

REPUBLIC OF SOUTH AFRICA COMPETITION COMMISSION

Competition Act, 89 of 1998

MEETING WITH MASSMART

OPEN SESSION

DATE: 2017-10-30

VENUE: PRETORIA - CSIR CONVENTION CENTRE

CHAIRPERSON: Ms L Mtanga

COMMISSION MEMBERS

Ms S Grimbeeck : Principal Economist
Mr T Khumalo : Senior Legal Counsel
Prof Halton Cheadle : Apology

ON BEHALF OF MASSMART

Mr C Charter : Cliffe Dekker Hofmeyr, on behalf of Massmart
Mr G Hayward : CEO
Mr B Kaiser : Group Food Executive
Mr Ralebepa : General Counsel
Mr R Blain : Group Real Estate Executive
Mr M Setloane : Executive Assistant CEO
Ms A Holland : In absentia



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COMPETITION COMMISSION AND MASSMART

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PROCEEDINGS ON 21 FEBRUARY 2017

CHAIRPERSON: Good morning ladies and gentlemen. My name is Lulama Mtanga and I will be cheering today's proceedings. Professor Cheadle will not be with us due to circumstances beyond his control and our control he will not be able to join us throughout these proceedings, and we apologise on his behalf and on behalf of the Commission. I will be assisted by the lady and the gentleman next to me and I will ask them to introduce themselves.

10 MS GRIMBEECK: My name is Sunel Grimbeeck, I am a principle economist at the Competition Commission and I am leading the technical team that is working on the retail enquiry.

MR KHUMALO: Good morning my name is Thabo Khumalo I am the senior legal counsel with the retail inquiry.

CHAIRPERSON: In the interest of time we have decided to dispense with all the formalities, we do hope that Massmart has been advised of the rules applicable in relation to conduct of the public hearings, and should there be any issues that arise we may, we will deal with those issues when they arise.

20 We would then like to kick off with Massmart's presentation. Thank you.

MR CHARTER: Thank you Chair, my name is Chris Charter, I am with Attorneys Cliffe Dekker Hofmeyer representing Massmart. With good luck and good management you will not hear from me again. We thank you for your hospitality and for inviting us to come and present and, and be a part of this process.

I would like to introduce Mr Guy Hayward who is the Chief Executive Officer of Massmart, who will introduce the rest of his team here today. Thank you.

30 MR HAYWARD: Thank you Chris. Morning Chair and morning panel members. My name is Guy Hayward I am the Massmart CEO and I would like to introduce my colleagues, to the left of me is Bruce Kaiser who is a group food executive, with many years' experience

in South African Food Retail, both wholesale and retail. To my right is Mr Joe Ralebepa who is our general counsel and behind me to right is Mr Russell Blain who is our, our Group Real Estate Executive and to the left is Moeng Setloane, who is my executive assistant, as CEO of Massmart. And then we have a colleague Anthea Holland, who I think is stuck in traffic for the rest of the day. But hopefully, she gets here.

Thank you so much for the introduction and for dispensing with formalities, hopefully we do know the rules of the road and that the morning goes well. From our side, the only structured part of the
10 morning will be a presentation by Bruce and to some extent myself about the South African food market and this will include some answers to the specific questions that were asked recently by the Commission, and we hope you find it useful.

And thereafter Madam Chair, with your approval we propose to cover the rest of the areas in the Commission's questionnaire on a question and answer basis. If that is agreeable. And I wonder if I could make some opening remarks just before handing over to Bruce.

20 Firstly we welcome the opportunity to discuss and explain the key players and stakeholders and dynamics of the South African Grocery Retail Market and we hope that you will see that this Grocery Market is vibrant and competitive, with the possible exception with lease exclusivities which no doubt we will get into later and that we are seeing encouraging growth in small and micro retailers in the informal market and we will show you some information on that.

And you will see that despite Massmart's overall size in terms of sales and the South African retail market, we are relative mino's
30 in the retail food market ranked fourth or fifth, depending on which category you are looking at, but we certainly are the largest formal participant in the wholesale food market.

There are many key stakeholders in the modern successful business today, including employees, customers, suppliers, shareholders, civic society, government and of course the regulators, and it is difficult to usefully single out the most important of these and it can vary from time to time.

But the key essence of a successful retail business is to consistently and profitably satisfy customer needs. To put it simply, in retail, if customers think a product is either too expensive, poor quality or unreliable or regularly unavailable then it simply will not
10 sell in useful quantities.

So certainly one of our key tests is, is what the customers think about stuff that we do. With those few opening remarks I would like to hand over to Bruce.

MR KAISER: Good morning Madam Chair. Thank you for the opportunity to address the members. My name is Bruce Kaiser, I have been in the industry for 40 years. I have played part in five of the major chains, I have spent a year in manufacturing and time in Africa and international markets. For the last 19 years I have been a member of the Massmart team, where I have held positions in
20 Macro and Masscash.

During the presentation I will attempt to put the role of the Massmart business, in playing in the SAFMCG Market and this needs to put into context and hopefully I will be able to answer the many questions relating to the buying and the merchandiser limits of the questions you put forward.

To put things into context it will be useful to have a look at the size of the market. Typically when reviewing the size of the market we would go to a number of different players, Nielsen's who are particularly good at reading the market in scan data through major
30 chain; IRI who typically work with manufacturers in South Africa in sizing the price; Trade Intelligence who is a trade body who keep an

eye on all the players and then Ask DI which is an ex-factory source where manufacturers in this country provide data on a monthly basis and the markets are then reviewed.

We will start by proposing that we use the Nielsen's market size of R350 billion, we must keep in mind that this markets estimated anywhere between R470 billion and R570 billion, the variance is due largely to the difficulty in measuring the informal retail channel. Nielsen's as I have said estimate the FMCG market at R355 billion but this does exclude liquor, food services and elements of fresh.

10 Using the bottom up approach trade intelligence often quote the market to be worth R486 billion and again this excludes food service and stand-alone alcohol.

For today's purpose we will use the R355 billion Nielsen's read and I propose that working from the top of the slide we see that the markets split into a retail and wholesale sector. The retail sectors suggested to be some 73% of that, these numbers are taken from work that DI Johnson does in Ask DI and typically this excludes some categories, it definitely does not include liquor and may vary from month to month market read to market read.

20 The retail portion is then split into a formal and independent markets of 58.4% and 14.4% and there we see the play of the big chains represented in the formal markets at 58.4%.

The wholesale portion is split into a formal and independent categories, the formal category making up only 9.9% and the independent 17.3%. The formal retail market is split into the five major chains where Massmart play a small part at only 2 ½% working through their chains in both Cambridge and Game.

The independent retail market is split into four segments and typically in these numbers it covers of pharmacy at 3.2%, the
30 independent retail chains at 2%, independent retailers at 8% and Four Courts at 1.2%. The wholesale market at 27.2% is split into

two parts, the formal markets as we have said at 9.9% and independent wholesale markets at 17.3%. The formal wholesale market is further split into two chains, both members of the Massmart Group, Jumbo at 5.6% and Macro at 4.3%.

The informal wholesale markets accounting for 17.3% are split into three segments, independent and wholesale chains the bigger part at 10.2%, independent wholesalers at 3.2% and then distributors at 3.9%.

