

REPUBLIC OF SOUTH AFRICA COMPETITION COMMISSION

Competition Act, 89 of 1998

MEETING WITH CHOPPIES

DATE: 6 November 2017

VENUE: CSIR Pretoria

CHAIRPERSON: Ms L Mtanga

COMMISSION MEMBERS

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

ON BEHALF OF CHOPPIES

Mr Thoph Matlahape : Head of Performance Management
Mr Deon Bauermeister :

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In the hearing of
COMPETITION COMMISSION AND CHOPPIES

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PROCEEDINGS ON 21 FEBRUARY 2017

CHAIRPERSON: Okay, I think we all ready to proceed now, Good Morning everyone. My name is Lulama Mtanga, I will be chairing this public hearing in the absence of the Chairperson of this enquiry Prof Halton Cheadle who could not make it.

As I have indicated in the past week that due to circumstances beyond his control and the control of the commission he will not, he has not been able to join us for these public hearings, and in his absence, I am chairing the hearings.

10 I would like my colleagues who will be assisting me, to introduce themselves, thereafter I will ask, we have got 2 persons who will be making their submission this morning and, or appearing before us this morning, and then I will ask then to also place themselves on the record. And then we will proceed from there. Thank you.

MS GRIMBEEK: Good morning, my name is Sunel Grimbeek, I am a Principle Economist at the Commission and I am leading the technical team that is working on the grocery retail enquiry.

MR KHUMALO: Good morning, my name is Thabo Kumalo, I am the Civil Legal Counsel working with the grocery retail team.

20 MR MATLAHAPE: Good Morning, my name is Thopo Matlahape from Choppies, I am the head of Performance Management in South Africa and I am with my colleague here, his name is Deon Bauermeister.

CHAIRPERSON: Surname?

MR MATLAHAPE: Deon Bauermeister

CHAIRPERSON: Like the store?

MR BAUERMEISTER: No, Bauermeister.

CHAIRPERSON: Sorry, can we get your surname again, I am not sure, I did not hear it and possibly the transcribers may pick it up
30 incorrectly as well.

MR MATLAHAPE: My surname is Matlahape, M a t l a h a p e.

CHAIRPERSON: M a t h l a

MR MATLAHAPE: No, t l h a p e

CHAIRPERSON: t l h a p e.

MR MATLAHAPE: Yes.

CHAIRPERSON: Matlahape?

MR MATLAHAPE: Yes.

CHAIRPERSON: Okay, alright, thank you. You will have received a list of questions from the enquiry team, and in which it was indicated to you, if you would like to make a presentation, we not
10 sure, you can do so, we not sure which way you want to proceed, whether you have prepared any presentation, or if you have any introductory remarks that you want to make as Choppies?

MR MATLAHAPE: Okay, we did not do any presentation, normally we just prefer an interactive session.

CHAIRPERSON: Okay.

MR MATLAHAPE: Ja.

CHAIRPERSON: Okay, we will proceed by way of asking you some of the questions. We will try and not, given that so much time has passed, we are starting more than 30 minutes late, so we will
20 try and just focus on the key questions that we feel that we would like you to address. And then we will see how we then we proceed. Do remember that, should there be aspects of your answers that you do not, you feel comfortable addressing in public, we can, you must indicate so, so that we take those, we will note those for a closed session which we will then follow up, after this public session.

As a starting point for us, let us go to the first question that we asked you. Are you, can you take us through what you consider, you considered the new entrant in South Africa, in South African
30 Grocery Retail, and can you tell us what, what were your obstacles or what are the obstacles that you continue to experience as

Choppies, yes, thank you?

MR MATLAHAPE: Okay, I think just to briefly give you, an idea of who Deon is, Deon he was our CEO, He was a Choppies CEO, South Africa, and he has moved to another division. Well, it is another company, it is a property company, it is called Far Properties. It is also listed in Botswana, I am not sure about South Africa. Okay, South Africa is not listed, but it is listed in Botswana, in the Botswana Stock Exchange, so he is doing, he is looking after the Far Properties in South Africa. Far Properties was born out of
10 formation by our CEO, the group CEO, and the Deputy Chairman, they founded the company some time ago, I cannot remember when, solely to penetrate the property market because of the limitations available, the limitations in the property market.

