

Chief Executive's report



PC Engelbrecht

Our focus on price, affordability and accessibility drives us and helps us to ensure the business operates optimally and maintains its lead as an African retailer poised for the future.

Primed for the future

In a year in which the durability of many companies was tested, our unwavering attention to our six drivers of growth – a customer first culture, growing LSM 8 – 10 share of wallet, developing private label, a stronger franchise offering, leveraging our African advantage and strategic footprint expansion has enabled us to show strength and resilience and has fortified our solid foundation for future growth.

I am pleased to report that we have grown customer volumes and market share. We employ absolute measures to our efforts to put the customer first, and these indicate increased support and acceptance that we provide the products they need at prices they can afford.

Our stand-out success over the past year was growing high-LSM share of wallet, which proved to be an invaluable strategic decision in a deflationary environment. Our Checkers FreshX stores are outperforming the market by about three times.

We have implemented a new staff structure with the appointment of individual Chief Operating Officers dedicated to the Shoprite and Checkers brands in South Africa, as well as in Non-RSA, to ensure we deliver a unique offer to each of our customer segments.

Continued improvement in our private label offering enabled us to bring better value to customers, reflected in private label participation of turnover increasing a further percentage point with a profitable increase of more than R300 million.

Our franchise division's enhanced brand and product offering saw it report strong sales growth with significant improvements in amount of stock through our distribution centre, introduction of more non-foods and keener pricing and an extended number of private label products now available to franchisees.

We are initiating expansion into Kenya, where we will open an initial two supermarkets this financial year as well as Botswana through opportunistic, but well-considered strategies.

Our scalability and growth depends on us expanding beyond Africa, and we have the skills and experience to enter a new country with an acquisition that is significant but small enough to absorb seamlessly.

We have made significant investments in our business and in new opportunities in line with our forward-looking strategy and to ensure we future-proof our business. We took a deliberate decision not to retract or make any short-term decisions in a difficult economic environment to boost profit.

The opening of a net 124 new corporate stores during the year and creation of 3 676 jobs reflects this, and points to the meaningful and intrinsic role we play in the South African economy and in its social fabric.

Our role in society

We are the country's biggest private sector employer with 147 478 employees, having created some 75 000 new jobs over the last 10 years. We paid R11.4 billion in salaries and wages, more than R2.4 billion in income tax and spent R500 million on staff training in the period under review.

We provide a market to almost 20 000 suppliers including 1 000 growers, and we helped suppliers to grow their businesses by once again recording positive volume growth.

We are expediting our transformation goals and can report that since implementing our supplier tracking tool in 2017, we have verified an increase of 31% in expenditure with black-owned suppliers along with a 206% increase in expenditure with black-owned SME suppliers. We are aiming for Level 4 BEE by 2020 and are fast-tracking promising black and woman employees, whilst mindful that we need to go further in our transformation goals.

With our overriding focus on affordability and accessibility for customers, we keep our prices low and at the end of June 2018, 13 241 products were sold at less than last year. We bring stores nearer to our communities to provide affordable product and to save them transport costs.

We help to alleviate hunger through our Mobile Soup Kitchens, we subsidised R190 million of bread and staple products, we sold 2.5 million R5 Deli meals each week and donated R99 million of surplus food over the past year.

We help to set up sustainable food gardens, are active in disaster relief and respond to the needs of our communities, including recruiting staff from around our stores.

We are providing cheap financial services facilities for our customers, many of whom are unbanked, and our mobile banking account, Shoprite Money, has attracted almost 100 000 customers in just two months.

This is one of many new services made possible by our focus on technological innovation.

The biggest technology upgrade ever embarked upon by the Group is being successfully implemented in time and under budget, at all stores and distribution centres and in all countries.

This enables us to predict and react to changes in consumer behaviour and shifts in buying patterns. We can make informed decisions on pricing of every item and we expect continued efficiency gains in the future.

We are moving ahead with omni-channel concepts and other innovations and created a position for innovation and strategy at top level to make sure we remain ahead of the game.

The sustainability of our company depends on the socio-economic welfare of the communities around our stores and we discuss this in depth in our 2018 Sustainability report, which can be found on our corporate website.

Appreciation

My fellow directors, management team and every one of our employees are moving swiftly to prepare for the future whilst meeting short-term challenges, and for that I am most grateful. Without the remarkable energy, dedication, determination, discipline and sheer hard work of our colleagues across all our businesses and 2 425 corporate stores in 15 countries, none of this would have been possible.

I extend my gratitude to them and to our shareholders, suppliers and all other stakeholders for believing in our vision.

Everything that we do is, first and foremost, geared towards improving our service to our customers. I thank them for continuing to trust in us and reconfirm our enduring, relentless efforts of almost 40 years' standing to bring them access to low-cost products across the continent and beyond.

We move forward to next year in the knowledge that we are future-proof, ready to tackle new opportunities and to take advantage of any economic upswing.



PC (Pieter) Engelbrecht
Chief Executive

20 August 2018

The garden at Star Upliftment Centre in Dimbaza, near King William's Town in the Eastern Cape, is one of 43 sustainable food gardens established through the Group's #ActForChange initiative.