10 Distributors are typically channels that the vendors have set up themselves, a vendor is a term that we swap out for a, a provider of goods or a supplier. The independent wholesalers typically are big wholesalers, not necessarily with national footprints, they are normally regionalised and then the independent wholesale chains typically have more of a national footprint.

Massmart participates either directly or indirectly in 10 of the 11 routes to market. These are hypers where Macro plays a role, supermarkets where Game plays a role, neighbourhood and convenience markets where Cambridge play a role with the specific focus on fresh, Four Courts where typically they have relationships
20 directly with the franchise owners through the different Cash and Carry bonus.

Hybrids where we have fine examples of this format in both Cambridge and Trident. Redistribution where we have a network of distribution warehouses and typically do a good job through Cash and Carry.

Cash and Carry wholesalers best known under the Jumbo banner, franchise where Shield, our Buying Group have a franchise offer under the Save Rite banner and many banner offers, one of them being Big 11. We also play in the liquor category under Liquor Land
30 and Club 10 and then typically in the DIY categories. Only category not covered is pharmacy.

Onto slide three, just some background. Massmart R91.250 billion worth of turnover in 2016, employs 13 000 staff, typically has a 12.5% share of the FMCG market, but again this depends what you choose to include or exclude. Operates 412 stores, 373 in South Africa and 39 in Sub-Saharan Africa. It is interesting that Massmart serve shoppers across the LSM's 2 – 10. Through its Cambridge business focussing on LSM's 2 – 6, 57 stores, it is Game offering focussing on LSM's 5 – 10 with a 141 stores, a 119 of those in South Africa and 22 in Africa.

10 Macro then has a split personality, it trades with a trader in LSM's serving LSM's 2 – 8 and then typically his own new shoppers in LSM's 6 – 10. They operate through 21 stores. Jumbo serves the 2 – 5 LSM categories with 66 stores, 54 of these in South Africa and 12 in Africa. Shield then typically a buying group serves the end consumer LSM's 2 – 5. Massmart typically is dependent on being able to source goods and being able to interpret a customer need.

For the next couple of slides, we are going to review the sourcing of goods and typically we start with how Massmart plays a role in developing small manufacturers. We have a Supplier Development
20 Program, this has a focus on identifying young entrepreneurs and then typically working with them, not only in giving them listings and supporting the purchase of the product but in assisting them through the many, many issues that might face them in both manufacturing, redistribution and marketing of their goods. We have some fine to, stories to tell.

One of these is the noodle factory where the relationship was established in 2016, turnover was at R225 000 in 2017 we are already at R720 000 and typically you spent many hours with the owners of this business in affording them opportunities, in firstly
30 becoming food save and secondly taking their facilities up to a standard that affords them not only to do business with Massmart

but affords them to open their doors and do business with many of the other major chains.

There were other examples in fighting the big breweries in South Africa. We have partnered with Jack Black Brewing and in 2015 had a turnover R142 000, this year we will be well over a million. There are other examples, one of the finest, I think being Imana Foods, our relationship goes back many years, this business was set up as an NGO and typically they had skills in producing low cost protein and went to business. We, in 2007 did R55 million, in 2000, in 2016
10 we did a R152 million.

Back to the Massmart business and again we highlight the fact that we are wholesalers, 75% of our sales in these categories that we are reviewing in this meeting are done through the wholesale channels and 25% is through retail. Typically, the difference between retailing and wholesaling is that the wholesale offer is done in bulk and the price offer on the shelf is typically something that is renegotiated depending on volume mix and the loyalty that the customer chooses to show to either the brand or the wholesale of choice.

20 Taking a look at the Jumbo customer analysis, we highlight that medium to large size customer businesses are growing. Here in Jumbo we identify our many customers and we work with them differently, depending on exactly where they are in their maturity curves and exactly what their needs might be. This is a market under pressure and we must remember that a very big part of the sales are in commodities which are typically in a core deflation. Maize and sugar prices have reduced by some 20% in the past months.

30 As you can see the medium and large size customer bases are growing ahead of the total business and we compare that again with the total company in which Jumbo plays a part with sister company

Shield and CBW.

Massmart suppliers, what I have proposed I do is list the questions and the question numbers next to the responses that I will give you and hopefully in this way we will be able to give you answers to the many questions in a way in which the themes continue.

Support and Development for the retail entrepreneur as I think we have already illustrated we are dependent on developing young entrepreneurs and it is our life blood. What are they looking for? Typically, it starts with stock availability, very quickly moves into
10 price and then as these businesses grow they require different services from us. The first normally is credit and cash, and managing their cash, it is then typically ordering processes affording them the opportunity of taking orders telephonically or electronically and having the stock ready in order to save them time. It then gets into supply chain and affording them opportunity to take stock to market. Tailor made promotions are then reviewed and work is done to best offer their customers what it is that they are needing.

We then develop point of sale, we typically develop rebates and obviously we develop answers to the many options that are
20 available through value added services, namely airtime, data, electricity, water, ticketing and even rail and road tickets.

The next question that I will try and answer relates to your questions 30 through to 35 and it talks of the supplier listing criteria. I would like to point out that our business is a customer centric business. We are only able to sell what our customers have a demand for and if there is no demand for a product it is very much more difficult for us to create the mark, the demand but in many situations we work with vendors to do just that. The first of the issues in supplier listing criteria would be compliance. Quite obviously the business would
30 need to be compliant with all of the requirements of basic business.

The next is safety, and typically we would work with vendors in

understanding that their processes were compliant but more importantly that all of the processes were compliant. This goes back into sourcing raw material and it also quite obviously results in traceability where for any reason we would need to recall product for the safety of our customer, this would be possible. Quickly then we move into quality if compliance and safety are in place the product quality is, is important and this varies depending on the price point that we are wanting to reach.

10 We then quickly move into price and quite obviously the more affordable the product offering the more likely it is to take the nod of the customer. We then go into service and typically look at efficient ordering processes, efficiencies in supply chain, merchandising in keeping our shelves full it is a requirement that we review this with any vendor prior to listing a product and this affords us to allocate space correctly on shelf and more importantly keep the shelves full. Typically, then we are going to accounting systems and insure that product is being billed correctly and payments are being passed correctly.

20 Still on slide seven I answer supplier classifications, your questions 31, 32 and 33. In Massmart we typically negotiate by category not by vendor so we would typically have a review of a category, we would identify all the vendors who play a part in that category and then we would negotiate terms with those vendors on an annual basis if you were to be a big vendor and then typically depending on the different criteria which I will work through, you might only be reviewed every third year.

30 This is dependent on the size of the account, the dominance of the supplier brand in the category, the complexity of the category, the contract period, the national or regional brand, is it expected to move into Africa or limited to South African markets. Whether it is local or imported, whether the supply chain is under the

management of the supplier or whether it is outsourced. Typically, them, we look at the maturity of the supplier systems, many suppliers have the ability to work with us electronically, this saves time and typically orders and data are maintained in this way.

We then look at agency brands where typically the brands are not owned by the vendor presenting the brand in this country and we also look at local or multinational companies differently. If we propose that this is done through setting up executive steering groups, obviously the skills that you might need are different in each
10 of those different in each of those different categories of cu, of vendor. These vendors are then placed in three groups and typically the bigger of those is the EST group 1.