CHAIRPERSON: In South Africa?

MR MATLAHAPE: In South Africa. So, that is the background of Deon, and how he comes into play.

CHAIRPERSON: Okay.

MR MATLAHAPE: Ja. I think back to the question, I do not know if Deon, you want to take the lead on this one, in terms of what
20 difficulty we have faced back then when we entered the market?

CHAIRPERSON: And that you may continue to face?

MR MATLAHAPE: Ja.

MR BAUERMEISTER: Okay, so, starting off, I mean, ja. Going back to 2007, before I even joined, the challenge was obviously acquiring sites and becoming a known entity in the market, you know, so, if we take the first store in Zee rust was obviously

CHAIRPERSON: Sorry Deon, let me just, I think for the sake of the public record, can you just maybe start by telling us who is Choppies, for those who do not understand, who do not know the
30 entity, because you are not at the moment in all provinces, you, as I said you are a new entrant, maybe the first question should be,

just give us a bit of background on who Choppies is? And then you can then move into the ops service.

MR BAUERMEISTER: Okay, Choppies is a, is a food retailer, focusing on FMCG market, fast moving consumer goods, and they have the take away bakeries and delis inside them, so making them a fully-fledged super market. As I say our target market is the LSM 4 to 7, and which, if you take in the South African context, probably, your best inline competition on that would be a Shoprite typically. Perhaps a Boxer, but ja, I would say, more a Shoprite, then a Boxer. So then, if I can continue?

10

CHAIRPERSON: So, you, we understand that you come from Botswana, and in Botswana, just tell us who you are in Botswana, and your market position in Botswana. And when did you come into the Southern market.

MR BAUERMEISTER: Ja, so in Botswana, Choppies is the biggest retailer in the country. By far exceeding any other retailer in terms of footprint size in the market. So, I mean if, when I was still in Botswana, that is where I actually got introduced to Choppies, Shoprite had 5 stores and with 2 Usaves at the time when I left, were as, at that time Choppies had 55 stores in excess. I do not know what the recent numbers is, but that was when I was actually situated and in fact working for Shoprite, at that point and time.

20

CHAIRPERSON: When was this? Which year are we talking about?

MR BAUERMEISTER: 2007.

CHAIRPERSON: Okay

MR BAUERMEISTER: Ja, so, I am not sure Thopo if, how many stores are in Botswana at the moment?

MR MATLAHAPE: There is currently more than 80 now, in Botswana.

30

CHAIRPERSON: In Botswana?

MR MATLAHAPE: Ja, but the growth has been halted for a bit, because of the market situation.

CHAIRPERSON: Okay.

MR BAUERMEISTER: Alright so, obviously entering into South Africa, was challenging, the first store that acquired was a store in Zeerust, followed by Swartduggens, Koster, and Northam. Both those stores, or the last three stores which I have mentioned, Choppies actually acquired the property as well, in order to gain the footprint into the country. So those stores were at that time
10 strategically and closely located to, to Botswana, from a management point of view to make it a bit easier.

CHAIRPERSON: Sorry, so the, your first stores were in Zee rust Swart what?

MR BAUERMEISTER: Swartduggens.

CHAIRPERSON: Swartduggens.

MR BAUERMEISTER: Ja,

CHAIRPERSON: Okay, and the third one?

MR BAUERMEISTER: Koster,

CHAIRPERSON: Koster?

20 MR BAUERMEISTER: Koster, ja.

CHAIRPERSON: Which is it K or C?

MR BAUERMEISTER: K.o.s.t.e.r.

CHAIRPERSON: Okay?

MR BAUERMEISTER: And then Northam.

CHAIRPERSON: Mo?

MR BAUERMEISTER: N.o.r.t.h.a.m.

CHAIRPERSON: Tha, oh, Northam, Northam.

MR BAUERMEISTER: Northam, ja.

CHAIRPERSON: Okay, you may proceed.

30 MR BAUERMEISTER: So, all three those properties, as I say was purchased in order to actually gain access into the market. And

then obviously things progressed, up to a point where 9 stores, was established and that is when I actually joined the company.

