

# Operating context

## Operating environment

### South African outlook

- Improved political outlook and regulatory stability
- Emerging trends pointing to modest revival in GDP growth
- Cooperation between government and business to strengthen domestic institutions and SA investment case
- Young and growing population
- Structurally high unemployment
- Consumers remain under pressure

### Other African regions targeted by Shoprite are often characterised by:

- Large and growing populations
- Increasing urbanisation and affluency
- Economic growth that is consistently higher than the developed world
- Underpenetrated retail markets
- Lack of access to first world shopping experiences
- Challenging economic conditions over the shorter term
- Currency volatility and chronic shortages of foreign currency

## Our market place – long term trends



**A large and growing population on the African continent requiring food and staple products**

Africa's population is set to double to 2.4 billion people by 2051, with a growing middle class forecasted to reach 1.1 billion people by 2061. 25 million people are moving to cities each year. This implies that by 2030 Africa's top 18 cities will have combined spending power of \$1.3 trillion.

As the largest retailer in Africa, the Shoprite Group is well positioned to capitalise on this opportunity.

 For more information refer to "Leverage African Advantage" in the Strategy and performance section on page 27.



**Changing trends in customer preferences and consumption behaviours**

There is a growing trend towards fresh food, healthier choices and pre-prepared but healthy convenience food. This trend is particularly evident in the more affluent communities who have a wider choice of lifestyles.

The Shoprite Group is strongly participating in this trend.

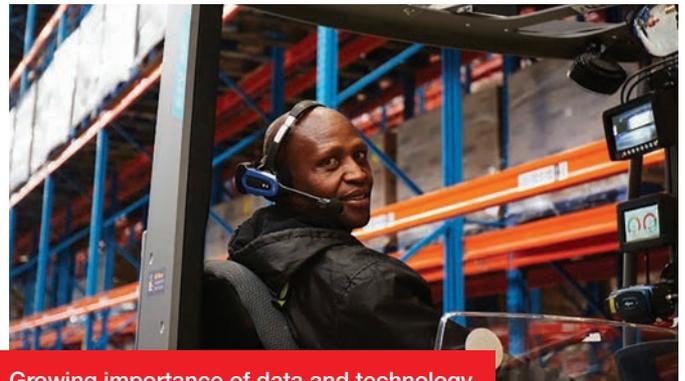
 For more information refer to "Growing LSM 8 –10 share of wallet" in the Strategy and performance section on page 26.



**Food insecurity in parts of the African continent**

Lack of productive facilities raises the prospect of food shortages in parts of Africa. Climate change may exacerbate these challenges by potentially disrupting production patterns, increasing production costs and affecting product availability and price.

While focusing on local sourcing, the Group utilises close to 20 000 suppliers globally to ensure availability of products on a consistent basis.



**Growing importance of data and technology**

Technology and access to big data are key drivers in the changing retail landscape.

The Shoprite Group continues to invest to ensure that its technology platforms drives maximum efficiency and customer convenience.

 For more information refer to "Strategic footprint expansion" in the Strategy and performance section on page 27.



### Increase in regulation and standards

Governments' efforts to keep their citizens safe and healthy is leading to increasing compliance and regulation. This requires strong oversight and is adding significant complexity and cost for small suppliers. At the Shoprite Group, we strongly promote free trade and improved ease of doing business. We provide ongoing support and guidance to small and medium enterprises, as part of our commitment to help overcome the challenges to comply with the required standards.

Food safety remains a key priority for the Group. We responded quickly and effectively to the recent Listeriosis outbreak in South Africa. Our food safety and recall processes are continually tested and refined.

Increased regulation related to nutrition, labelling, product safety and packaging needs to be implemented and adhered to.



### Rise in omni-channel shopping and the adoption of mobile phones as a key retail channel

When and how customers are using technology to improve their shopping experience is changing rapidly. Consumers are directing more of their retail spend online and using their mobile phones as shopping assistants. Although these trends are less prevalent in grocery retailing, consumers continue to drive this change and expect more from leading retailers.

It is the Group's intention to harness this trend as it unfolds across the African markets.



For more information refer to "Strategic footprint expansion" in the Strategy and performance section on page 27.



### Innovation in motion

Pioneering initiatives related to the reverse logistics component of the supply chain provide new opportunities and are fundamental in enhancing the Shoprite Group's sustainability profile. We introduced a backhaul system to reduce the number of supplier trucks on the road and diminish emissions. Our sophisticated fleet of temperature-controlled trucks reduces transport costs for suppliers while ensuring the quality of the product. Uptake of this has grown by 47% during the reporting period and backhaul is now the third biggest "supplier" into our distribution centres. An estimated 594 tons of carbon emissions have been saved from the reverse distribution model. Savings for suppliers include cheaper transport costs through use of the Shoprite Group fleet, as well as time in that queuing at stores for individualised delivery is negated. It also has the added benefit of improving the lead time of products into Group stores.



As part of its efforts for zero waste to landfill, the Group also employs reverse logistics to fetch used packaging from its stores for recycling at the distribution centres and implemented a returnable transit packaging system using plastic crates to reduce suppliers packaging needs. We introduced reusable equipment for moving products, including plastic totes, crates and roll-tainers, which has resulted in a large reduction in wooden pallets. We are currently working an innovative pilot to re-use cardboard packaging, eliminating the need for recycling and resources used in this process.

Innovation and sophisticated technology are both key to the ever-improving supply chain of our Group. We are one of the first retailers to use cryogenic refrigeration to any significant extent, to transport perishable products. This technology, which replaces diesel-fuelled transport refrigeration, is powered by liquid nitrogen and has zero carbon dioxide emissions. It also cuts noise pollution.