The next of the questions was the role of the Massmart buyer. This slide attempts to point out again that his role is dependent on the need of the customer. So typically what happens is we understand that a customer is wanting a particular product, we then typically source the product and in this way identify the many vendors that are available to supply and then we select a vendor or supplier using the criteria. We then negotiate the trade terms, dependent on
20 the category, we then select a range from the vendor that is likely to fit the need of the customer requirement. We build the offer into a solution and then typically we are faced with distributing the product at lowest cost and then presenting the product on the shelf. This typically covers off space management, shelf full process and then shelf adjacencies and pricing. So as you can see the buyer typically has to cover off a lot more than just a listing of a product.

I am now on slide nine and I am going to attempt to answer the many questions that you have on trading terms. In reviewing this slide I would propose that we cover off some basic issues first.
30 Trading terms in the main are just another form of discount. They are the norm in the South African FMCG market and they may have

been an advantage to any particular chain when they were first introduced. But typically all our vendors have good technology and are quite able to calculate the nett-nett cost of any product. So typically trading terms are a form of discounting or a reward process for efficient and effective behaviours.

Typically, this reward process identifies waste in the system and then where you are able to identify this and eradicate it, you are able to participate in a share of that that you are typically able to put back into cost of goods and pass on to your customer. It is based
10 on facts, it is developed typically into a forecast process and this is where we will later discuss growth terms and as I have said it is all driven with the idea of the whole chain being more efficient.

I as a buyer have to offer an efficient low cost process and execute on my commitment in order to be the channel of choice. If I believe that I am able to negotiate stronger terms it is likely that my cost price would not be competitive. So this is a fine balancing act and typically it is mathematics, you take all the advantages that you have in building better business process and you typically put that into cost or goods and offer it back to your customer in one or other
20 way.

I have divided up the different categories of rebate into five. I would propose that the first is most probably related to the profitability of the prop, product or category. Yes, sorry I am on slide nine and what I would like to answer are firstly the questions around rebate. Rebate are paid as a back margin, this margin typically gets added to a front margin, that is the difference between the cost and selling of an invoice and you then have your nett margins.

We then have promotional funding and monies are afforded to our business through the vendors in the form of advertising allowances.
30 Advertising allowances allow us to put together programs with them in making certain that the product is relevant, the time of being

advertised to the audience that we are advertising to.

We then have funding of stock, typically we have settlement terms that afford us the opportunity of buying the stock and moving it through our systems, either to a shopper or a trader before paying for the stock. Typically, these funding elements are stretched into new store opening allowances where typically you need to stock the shelves of the store a long time before you are able to open the store and start trading. In this way it is common practice in the industry for vendors to afford you extended terms when opening
10 stores.

The fourth is supply chain and here we have elements of distributions, redistribution, drop shipment and damaged goods. All this is, is the opportunity to identify better ways of moving stock around at lower cost through more efficient programs and then typically make this money available in either reducing the cost of goods or funding the redistribution of goods. This is particularly helpful in a cash and carry operations where you are wanting to land the goods in your customer's business so that they are able to be competitive with major chains.

20 Damaged goods, allowances that are afforded to businesses for stock that is typically damaged as a result of being moved from the pallets or cases onto the shelves. This is something that we are all trying to limit but at the same time it is fairly obvious that with the volumes of stock that we move there will always be some damaged product. There is a great cost to taking this damaged product back through the supply chains and there is a great cost for getting rid of this product at a store level. Typically, you are not able to take damaged merchandise and flush it through the, the systems that we would typically use in store to take away the refuse. You have to
30 make special arrangements to have this merchandise disposed of, either burned or buried and this is at great cost.

We then have presentation of merchandise on shelf and this covers of questions 52 and 46 where typically we talk about category management and space management and then this issue of listing fees. Listing fees typically were charged in our industry for many years in affording a vendor the opportunity of having a product on shelf. This term has changed and now it is more often related to work that has to be done in managing space profiles in order that the new product can be positioned on shelf in the right way. These fees are typically paid when these space management programs are
10 used between ourselves and our vendors in firstly reassessing what is on shelf as you will appreciate we only have so much shelf space so typically a product, new, a new product listing would result in us having to take something out.

I have come across two other elements that I was not able to cover in those five headings. One is your point 53, central office, office allowances. The only reference that might tie to this in our business is an admen fee that is typically paid in a business where we are, as, as in Shield were we are carrying the book for a group of customers and typically it is an admin fee and it is in the main used
20 to guarantee that book. Other than that I have no knowledge of the term central office allowance.

The confidentiality terms referred to in your question 55 quite obviously these terms are negotiated confidentially with our vendors, but there is a lot to churn in industry on both the buyer side as well as on the side of the manufacturer and over the years I think it is fair to say that these are no longer confidential in the sense that they are fair and typically are dependent on the maturity of your business and your ability to manage your business better. And I that way you are able to get recoveries in many of these areas
30 and you are able to reduce the cost of goods.

I am now moving to slide 10. The idea of this slide is to put some

context to how these terms are used, again I refer to the five categories. In the case of rebate, it is quite simply profit margin. No category mark-up or selling price is set without understanding what you back and front margins are and reducing your cost to a nett-nett cost. The promotional spends as I proposed are spent in media, they are spent in space, point of sale and in some cases even sampling where people are put in the store to afford opportunity to customers to taste something new.

10 Store or stock funding these are typically in retail putting to the terms of payment that the financial teams or accountants take care off. In wholesale they are more top, typically put into cost of goods and it is unlikely that you would be competitive if you were not proposing that you were needing to account for your settlement terms. The supply chain monies would go into running DCs and typically the trucks that lead or take the stock from the DCs out into the market and as I have said there are redistribution allowances that are negotiated to afford further distribution into the smaller businesses in reducing cost of goods. This enables the small trader to operate more competitively against the bigger traders.

20 Stock presentation...Loads of money spent by manufactures in building brands and one of these pieces is point of sale that is typically developed this is made available to the smaller stores to highlight opportunity and then typically monies are spent on buying space on shelf or off shelf and this typically is managed through a space management program that we use and it is always likely that the product will be faced up in accordance with its rate of sale.

I am now moving to slide 11. I was asked to comment on any additional deductions that might be made and thinking through these I guess there are some that are worth the mention. Typically,
30 there is an omni-channel route to market that is developing and typically there are new costs that are likely to come about in these

channels and I am quite certain that we would be working without vendors in trying to understand how best we reduce these costs, typically, and then make certain that we are able to pass on the...

CHAIRPERSON: Mr Kaiser, we are being requested to pause for a second, I think there is some technical glitch. Apparently there is a problem with the recording and I have been ask to just take a five minute adjournment to enable them to sort that out for us. Thank you.

HEARING ADJOURNS

HEARING RESUMES

10

MR KAISER: Indeed the market, as I have said, is likely through the new channels in distributing goods through the internet, that there will be many opportunities to work with them, there is an understanding what those costs might be and how we can, first and foremost, reduce them and secondly, how we can take any of those savings and pass them on to our customers.

20

In legislation are a number of issues where the Department of Agriculture, where typically inspectors are able to move into our business and pick put samples of products that are then taken away and tested. This is a costly business and we have worked with both vendors as well as many other of the departments in understanding how best we manage these costs.