We then started a property team, which their main objective obviously was to look for property and acquire, acquire or obviously gain a lease with the Landlord, and then rent property.

And ja, you know, at that time it is tough, and I am sure sitting here today who of you have been to a Choppise store will know Choppies as a retailer, I am sure would not be many of you, because, you know, because of the strategy firstly was to expand
10 into rural markets, and then secondly obviously it is an entity that is established in Botswana and now in it has come across the borders into South Africa.

So ja, the property team as I say, the first couple of stores once again was with individual land owners driving into towns, going doing some homework, finding some land, finding a Landlord which is busy building something etcetera, etcetera. And then ja, gaining growth through or acquiring land firstly and secondly, going to the lesser, if I can call it the lesser favourable sites, because obviously the sites which are, owned probably by the bigger Landlords would
20 be the bigger developers.

And I think that is probably the reason why we are here today is because of that. I have been into a couple of meetings myself, personally, and then I have also been, you know, communication over the phone, were as what was told, you know, whose job is, you know, why should I give something to Choppies as opposed to the, call it the bigger four retailers, being Spar, Shoprite, Pick N Pay and Checkers obviously. So, if I can maybe, you know, get to the, you know, get to the conversation.

Firstly, quite recently there was a Shoprite that burnt down in
30 Tonga, it is called the Tonga Mall, whereby we approached the Landlord that that time called Fontes, they were doing a second

development as well as refurbishing the Shoprite at the time.

We were then told, unfortunately as I say, I do not have anything in terms of evidence, but, told at the time that this specific incident did not allow us to go in there as a second anchor, because of their re-strategy in terms of the lease, with the anchor tenant.

I was also quiet, you know, when you were quite new into the retail environment with, we bought an OK in Burgersfort at the time. Now, Resilient being the big Landlord which they are, we had a meeting with one of the directors called Johan Kriek, and he
10 actually, you know, bluntly told us, you know, listen why should I give you a store, we do not know who you are, we do not know what you bring to the table.

We know what Shoprite brings, if we put a Shoprite in there, we know what we are going to get back, you know, so why try somebody else. And that was another incident, and then my favourite of course, was the one meeting we had with Herriot Properties, now we had a store in Phokeng, which we rented from the Royal Baphokeng tribe, who actually owned the centre. Funnily enough, Spar, was there before us and they were boycotted by the
20 community at the time, so they actually approached us and asked us whether we would open a store there, so we obviously obliged, because we are looking to expand, and we would take any opportunity that we could, obviously to establish a foot print in South Africa.

CHAIRPERSON: Sorry Deon, who approached you was it Herriot Properties?

MR BAUERMEISTER: No, no we were approached by the Royal Bafokeng Tribe at the time.

CHAIRPERSON: Okay.

30 MR BAUERMEISTER: So then we obviously established ourselves in that centre, we were doing well, they were planning a revamp on

the centre and we said no, we are keen because the business was good in the area, and then for some reason Herriot got involved, as the developer into that centre, and we were called to a meeting, whereby I was nicely explained about how to make chocolate cake, and you have got certain recipes in this chocolate cake recipe, and his recipe was already perfect, and we were not one of the ingredients.

So, obviously that made me furious to say the least, but ja, unfortunately we were not part of the recipe. So, what happened in
10 fact, is we closed our store, we moved out, the centre was renovated and the obviously Shoprite took the anchor in centre.

And then the only one which I have an email as confirmation is Bushbuckridge, whereby we were told that basically, and if I can quote, Ruth is one of the ladies that, that at the time was working for the property company, searching for properties on our behalf, Actually, she is still involved, on a consultancy basis, so the mail from Alison, which is one of their legal advisors, from the group Herman and Roman Property Solutions.

And this is just in the line of us taking space in the Bushbuckridge
20 Centre, she says:

“Dear Ruth. Another supermarket may be a problem in Bushbuckridge, because of Shoprite exclusivity clause in their lease, in any event what size and area would you look at. And would you be interested in space in Tsheseng Phuthaditjhaba should we be able to overcome this hurdle.”

So, I think that perhaps, you know, and these are just four examples which, which come to mind. Obviously because where I was physically involved and obviously Tonga is the most recent
30 one, and then obviously this one, where I, you know, going back into the archives trying to sort of establish.

