

# Chairman's Report



**CH WIESE**  
**CHAIRMAN**



In a time of great economic hardship for the country and its people Shoprite Holdings nevertheless managed to produce excellent results. I believe there are a number of reasons for this achievement, but none in my view more telling than the fact that the Group was perfectly positioned to benefit from the downturn in the market. Chance played no role in this. It has been clear to us since the early nineties that the expected change in the political dispensation of the country would have a major impact on the lower middle classes whose buying power in time would play a key role in the food retailing industry.

**We consequently refined** the Shoprite concept to accommodate the aspirations of this expanding income group without changing from its positioning at the lower end of the market or losing its focus on staple foods and value for money. Checkers was repackaged to serve the needs of upper-middle-income consumers without abandoning its historical price positioning while the no-frills limited-range Usave format was introduced with its overriding focus on value. In this way, the Group created three clearly defined chains serving precisely targeted markets.

As the effects of the global credit crisis on South Africa increased in severity, so higher-income consumers in particular started buying down in search of better value for their rands while the government further increased social

grants to those in need. The Group was the main beneficiary of both these developments, as the increases in customer transactions and the growth in turnover show. At the end of our reporting period Checkers was the food chain in South Africa recording the highest growth over the past 12 months.

There is as yet no clear indication when the local economy will start to recover. However, even if that were to happen soon, the damage the economic fall-out has caused our manufacturing and mining sectors in particular, as well as to the savings and assets of individuals, is extensive. The depth of the recession will mean it will take a long time to get to where we were before the downswing started – for the job market to recover fully, for property prices to return to the levels of a year or

two ago and for people to rebuild their savings.

We can therefore expect the trend towards thrift amongst consumers to continue for some time to come. And even when the economy starts picking up again, we believe consumers will continue to demand the best value for their rands as they try to live within their means and rid themselves of the debt incurred when credit was so freely available. We believe that in such an environment, while we retain the principles that have brought us success until now, the Group's three supermarket chains should continue to do well.

However, an increasingly worrying factor is the security of food supplies in a South Africa which currently does not produce sufficient food for its growing population. Food production is in fact contracting as farmers leave the land at an alarming rate – since 1994 their numbers have reduced from 53 000 to fewer than 39 000 in 2008 – and many previously productive farms have lost that capacity. Unlike in most other developed and developing countries, there are no government subsidies for the formal agricultural sector which is responsible for virtually all of the country's food production. Red lights should be flashing as South Africa becomes more and more dependent on food imports to feed its population. All the while, competition is increasing for supplies available on international markets as food-producing countries cut down on exports to keep back more to feed their own people.



control of our own distribution and creating the infrastructure to do so. To stop the Group from becoming complacent, we saw the establishment of a special unit whose only task still is to think afresh, to come up with different ideas and then to test their potential in the market. From this flowed the constantly evolving Money Market concept and the limited-range format from which Usave was born. Of course he did not achieve this on his own. All along he had the support of the Board and the strong and resilient team he had assembled. But the leadership came from him.

**On a more personal note:** Mr Basson and I have been friends since our student days at Stellenbosch University. There a bond was formed that made it possible for us to work together in total trust and mutual support of one another. In doing so, a business was created which is a source of pride and inspiration to us all. Over the years he has grown into an icon of the South African food retail industry – an innovative thinker, relentless pursuer of ideals, compassionate colleague, and rare friend.

### Acknowledgment

Under extremely trying conditions we managed, thanks to a broad-based team effort, to successfully counter the challenges of the market and achieve real growth in our business. To this everyone contributed, from the members of the Board to the members of the staff manning the sales floor. Ours is a complex, multi-faceted business. To attain such a level of co-operation over such a wide spectrum is an enormous compliment for the Group's leadership. On behalf of my fellow directors I want to express my deepest appreciation and thanks for all their efforts.

**C H Wiese**  
Chairman

28 August 2009

### Investigation by the Competition Commission

At the end of our reporting period the Competition Commission announced that it had initiated an investigation into the country's major food-retail chains as well as wholesalers for possible contraventions of the Competition Act of 1998. This Act wants to ensure, as one of its objectives, to provide consumers with competitive prices and product choices. I wish to repeat here what was stated in public at the time, namely that Shoprite Holdings, as one of the major participants in the South African retail sector, welcomes such an investigation. As a Board we believe such an enquiry will in the end help the general public to achieve a better understanding of what is involved in enabling consumers to find on supermarket shelves the products they want at fair prices.

Personally I have always believed the South African retail industry, and then the food industry in particular, can compare in its sophistication with the best anywhere in the world, whilst still remaining very competitive.

### The Board

During the year Messrs Jimmy Fouché and André van Zyl retired from the Board. Mr Fouché, an independent non-executive director, was one of our most senior colleagues; Mr Van Zyl was both the company secretary and an executive director. With both I have shared a professional relationship

spanning decades. They were stalwarts of the business, trusted colleagues who over the years made a telling contribution to the deliberations of the Board, and I for one was deeply saddened by their separate decisions to retire. To say thank you hardly does justice to what they contributed so freely and so expertly to our discussions.

### 30 years

This year the Group celebrates its 30th anniversary. For such celebrations to be meaningful it is important to look back and see what we have done right and where we have cultivated that which brought us success. When I do that today and look back to that momentous year of 1979, there is one presence that dominates, that of Mr Whitey Basson who, from the first day to the present, has headed this business as chief executive.

I have been his chairman for 29 of those 30 years and today want to thank him for the privilege of being able to share what was a most exciting journey. What for others might have seemed like a headlong rush was without exception, carefully planned strategies to the extent that is possible in the ever-changing, ever-shifting world of retail.

The milestones we have achieved were mostly of his doing – the decision to move into Africa against some very fierce opposition at the time, the introduction of the one-stop shopping concept with the maximum number of services offered under one roof, taking