Returnable packaging is an area that I guess the industry is facing in making certain firstly that these pieces of equipment, typically crates and pallets are used only for the purpose that they were made. In our industry many of these find their way into the informal settlements as building materials and typically there is a lot of work being done in trying to understand how we could better manage these and again, reduce costs.

30

Sustainability is another issue where we are likely to spend time and money and it is likely to lead to agreements where we best dispose

of damaged goods. In this category you would understand that disposing of batteries or paint or the like, needs to be done very carefully and as I pointed out, there is a cost to this.

Lastly, in additional deductions, I would guess that there will be more and more focus in merchandising, this is typically in supplying units to traders in the form of fridges or in the form of shelving, presentation so that they are able to one, merchandise products safely, at the right temperatures, and as importantly, they would be able to maintain the safety of that stock, should it be highly profitable stock.

10

I am now going to move on to slide 12 and here we are going to answer the questions raised in point 58, volume discounts. Typically in our industry you are able to buy merchandise at many different levels, you are able to buy merchandise at many different levels, you are able to place orders in units, shrinks, cases, pallets, containers, trucks and even in super links.

Typically, it is obvious that the bigger the pack that you buy and the fuller the truck that you order, more likely the lower the cost, so, it is at least about reducing costs and passing it on the form of either the shelf price or in bulk deals, typically in our cash and carry businesses, if you were to buy pallets you would be afforded a discount, customer rebates, many of our customers are on a rebate system, where on reaching thresholds, they are afforded a share of these recoveries and then through Banna Group support where typically we would group a number of different customers and afford them the opportunity of buying more efficiently.

20

I must remind you that the route to market typically starts at the factory gate and there are incentives paid to picking stock up at factory gates with your own vehicles, in our business we have a focus in this area, was we have many trucks taking goods to our many stores and typically on a return trip we are able to load up

30

with stock and in this way reduce costs and our carbon footprint.

Typically you would then also have the opportunity of buying direct from the factory, or from a depot, or from a distributor and in the main it is right to say, that if you are able to pick the stock up at the factory gate, you most probably are going to have a better cost price.

I am now moving to slide 13 where I attempt to build on growth rebates. Typically in a slow moving market, sorry, slow growing market, the only way that you are going to grow share of market is
10 to take it from your opposition and this is the problem that many of our manufacturers in South Africa are faced with, the other way that you are able to reduce costs of goods in a manufacturing environment, is to run your facilities, very efficiently, maximum capacities.

Now typically what is happening in the trade, is that in slow growth markets the vendors incentivise growth rebates where on reaching a threshold, you are then afforded an additional discount. These discounts typically are calculated on last year's sales onto which you would add innovation, any new products they brought to market,
20 you would typically then add inflation and you would end up with a figure that you would likely to meet in the following year, if you maintained your share of market.

If you chose to grow share of market you would most probably have to invest in price and if you were to invest in price you are likely to dig into these growth rebates at one or other time in the trading year. In defining growth rebates, quite regularly we use the Nielsen's data to understand share gaps, by using this data, you are able easily to identify opportunities where you do not have share of market. You would then put a probably together with the
30 manufacturer and typically work hard at making certain that the product was better presented to your customer and that typically

you were able to make these share gains.

The last of the issues in growth rebate would be in category development, many of our vendors are in the business of developing categories, here I used the example of typically the laundry soap bar that then was developed into a better product, being soap power and is now typically being developed into liquid soaps, which they claim are more efficient, and typically, should be cheaper. In moving business into these areas, typically you would have a growth rebates tied to category and you would work hard at getting your
10 share of this development in these categories.

I am now moving to slide 14, and we are reviewing the Walmart trading agreements with suppliers. Typically in South Africa our biggest vendor is Tiger Brands, and as you know, they are not a multinational business and have no relation at all with the Walmart teams in either the Americas or the rest of the world. We, in South Africa, have had relationships with all of our suppliers for many years and we typically build on these relationships in understanding better the needs of our customer and more importantly, the part that we can play in being relevant to them.

20 We have, through the Walmart Trading Agreement, or trading agreement processes, understood how to have better discussions, but this is typically around better processes in your business, reducing costs and waste and then typically being more sustainable. We are typically focussed on obtaining the best quality product locally, produced in a safe and sustainable way, at the lowest possible cost and in this way, we are able to pass on the savings to the shopper and become the channel of choice.

I do not believe that it is relevant to propose that Walmart have afforded us any special opportunity to identify anything that we were
30 not already discussing with local or international vendors in South Africa, but there is always learning in process and the way you

choose to manage these processes and more importantly, how you build these arguments or discussions with your vendor communities. That is the last of my slides and I hope that I have been able to answer some of the questions that you have posed and would be happy to take any questions or if you chose, we can move on to answering other relevant.

CHAIRPERSON: Thank you. Are you picking up both of them that is the question I want to ask? Okay, I apologise for that, I just wanted to understand how this works, now even it is explained to
10 us, my first question to you is, we will all ask questions but my questions are going to be very high level.

I do think your presentation has been very high level and I think my colleagues may want to ask more detailed questions as you may, as per the questions, set of questions that we had sent to you and to the extent that we, the rest of the team, the Inquiry Team has clarification questions, you will be getting some questions from the team which is also sitting on the floor there. From my side, you mentioned that the Massmart business is divided into 75% wholesale and 25% retail, am I correct?

20 MR KAISER: Ja, in this particular instance, we are talking about the foods business, the FMCG business, that is not true if you look at our total business, so typically we have categories of product that are not included in the discussions that we are having today, so limited to the discussions we are having today, that is right.

CHAIRPERSON: Correct. Okay, on the, setting on the wholesale side, which, I know you, in your, in your submission you tried to go through the LSM categories, I may not have picked up everything, but I just wanted to understand, the LSM categories that Massmart operates in and who you consider to be your competitors on the
30 wholesale side.

MR KAISER: Right, typically the LSM is covered in this area of the

business, in the wholesale area of the business, would be twofold, one is, the own use requirements of those traders, which are typically higher LSM's and then the goods that are being purchased for the LSM's for the customers that they serve. I made reference to the LSM's in those categories, I am just turning to my notes.

Jumbo, we are looking at LSM's two to five, typically these are small baskets of, what we would call, KVI commodity products and they would typically cover off merchandise that hawkers and businesses up to neighbourhood or convenience markets would typically want to stock.

10

CHAIRPERSON: Okay, and then on the retail side?

MR KAISER: On the retail side typically we have a fresh business in Cambridge where we also stock groceries and toiletries, FMCG ranges, but the draw card in those businesses is fresh daily requirements, typically meat, fruit and vegetables and bakery.

CHAIRPERSON: In Mr Haywood's introductory remarks, he mentioned that Massmart's view is that there is growth in the small and, I think in formal sector, retail sector and this is based on our figures that you obtained from the Nielsen data, I just want to understand, does Massmart not have, what, let me put this question differently, what empirical evidence does Massmart have from its own sales on this point and are you able to give us any guidance on whether or not, Massmart's point, without relying on the research that has been done... (Intervened)

20

MR KAISER: Right.

CHAIRPERSON: Whether, on whether or not there is growth in these sectors that a small retailer and informal retailers.

MR KAISER: Thank you. I refer to our slide number 6, would you want me to put it onto the screen?