Anyway, you know, sorry if I can maybe just, you know, a lot of the guys in terms of developers, I for example, I know it is not relevant here, but I was in Namibia last week, where we went to view a piece of land which was available, once again centre across the road, you got a petrol station on the one corner, and then just behind the petrol station the land is owned by the, by the same landlord.

So, the first thing he said is, he considered to put us in, should he get the permission of Shoprite. So, once again, you are on the
10 back foot, in terms of accessing into new market space. And yes, I understand Shoprite is established, you know what you get, but I think the bigger point here is, you know, I think relationship, which they had established over time, and, and perhaps a little bit of fear, in terms of what is, what is the bigger implication to this, because how many centres does the big nationals, and let us leave Shoprite out of it, let us talk about the big four, for that matter and say, you know.

How many centres do they have with the developers at this point in time and what is the bigger effect, you know, on their relationship
20 going forward. I think that is probably the crux of the matter here, as opposed to letting in a Choppies and know. Because we are just as good as any other retailer, it is just that we are, at this point in time the smallest, and we will remain the smallest if we are not able to access sites in prime locations.

I mean, we have to now settle for call it secondary sites, if I can call it that. And not getting an opportunity at the, at the prime sites, whereas the bigger guys go to.

MR MATLAHAPE: I think also, just to add on to that, I know it seems like you, everything is Shoprite, Shoprite.

30 But it is actually not Shoprite only, there was an incident we had as well in, I cannot remember the name of the town, but the centre is

called Sellgros Centre. Spar was dictating the terms of entry into the mall, we actually forced to vacate, because the lease was coming to an end, and the Landlord told us that we need to vacate the place, when the lease ends because the anchor tenants, does not want, they do not want us there.

CHAIRPERSON: In which province is that?

MR MATLAHAPE: Should be in KZN. So, these are examples of what the big fours are doing to the small players like us, at this point and time. Because it still continues, it is not ending, it is something that is still, is still there. It exists.

CHAIRPERSON: My question is when you consider, Deon has made the point that, you are being forced to go into secondary sites, or opt for secondary sites, instead of the prime sites. Can you tell us what do you mean by prime, and what do you mean by secondary? Why would one site be prime, what makes that, what makes these sites prime, and what would be, what would make the other sites secondary?

MR BAUERMEISTER: Thank you.

CHAIRPERSON: For retail purposes?

MR BAUERMEISTER: Ja, yes, obviously a prime site would be call it a triple A location, is where you ideally have a taxi rank, right in front of you, with a centre, where foot traffic is high. So, if I take a town like, for example, let us take Hartswater as the town. You have got the Shoprite sort of standalone right across the road from the taxi rank, were as we in a centre, call it 300 metres as the crow flies, maybe by road it would be 100 or 200 metres more, but lower down to the rank. So, so yes, we are there, but we are not there if you know what I am saying. So, being 400 metres away, is and I am just using this as an example, whereas we have to attract the customer to us by virtue of, let us say reduced margins, in getting lower prices in there, as opposed to actually being, being

there where we need to be.

Or, another example is, you do not get to go into the main shopping centre in the area, so now you have to maybe look for a property owner, independent property owner, who has got a piece of land who will build you something.

CHAIRPERSON: And it prolongs your entry into the market.

MR BAUERMEISTER: Well, ja, you definitely not going to have the foot traffic, as the prime site if I can call it that, and that has a ripple effect on your sales, so your turnover is not going to be as high, and yes, with lower turnover, lower profits, your entry or your expansion is obviously curbed by that as well. So, you know, the snowball effect, is actually endless.

CHAIRPERSON: Okay. Does Choppies, conduct any market studies, into the areas that it is, especially the ones that you have spoken about, that you considered and where you found, that you were turned down and you could not enter because there was already a competitor in the market.

Did you conduct any studies that kind of, that confirmed that you could, that there was room for a second grocery retailer, and therefore a good enough market size?

MR BAUERMEISTER: Yes, we.

CHAIRPERSON: To accommodate two players, what is your view on that, not that I am saying it is a requirement, I am just asking?

