy.

### Policy and approach

Local sourcing is especially important to the Group to ensure freshness of product. This improves shelf life and keeps stock holding to a minimum. As suppliers include the cost of delivery in the purchase price of products, there is an obvious economic benefit to source products locally.

The Group's policy is to use local suppliers in preference to international suppliers unless it does not underscore its low price policy. The Group operates a combination of national and divisional buying offices, with its divisional procurement systems designed to target local suppliers.

## PREFERENTIAL PROCUREMENT

The Group's substantial purchasing power puts it in a strong position to advance the country's socio-economic transformation agenda by bringing its influence to bear on the supply chain. Preferential procurement also gives the Group the opportunity to explore new supply opportunities while it endeavours to increase the presence of economically disadvantaged suppliers in the supply chain.

### Policy and approach

The Group actively encourages preferential procurement in alignment with its broad-based black economic empowerment (BBBEE) strategy. In particular, it gives preference to black female suppliers. Small, medium and micro enterprise (SMME) suppliers are also assisted to become suppliers of the Group. When choosing suppliers, the Group requires them to provide a copy of their BBBEE certificates, which form part of the Group's supplier selection and decision-making process.

### Management actions during the period under review

The Group's BBBEE strategy committee manages and monitors performance on this issue. All suppliers are required to submit their BBBEE certificates on an annual basis for review and this is considered in the reselection process. To improve the Group's performance in this area, its enterprise development projects are focussed on developing new black suppliers.

### Performance during the period under review

By continuing to work with suppliers to improve their BBBEE status and by simplifying the criteria for black and SMME suppliers to be listed as Group suppliers, the Group is able to increase the number of BBBEE suppliers without compromising on quality and value for money. The Group currently has an estimated 14 000 BBBEE suppliers.

A pilot project was launched in partnership with the Department of Agriculture and the Department of Trade and Industry to include small farmers in the Group's supply chain. The Group is currently updating its procurement database, and early indications show a year-on-year growth in BBBEE spending. Once completed, the Group will also have insight into local spending patterns. These indicators will be reported on in the next review period.

## ENTERPRISE DEVELOPMENT

Code 600 of the Department of Trade and Industry's BEE Scorecard requires that corporations assist in the development of small black-owned businesses in order to stimulate the economic sustainability of these ventures. The Group focuses on those enterprise development initiatives that can nurture and develop its own supply chain, thereby creating a stable and sustainable supplier base over the long term. By focusing on this element of the scorecard, the Group supports and strengthens the economic base of its customers which, in turn, bolsters its reputation, especially in the rural and economically disadvantaged areas where it is best represented.

### Policy and approach

The Group is currently in the process of formulating its enterprise development strategy. The BBBEE Strategy Committee has commissioned research into the Group's supply chain needs, and to assess which government-supported programmes or projects are aligned with these needs and other group goals. This study will be completed in November 2010 and the Group's strategy will then be developed for implementation during the next review period.

### Management actions during the period under review

Enterprise development opportunities are identified by the relevant divisions, directors and specialist consultants. The BBBEE Strategy Committee prioritises opportunities and instructs divisions to initiate and manage such projects operationally. Initiatives are reviewed annually and adapted in line with the requirements of the scorecard codes on enterprise development, preferential procurement and socio-economic development.

### Performance during the period under review

The Group's Greenfields small supplier development project and the Nyama Nyama Emnandi small farmer development project both continue to be successful. While no major new enterprise development projects were launched during the period under review, the Group focused on improving the sustainability of these projects. Both projects experienced growth and are improving.

## GREENFIELDS

Through this project, the Group uses various approaches (such as structuring of deliveries and payments) to support small BBBEE suppliers who are able to deliver high-quality products. In this way, the Group's fruit and vegetable procuring division, Freshmark, supports and assists over 358 small farmers in the countries in which it does business. Courses on food safety, presented through ComMark, are given to emerging farmers in KwaZulu-Natal and Swaziland to assist them in obtaining the GLOBALG.A.P. accreditation.



The Freshmark team, from left to right: Johan van Deventer – *General Manager*; Nigel Copley – *Operations Manager RSA*; David Hallale – *National Retail Manager*; Pieter van Zyl – *General Procurement Manager*

# Governance and Sustainability continued

## SUSTAINABILITY REPORT

Freshmark also plays a major role in a project to assist 89 aspirant farmers who are beneficiaries of land on the Vaal River under the Government's land restitution programme. A mentor system is in operation by Freshmark, and produce harvested on the farm is purchased by the division. This project has empowered emerging BBBEE suppliers to compete with established suppliers on an equal footing.

### NYAMA NYAMA EMNANDI

The Group partners with the Department of Agriculture, with various provincial governments, and with local government structures to assist a group of emerging farmers in South Africa to make a success of their livestock-rearing businesses. For those farmers who have achieved the required product standards, the Group offers a stable market through its Shoprite and Checkers chains. This project has now matured to the point where it is gaining in momentum and a constant stream of top-quality livestock is now flowing through the markets of the Western Cape and Gauteng. The project is currently being extended to the Eastern Cape and the Karoo areas.

In addition to these two projects, the Group's property department endeavours to empower black entrepreneurs by making ownership of shopping centres possible for them – for example, the The Makhaza Centre in Khayelitsha. Further opportunities are also investigated in co-operation with the Department of Human Settlement and the Department of Trade and Industry.



The Meat Market team, from left to right: Dirk Diemont – *General Manager*; Johan Hunter – *Operations Manager*; Zakhele Sibiya – *Personnel Manager*; Hennie Brand – *Financial Manager*