30

CHAIRPERSON: We can refer to our own, it is fine.

MR KAISER: In that slide we take the Jumbo Cash and Carry

customer base and we show you that there is absolute proof that the customers in the medium to large sectors are growing well ahead of both the industry as soon as our own company, so there is absolute proof that our traders in these segments are taking share and we believe it is twofold.

On, it is as a result of the commodities being landed in these businesses at very affordable prices, which makes it unlikely that anybody is going to catch a taxi, go into town and shop anywhere but these local markets, because all you are going to do is go to a lot of pain in carrying the merchandise around, only to come home and find the product at a very affordable price in your neighbourhood.

So typically the focus of these businesses has been to be in stock, it has also been to be at the right price, but a lot of work has been done in making sure that sell by dates and expiry dates are managed better in these businesses, but there is absolute proof that these markets are growing well ahead of market present.

CHAIRPERSON: On that point, we, to what extent does Massmart consider buyer groups such as EST to be competitors in this place?

20 MR KAISER: Right, a trader customer would choose to be a member of a buying group, typically when he makes that decision he has a need and these needs would likely result in him making different choices.

If he is wanting somebody to cover, to carry the book, manage the book for him, pay the accounts to the vendors, then typically you would choose Shield.

If you were looking at sharing in some of the pricing opportunities using price book mechanisms, you might choose one of my opposition, but the buying groups typically are all offering a range of merchandise that is typically local and they are offering it against a criteria of being either, carrying the book for you and financing you,

or not carrying the book and simply making it possible for you to order through a manufacturer and pay the manufacturer directly yourself.

So it would be a choice of the customer, but yes, we do have opposition in those markets.

CHAIRPERSON: And then going back to the growth on your smaller trader segment of the market, which you say has been growth according to your figures, as Massmart's figures, according to Massmart figures, would you say these, what would you attribute
10 this growth to, is it growth that come, that stems from new markets having been developed, I would specifically say in townships, rural and peri-urban areas, because I just want to understand there, to what extent has there been any impact, if at all, on that growth from the formal supermarket chains that have entered that space, in your view.

MR KAISER: Thank you. I would propose that what has happened in that area of the market is that there is a new type of trader entering this space, they typically operate 24 hours a day, they typically are very efficient in moving stock around and they are
20 typically everywhere.

If we go into the high density areas today, we will find that many of the folk who own homes in the high density areas, have chosen to rent out a portion of the home, and or have chosen to rent out the whole home and have moved off into other areas.

In doing that, they have made it possible for these new age traders to come into that space, put up a very, very good offerings and make certain that they are open whenever the customer needs to shop.

In this way they become very attractive to the customer and typically
30 they are very competitive as they are closely placed next to one another and if they were not competitively priced the customer

typically would not support them, but the customer has voted, they are shopping in these high density areas, one, because it is well priced and two, because it is convenient, typically moving out of the high density area, even catching a taxi to go to a mall would cost you money and it is money that you likely, at these times, do not have and you would rather be spending that on basic foods.

So I think it is a sign of the times but I think it has also come about the fact that these new age traders are typically very, very focussed on the needs of their customers, they are led in many instances by
10 valuated services where they are able to buy, data, airtime, electricity from the same businesses and they form a relationship with these owners of these businesses.

Sorry, I make the point that in many instances these businesses are selling different variants, particularly in pack size, so they sell more affordable pack sizes and even go so far to the end of the month, we call it whole week, where typically our end consumer is waiting for a government grant to be paid, they have no food in the home, they have no money in their pockets and typically what they are then able to buy, or source, are small quantities of merchandise to
20 just afford them the opportunity of working through the next couple of days.

CHAIRPERSON: Okay, you have made the point that primarily this growth has been, or you, Massmart attributes this growth to these traders having identified high density areas and also selling their products in different pack sizes for example, to cater for the markets they are in. Has market conducted or seen any impact at all in negative impact amongst those traders that are located around shopping malls, where you find supermarket chains for example.

This question is relevant, just to see the competition there, what
30 kind of, is it competition or is it a matter of where some of these traders are driver out of the market completely, they cannot even

compete from the perspective of Massmart.

MR KAISER: I would propose that a lot depends on how good the trader is, so typically in the high density areas where a mall opens, these malls have very strict trading times and are typically not able to be as relevant when it comes to shopping outside of those hours so thank you the small traders still holds the high ground on trading hours.

Secondly, the small trader has a relationship with the customer in his area and typically he is able to firstly make certain that the right
10 ranges are stocked and then secondly make sure that they are always available.

I would propose that they also have the ability to offer fresh bread and the likes, which typically is a draw card and then more importantly, the shopper whose making a decision to go to a mall, is likely set on going on a shopping expedition and they have very different needs to the person who is going to look for a convenient source of a product that they are needing right now.

So the shopping pattern is quite different when you start talking about people typically going to a mall, it might, in fact, have nothing
20 to do with shopping, it might have something to do with going to have a cup of coffee and meeting somebody and it then becomes more of a meeting place than it does become a reason to go and source merchandise.

So I would propose that many of the small traders are operating very efficiently around these malls where typically people go, if you were selling fresh produce, you would most probably propose that the malls would be to your benefit because they bring people to a centre.

If you were a reseller of groceries, I think you would propose that
30 your shopper was never going to do their full grocery basket shop with you, you were always going to be the fill in or the convenient

shopper and typically you still are.

CHAIRPERSON: Okay, on your supplier development program, you mentioned the noodle factory and Imana Foods and a couple of other examples, can you just speak more in detail on what that, how that program is structured and the extent to which you, and the extent to which the suppliers come from townships, rural areas and peri-urban areas and also broadly, the splits between your Tiger Brands, your formal suppliers and these smaller suppliers that you have developed, where is Massmart in terms of developing this, is it a growing... (Intervened)

10

MR KAISER: Right.

CHAIRPERSON: Supply or not?

MR KAISER: Right. Thank you, all of our buyers are briefed to understand where there is opportunity to identify small suppliers, on the grounds that we normally hear these small suppliers through our customers who tell us of a product that they are wanting to source that is not available in our business.

So if it was to happen that way that we were told of a product that a customer is particularly wanting, we would identify that supplier, we would then visit his premises and typically we would then assist him in understanding what he would need to do to be compliant.

20

In being compliant, he would need to take care of the many issues around food safety, particularly where we are talking about edible grocery and we would assist them in identifying these elements, we would financially assist them in being able to increase the capacity of their business, we would put engineers in to have a look at the way that their businesses are structured and set up and understand whether we might not be able to use the premises in a more effective way.

30

We would typically spend a lot of time talking about areas where they are storing raw materials as well as finished goods and of

course packaging materials.

We spend a lot of time talking about cash flows and how they could best invest in both raw materials and packaging so as to manage their cash flows better, and we would also spend quite a lot of time with them in understanding how we could move the stock from their premises, typically into IDC's at lower costs.

10 So those are the most likely areas that we would be focussing on, but in identifying these vendors, firstly it is quite different because quite a lot of small vendors have an idea, but they do not necessarily have market for the idea, now this is where it becomes particularly difficult, where we meet small vendors who have an idea, that they have not yet been Arbitrator law enforcement to put in mind of the end user or consumer and then typically we need to do that work with them.