MR BAUERMEISTER: Ja, we do, we do, do our homework. We would look at what is there, we sometimes make use of the Furn reach report, which is a well-known market study enterprise.

CHAIRPERSON: Yes.

MR BAUERMEISTER: And then also lately on smaller towns we would look at what is the opposition in the town, what is the movement.

CHAIRPERSON: Yes.

MR BAUERMEISTER: And then what is the possibility. We would not go into towns, we would have a look at the stats in terms of number of households in the area as well. And then we would, we would judge, yes, whether we would go or no, we would rather decline. Maybe initially we were looking at and we were following obviously similar trends as the Botswana, you know, that was our point of reference, so what they done in Botswana is what we have copied on this side. So, we would look at a population of about 70 000 households, as a benchmark and that would be enough for us
10 to actually enter into the market. Regardless of who the opposition is.

CHAIRPERSON: Yes?

MR BAUERMEISTER: We would look. At this point in time we prefer to look at the bigger city centres if I could call it that, or bigger towns. Probably double that, probably 140 000 households in terms of right, do we go, or do we not go.

CHAIRPERSON: In the Botswana context did you find that, that market size of 70 000 households would be able to accommodate more than one grocery retailer?

20 MR BAUERMEISTER: Yes.

CHAIRPERSON: And you would both be viable?

MR BAUERMEISTER: Correct.

CHAIRPERSON: Okay, and the other question we wanted to ask you, would you still have the standards that you conducted in those areas, would you be able to provide them to us? On the evidence where you were turned down specifically, you mention Shoprite, where there was a Shoprite, as well as where there was a Spar in KZN.

MR BAUERMEISTER: Yes, we would be able to.

30 CHAIRPERSON: Okay, we would like to have copies of those studies please. You have said your, you consider Shoprite to be

your main competitor and to some extent Boxer, why Shoprite as the main competitor, just give us exactly why, or what is it about Shoprite, that places them as the main competitor and why Boxer would be a lesser, a lesser competitor to yourselves?

MR BAUERMEISTER: I think if you look at a Shoprite as, as when I started and introduced who Choppies was, FMCG retailer with a bakery, take away department and a butchery. If you look at the Boxers, they are more. Okay let us stage you the Shoprite, Shoprite floors are tiled, they are air-conditioned stores, they are, 10 you know the look and feel of a Shoprite, is a much, I would say, probably a more upmarket look than that of a Boxer.

Were as if you go into a Boxer, you might not have tiles on the floor it might be those concrete floors with, and in terms of the shelving it would be racking as opposed to shelving, so their look is a little bit different to ours. They would focus mainly on bread, their butcheries, I probably cannot say it is not up to the, let us say, we try and maintain a higher standard.

CHAIRPERSON: Okay.

MR BAUERMEISTER: So I think, if, and I speak under correction, 20 I do not know what the Boxer target market is, their target market would probably be a lower LSM than, than our 4 to 7. That is why we are saying, but, when I say Boxer, in terms of they have got some prime locations, which is, we would love to be there. Just, you know, from a site point of view.

CHAIRPERSON: You, just for our notes taking, you mentioned that one of the stores you bought was an OK?

MR BAUERMEISTER: In Burgersfort.

CHAIRPERSON: In Burgersfort?

MR BAUERMEISTER: Correct.

30 CHAIRPERSON: Oh, okay. Where is Burgersfort? In, oh is that on the border of Limpopo, Mpumalanga.

MR BAUERMEISTER: Yes, that's right.

CHAIRPERSON: We have heard about it, okay. Burgersfort. Okay. And how, how is that going?

MR BAUERMEISTER: The Burgersfort store?

CHAIRPERSON: Yes?

MR BAUERMEISTER: Ja, very well.

CHAIRPERSON: Do you have competitor in the area?

MR BAUERMEISTER: A what?

CHAIRPERSON: Competitor?

10 MR BAUERMEISTER: Yes, there is plenty, there is probably there is three Shoprite's not even three kilometres away from each other, there is two Boxers in that town, there is us, there is a couple of independent wholesalers.

CHAIRPERSON: And in your view?

MR BAUERMEISTER: Ja there is a Spar, there is a Spar as well, there is a Super Spar, there by Nando's.