That is challenging because to go to your market and talk of a new product, you have to educate people, typically this is expensive and typically this is where we are finding it more challenging.

20 So if it is about producing a product that the customer is already wanting at a cost that the customer is going to find acceptable, then we would work long and hard at developing that supplier.

If it was that we were going to have to go out and create a market for that product, we typically have not proven or found a way to do or to win every time.

CHAIRPERSON: In your presentation you mentioned back margins and front margins, in layman's terms, can you tell us what those are?

30 MR KAISER: Great, the back margins are typically referred to as the rebate percentages, rebate percentages are part of a trading term agreement that you would have with any supplier and it would be category dependent, so depending on the category, there would be a norm, you would then agree with the vendor that you would pay

the account and prior to paying the account, you would deduct the trading term and the trading term typically would have this element of rebate and that would go into your profit margin.

You would then take the merchandise on invoice and you would cost it and you would decide what to sell it at, now in most cases, you would net down to a net-nett cost, inclusive of rebates, once you have got your net cost, you would then add on a margin in order to be competitive in the area and you would sell the merchandise and that is where the term back margin and front margin comes from.

10 Typically you will find lots of retails and wholesalers in the independent world talking about net-net costing, which is, we do not want to talk about rebates and anything, we just want to talk about what we are going to pay and that is typically how we trade with most of our traders, they are not interested in these terms they are no interested in waiting for a payout, they want to pay the right price every time, at the till.

CHAIRPERSON: Okay. Just going back to your supplier program and suppliers in general, when, with regards to your trading terms that you impose on suppliers, broadly, I will speak, this is a very
20 broad question, is there any consideration on the part of Massmart in, are these trading terms applied to also small new players.

That is suppliers that is coming to the market or are they exempted from these trading terms because our understanding is that this is the, this is what has been brought to our attention, that a supplier will create a product, or manufacture a product that they think can go into the market and they have done their own market analysis and they think they are bringing a product that can be really competitive on price.

But then when they bring it to someone who is going to put it on
30 their shelf, all these rebates and trading terms are then imposed and pushing up the price and then some of these small suppliers

end up being very unhappy with the price that their products ends up competing at. So from a Massmart point of view are these trading terms, are uniformly applied or is there any exemption applied to your developed, to a developmental program supplier?

MR KAISER: Thank you. There are some exceptions, typically where the supplier is an NGO, we view it differently, that does not mean that there are not terms, it just means that the terms are viewed differently. Where we are talking about small and large suppliers typically, in Massmart, we negotiate at category level so
10 we would have a requirement in the category.

As I have told you, this gets added back to your front margin so that you are able to make a profit in the category, so whether or not it is on a front or a back margin or it is a large or a small supplier, we would need to make a similar return.

So in answering you, if you are an NGO and you have a specific reason for being in a marketplace, and there are many of these, and they are big brands, typically the two that come to mind are Aquelle where, that is an NGO business and there are a lot of people doing
20 business in the condom category where typically those condoms are taken out into the markets and upfront against that, now those two examples we would choose to understand what the requirement was in the category and then we would choose to manage it with that vendor so that he could plan ahead.

First of all we would lengthen the terms so instead of negotiating every year, we would most probably negotiate every second or third year, this affords the smaller manufacturer the opportunity of understanding those costs. Secondly, we would work with them in understanding what the front margins would need to be, so they would then typically be able to be competitive.

30 But your point is right, I meet many entrepreneurs who have done a calculation that they are able to manufacture, seemingly

competitively, assuming that the selling price would be the base when that assumption is not true, and I spend a lot of my own time talking to small entrepreneurs being absolutely certain that they understand the workings of the industry.

I make the point here, that whilst we keep referring to the industry norms, the way in which we are choosing to answer the questions, relates to the way that we run our business, not to the way that the industry runs, but typically these elements are available or spoken of in most suppliers and in most channels.

10 CHAIRPERSON: Thank you. I just also want to say that in terms of how you answer the questions, I would like Massmart to be, to feel free to allow any one of you to answer, so the questions we are asking are not necessarily directed at you only Mr Kaiser... (Intervened)

MR KAISER: Thank you.

CHAIRPERSON: So they do not have to whisper answers to you, someone else can actually take on the question, we are happy to do that. You, just on the damage goods allowance, in so far as Massmart applies this, to what extent, is there an assumption of risk
20 on the part of Massmart in relation to goods that are supplied to Massmart from suppliers, in the manner in which you apply, can you just unpack that for us?

MR KAISER: Okay, so typically a vendor is selected, a range is selected, an order is placed and the truck arrives at the back door of one of our businesses and on offloading the product, we find product to be damaged, that product would typically go back on the truck immediately and it would not be part of this discussions, those damaged goods were prior to the stock being taken into our
businesses.

30 Now we take the stock into the business and on packing the stock out of the cases, we find that the seam of the fill is faulty and the

product is leaking out, we would then typically get hold of the vendor, the vendor would have a recall and the vendor would take that stock back, that is not typically what we are talking off here.

Then we have an instance where we would have the product on the shelf, it has been merchandised, it was in good condition when it arrived and either a customer, and or a member of staff accidentally breaks the product and the product then splatters onto other product, and typically you then end up with a basket of product that is now dirty or not able to sell.

10 You would then take this merchandise to the back of the store and you would typically put it in to boxes and on the next delivery from this vendor, you would return that merchandise.

That is what we are talking about, now typically what is costing the industry loads of money, is that there is lots of paperwork, there is lots of work and typically the biggest of those risks is, that a damaged tin of fish, whilst it might appear it can still be eaten, might have resulted in a rust leak and then typically somebody gets sick.

So this merchandise has to be taken away and it has to be destroyed and in doing this, vendors typically nowadays, are
20 proposing that the retailer or wholesaler, take a payment in lieu of taking responsibility of having the stock properly disposed of.

This is very, very expensive, it gets more and more expensive because typically digging holes and burying merchandise requires a load of logistics as you can imagine and I guess that is why we have ended up talking about this particular subject today.

This is not wasteful in the sense that we are watching every breakage in our business and we are trying to limit this as much as we possibly can, but typically in high volume businesses you are always going to have some breakage.

30 CHAIRPERSON: In your answer to listing fees, you spoke of what was in the past and what is happening currently and you basically

said what you referred to as listing fees currently is, it is basically the management of space profiles, can you just explain to us, how is that different from the merchandising fee or from the concept of merchandising, what...

MR KAISER: Right, typically the science behind retailing is most likely to be the efficient use of space within the store. Now, what we do is, we use very sophisticated systems to take sales off the till points, so this is related to what we call a rate of sale, we take this back into the categories and we try to understand how we can
10 ensure that one, the stock is always available, but more importantly, that the stock is place on shelf where the customer most likely would want to find it.

Now you can understand that doing this once is a cost, but then typically as products are launched or, products are taken off shelf as well by vendors, it is the same issue, as ranges change he would need to update his schedules, these schedules typically would then go back to store and they would result in us relaying shelves, now there is a great deal of work that is cone in managing these processes and typically manufactures partner in doing this.

20 Now the cost is not a listing fee, the costs is quite simply that manufacturers choose to participate in what we call space management, which is the only form of listing fee that we in Massmart choose to engage in and typically they choose to work with us, so that that they can influence how their product is presented on shelf.

CHAIRPERSON: So when you say they choose, they can elect not to participate?

MR KAISER: They can elect not to, but in the main, space management is very, very close to anyone building brand and they
30 choose to participate.

CHAIRPERSON: You also mentioned the redistribution allowance

and you said it enables your smaller trader to compete against your bigger traders, can you just speak more on that and how that enabling factor on smaller traders occurs on this... (Intervened)

MR KAISER: This is a subject close to my heart. Madam Chair so, what is happening typically is, a manufacturer is able to land goods at lowest cost, typically by working through redistribution networks that all the major chains have. So you would take goods from a manufacturing facility into a due course of any one of the major chains.

10 Now this is quite interesting that when it comes into cash and carry, it comes in on the same efficient truck, because typically we buy truck loads merchandise and typically when it lands in cash and carry, we are not able then to pass on the savings that you would be able to pass on if you were running a DC.

So in your DC negotiation, with any vendor, you would have a warehousing allowance, which is typically an allowance that a vendor would afford you to take stock from their facility and keep it safe in a warehouse.

You then have a redistribution allowance which would allow you to
20 take your vehicles or your outsourced vehicles, load them and take the stock efficiently to your chain branches.

Now what we are proposing is, that in the cash and carry environment, the redistribution allowances need to be paid to the customer who typically got in their own vehicle and came to the cash and carry to pick the stock up and typically these distribution allowances are argued all the time with vendors, in making it possible for the small trade to cover off the cost of redistributing merchandise.

CHAIRPERSON: Okay. You also touched on the Walmart trading
30 agreements and the introduction of those after you were acquired by Walmart and you also made the point that most of things that are

contained in those agreements are actually what Massmart had been doing previously.

After you had introduced the Walmart trading agreements, was there any, were there any complaints from your local suppliers, smaller suppliers or any segment of your suppliers with regard to the introduction of these Walmart terms or what could have been a negative impact on some of the suppliers, because this has been pointed out to us as a concern by some of the suppliers that are dealing with Massmart.

10 MR KAISER: Thank you. When Walmart acquired us, we were exposed to processes that they use when selecting ranges and landing goods at the lowest possible cost. In doing this, the most obvious and the most talked of in the South African industry, was a term called Joint Business Planning.

Now Joint Business Planning has been around for many, many years in South Africa, it is typically a way of working with your vendors in deciding how you are going to best plan activities during the course of any year, to cover off all the opportunities to sell merchandise, it just so happens that this term became unknown in
20 the trade, JBP.

It is a term now that is used by everybody in the trade and it works like this, typically you have a relationship with a vendor, you agree terms and you agree a opportunity to promote product so as to either hold on to your share of market or grow your share of market. In doing this, what you would typically do, is you would review the sales every single month and you would sit and have discussions around whether or not you were achieving these mutual goals that is the joint in the business planning.

You would also have a look at whether you had practised all the
30 behaviours you had committed to practising in placing orders efficiently, there is some work in forecasting, because if you are

able to forecast your needs, typically the manufacturer is able to produce the goods for you and maybe even at a lower cost and then you would spend time measuring the vendor as to whether or not his order fills on his trucks, when you ordered a hundred, did he deliver a hundred, but more importantly, did he deliver the hundred on the day that he agreed to deliver them.

So typically, those are the areas that were, shall we propose, made into a business plan and typically that is the only difference that I know of between working with vendors prior to Walmart's entrance
10 into the country to what was happening prior to what and whilst we were doing those things, we did not have the name Joint Business Planning, we typically had, no, terms that we worked with different vendors on so that we could achieve the same goals, okay.

Am I aware of any vendors that are concerned about Joint Business Planning, just the reverse, I believe that most vendors in South Africa would want to be on JBP because they get the data, it allows them to plan their businesses better and it allows them to have no surprises in their dealings with us.

Why can we not do it with every vendor, well, up until now, it has
20 been manual, it is not fully automated, and we are working at building capacity in automating the many data feeds that you would need to have the same discussion with all vendors.

CHAIRPERSON: Okay.

MR HAYWARD: Madam Chair if I may add, if I can just correct something you said in your question is, we did not say we adopted Walmart trading terms, nor their agreement. You know, we were the second biggest retailer in the continent when Walmart bought us, we already had our own trading terms and very strong relationships with these suppliers.

30 What Bruce was describing is, Walmart had evolved a better process, so away from the legalise, they developed a process of

engaging with suppliers in the manner that Bruce described as JBP, Joint Business Planning, and that has already become quite common cause in retail today in this country and Bruce has mentioned that and as CEO I meet often with many, many suppliers, not only the food side or FMCG and general merchandise, and I have yet to have a complaint about this new process, so I am not aware of any unhappiness.

CHAIRPERSON: Okay, thank you. On trading terms that applied are there any trading terms, from our perspective then, as we review
10 the documents that we have been supplied with, in this public hearing and previously, we just want to understand, there would be trading agreements, am I correct, that are entered into between Massmart and your vendors?

MR KAISER: Yes.

CHAIRPERSON: Are there any trading terms that are, that will not be contained in those trading agreements, that are discussed between your buyers and the supplier but they do not form part of the trading agreements?

MR KAISER: I tried to list anything that had not been discussed in
20 this forum under the question where you asked are there any other reliance or requests on vendors and I know of nothing other than what we have disclosed, either in our standard trading term practices and or in the changes that are happening within industry and the likelihood of us spending more time negotiating in the areas that I exposed.

CHAIRPERSON: So specifically, just specifically to Massmart, if we are looking at your trading, if you are looking at your trading agreements, we will find even what you referred to as additional deductions in that trading agreements, would it contained
30 everything... (Intervened)

MR KAISER: It contains everything.

CHAIRPERSON: Everything?

MR KAISER: Yes.

CHAIRPERSON: So that will be the, everything that is charged to a supplier... (Intervened)

MR KAISER: There is... [Intervened]

CHAIRPERSON: That you are supplying to Massmart?

MR KAISER: There is a standard agreement which is in two parts, there is what we call the trade term calculator with is typically a way of talking to a vendor around what is available, it is documented on
10 this Excel spreadsheet, it is then turned into a trading term document and typically it is listed on that document.

Are there terms that are not on that document, I would propose that the area where there might be agreements, is in Supply Chain? Now those negotiations are typically between hauliers and third parties and vendors and typically whilst we refer to them as trading terms, they are peculiar to that particular vendor and have nothing do to with anything other than warehousing, distribution and redistribution.

CHAIRPERSON: Okay, you also when you, in your interruption to
20 answering question 55, you mentioned that these trading terms are no longer confidential, is there, okay, I am trying to think of how to put this question. What is the need for this trading terms to be contained in specific agreements and not be made public to suppliers?

Let us say, if a supplier is looking at Massmart or looking at other route to market that they can use to get their products to the markets, if they wanted to compare what is going on, are these, what stops Massmart for example, from having a board that sets out all these trading terms that are charged, so that everybody knows
30 that this is what Massmart charges, even if the figures themselves are not discussed, because I would imagine the figures may be

slightly confidential but the actual terms that are included in these agreements, is there any confidentiality on that?

MR KAISER: I think there are two ways of answering this question, the first is that typically the behaviours that result in us being rewarded for running a better business are often called out by the vendors, not by us. So typically if a vendor has a particular need and want so incentivise us into behaving a certain way so that typically we can sell more product, then we would not know of it until they sat with us and spoke about it.

10 So the example of Unilever wanting to move the detergent market from bar soaps into liquids, we would not know of that because we are not manufacturers, we are retailers and wholesalers. So that is the one conversation that some of these discussion will always be led by the needs of the vendors.

Second to that is, that there are instances where these things are not confidential at all, where big manufacturers have chosen to publish what it is that they offer and typically we have no reason to believe that we are at an advantage or a disadvantage because most of those are tied to bands of one, how big you buy, and then
20 two, how efficient you might be in your buying, how effective you might be in your selling.

So, I would propose the on the manufacturers side, it has changed, initially this was all about relationships, there was not a lot of maths, but we are talking about that being 40 years ago. In our markets today, every manufacturer has a computer system that is able to work out cost to business and as a buyer, if I am not cost effective, I am not going to get the investments.

So, it might sound as though these trading terms are in our hands, and that we are able to negotiate what we want, absolutely not, any
30 manufacturer put under pressure by any buyer in any one of these channels, is likely to believe that he has got the best price when he

comes to pay for the product on invoice, he is going to find that he is paying a higher price.

CHAIRPERSON: Okay. You, I cannot recall what question you mentioned settlement terms, but can you just touch on what settlement terms are and specifically how Massmart applies settlement terms?

MR KAISER: Great, so typically what happens is, in setting up an account, we would agree when we were going to pay you, now the way this works is, we would agree a cut off date in the month after
10 which you would then take anything that was delivered to the business after that date, onto the next month's invoicing.

Now the way this works is, you would offer us a discount, typically, 2.5%, 30 days, which would mean that stock that I bought this month, prior to the cut off date, which let us propose is the 20th or the 25th, would then typically appear on the invoice the next month, and I would have to pay for it 30 days after that.

So this is how it is done, now it gets more complicated because in some categories, there is a reason to buy in stock and keep stock in your stores at higher levels than you would want to, simply because
20 you do not know when activity is going to break. Best example of this is most probably liquor, and it is Christmas time and we are not quite sure if we are going to have an early Christmas or a late Christmas.

So typically you want to get your displays up, and you want them up in October and typically you are only going to sell that merchandise in December, most probably after 15 December. Now those negotiations typically would be had with the vendor to talk around extended terms over those periods, so the merchandise that would have been in warehouses is now safely on the floor, exposed to the
30 opportunity of selling.

CHAIRPERSON: Okay, just to go back, you mentioned the 2.5% as

an example, when, just to simplify your answer for us, if you, if a vendor approaches Massmart and you agree on a settlement period, which is basically the date by which Massmart will pay the vendor, if that, let us say for example, that period, the earliest period is 30 days, do you still get it, a discount on the payment that you make for meeting just that minimum requirement of your contract, which is 30 days?

MR KAISER: This depends entirely on the vendor that you are talking to, typically if the vendor is needing to loan money to run his
10 business, he would most probably find it advantageous to offer higher levels of discount to secure his money early. Typically, if a vendor is not reliant on that payment, then he would negotiate a little differently.

This changes from time to time and a great example of this is when a price of a raw commodity like wheat might shoot through the roof due to pricing within the world markets, not South African markets, then typically a vendor might choose to come and talk to you about settling earlier for a higher level of discount, which then might revert once that particular situation has passed.

20 So these are conversations that you are having continuously, but they are related to the cost of money, and it depends whether or not you have cash flow issues in your business as to whether you might find it more attractive to discount that payment at a higher rate to get an earlier payment.

CHAIRPERSON: And has Massmart come across a situation where a supplier is actually able to impose its own trading terms that, let us say if I am a manufacturer of powder soap, and I have other retailers or wholesalers that I am dealing with, and I have preference for certain trading terms because of the way, the manner
30 in which I have been dealing with those, is it, is there any acceptance on the part of Massmart of those terms or is it always

your terms that you impose on your vendors, so how are these terms agreed upon?

MR KAISER: We have never had a discussion about his terms in the marketplace, if a vendor was to come to market with a prescribed set of terms, then we would have to understand how we would need to adjust our front margins to make up for any shortfall. Typically, in any examples where that has happened, the terms have been richer, not poorer, so typically where for whatever reason, a manufacturer has come to us with an offer, he himself has, for
10 whatever reason, understood that he needs to trade at those levels, we would then typically try and understand whether this was one sustainable, and two, whether or not it was going to affect our on invoice pricing.

I keep reverting to this, if you are not looking at nett, nett pricing, it's likely that you will be uncompetitive and it is likely that your customer will not shop with you. So in answering that, I have never sat with a vendor and spoken about opposition trading terms, I have accepted from vendors in the discussion in negotiating trading terms, what they are prepared to pay, I have compared to that with
20 the norms in the category, remembering that this is in our business is done by category and where I have needed to have a discussion around improving any of those terms, I would have done that and or, accepted his terms.

CHAIRPERSON: Okay, thank you, I have not further questions...
(Intervened)

MR KAISER: Thank you.

CHAIRPERSON: I am not sure if my colleagues have any further questions for you. Okay fine, we will now move on a different topic, we are moving away from the trading terms and would like to start
30 on exclusive leases.

MR KAISER: Madam Chair is it possible to have a short break?

CHAIRPERSON: Sure that is fine.

HEARING ADJOURNS

HEARING RESUMES

CHAIRPERSON: The YouTube streaming is not occurring so they will be attending to that whilst we proceed with the proceedings. The next set of questions will be asked by my colleague, Thabo Khumalo, over to you Thabo?

10 MR HAYWARD: Madam Chair would you allow me to round of the supplier trading terms discussion before Thabo opens up with lease exclusivities? I think the discussion with Bruce and yourself and your colleagues was very useful and kind of went through the trees to get to the forest, if I could just describe the forest very broadly.

In South African retail today I think there is a very dynamic sort of competitive state of equilibrium, I think there are strong players, both on the supplier side and the retailer side and obviously there is a very vocal and noisy customer groups who are happy to, or rather, quick to complain when they feel they are getting poor service or poor price and that keeps the whole system neatly in check.

20 Describing these agreements, remember that most suppliers are either multinational, many are JSE listed companies so they have strong corporate governance programs they would insist that everything would get reduced to writing, they are multimillion rand commitments on both sides, retailer to supplier, supplier to retailer, they would be at least a year long, possibly longer, so it will most definitely be recorded.

Bear in mind that as a supplier, they have many different routes to market to choose from, they can choose to sell through Game or Makro or Shoprite or Pick 'n Pay so if Massmart's retail brands were becoming difficult in terms of their demands on the, on trading 30 terms, whether it was payment terms or rebate terms or percentages, the suppliers would simply go to another route to

market and so that competitive equilibrium keeps itself in check. Similarly as a retailer, you know, in any particular category, there is three or four major brands, you know, we have mentioned detergent soap, we can talk about toiletries or liquor and there would be many major brands and if we were simply not making headway with the supplier and their particular brands, we would choose to support another supplier's brands, and again, that is another way that this competitive equilibrium keeps itself in check.

Hopefully you will find that useful, I am happy to take questions from

10 Mr Khumalo.

HEARING ADJOURNED