MR MATLAHAPE: Ja.

CHAIRPERSON: And what kind of a town, what kind of town is it, rural town, Burgersfort?

20 MR BAUERMEISTER: It is a, it is a mining is strong there, ja.

CHAIRPERSON: Mining town?

MR BAUERMEISTER: Mining town, ja.

MR MATLAHAPE: I think it is a bit mixed, including farming area.

CHAIRPERSON: Mining and farming. Again, it is an area that you would have done your market study and discussed, and been happy with the number of, the size of the households, or the number of households?

30 MR BAUERMEISTER: Ja, well, I mean Burgersfort specifically I mean when we, at that time we bought the OK, so I mean we would look at what the, then you have got figures, I mean you have got their turnovers, you have got their customer counts and all of those

things, so you would use a lot of their information in your decision-making process.

And I mean, you know, in a town like Burgersfort specifically, I mean if you have got at that time, I think there was 2 Shoprite's, in close proximity to one and other, and they were busy building the third. So, I mean, that already tells you, if they are going to open a 3rd store there, obviously the market is, is big.

CHAIRPERSON: Ja, we will consider you, I mean we consider you to be an experienced retailer based on your personal experience.

10 In persona do you have, are these explicate vices also applicable in that market?

MR BAUERMEISTER: I am not sure, I was not in Botswana.

CHAIRPERSON: No, does Choppies have exclusive vices in Botswana?

MR BAUERMEISTER: Not that I am aware of, no.

CHAIRPERSON: None that you are aware of?

MR BAUERMEISTER: No.

CHAIRPERSON: Okay, and what is Choppies views on, what do you understand to be the purpose of these, or you can speculate, we just want to understand, from you as a player on the ground?

20 @@@ LIESEL

CHAIRPERSON: What do you understand to be the purpose of these, or you can speculate. We just want to understand from you as a player on the ground why do you, why do you think it is, what do these exclusive leases, what purpose do they serve? What do you think they serve for a holder of such a lease?

MR BAUERMEISTER: Well I think [intervenes]

CHAIRPERSON: The exclusivity.

MR BAUERMEISTER: It may be two sides to it, the one side probably for the, if you take from a landlord perspective, if you only
30 got one anchor in a centre.

CHAIRPERSON: Yes?

MR BAUERMEISTER: You would probably argue the view that if I have one anchor retailer and I am connect, I am linked to a turnover clause.

CHAIRPERSON: Yes?

MR BAUERMEISTER: The likelihood of the retailer hitting the turnover clause with one anchor is more likely than with two, so perhaps that from a landlord perspective [intervened]

CHAIRPERSON: That is how they see it.

10 MR BAUERMEISTER: Would be something to be, to consider. The consideration probably from a retail point of view would be you know why share my turnover with somebody else?

CHAIRPERSON: Do you think the addition of bringing in the second grocery retailer like yourselves would it result in the sharing of the turnover or would it grow for traffic, what do you think will be happening with market? In some of his markets [indistinct] kept out?

20 MR BAUERMEISTER: Well if you take where you are kept out it would definitely be where the retailer would want to protect his territory as opposed to whereby the landlord would, would want to add a second anchor.

If you look at the centres today you would find probably three anchors with Game now going into food as well.

CHAIRPERSON: *Ja*.

MR BAUERMEISTER: So I mean if, if you take a lot of centres you have maybe a Pick a Pay and a Checkers and a Game, I mean then you have three, what about Woolworths? So then four.

I would say if you are going to build a big centre a number of anchors should not dictate.

30 CHAIRPERSON: Yes.

MR BAUERMEISTER: Definitely.

CHAIRPERSON: Well what should be a big, a big centre in your view that can accommodate any number in your view?

MR BAUERMEISTER: Well I think if you exceed 15 to 20m² centre then, the two anchors should not be a problem at all if not three.

CHAIRPERSON: Okay.

MR BAUERMEISTER: *Ja*.

CHAIRPERSON: And the market size?

MR BAUERMEISTER: That would, that would be, I would speculate on that.

10 CHAIRPERSON: Okay.

MR BAUERMEISTER: *Ja*.

CHAIRPERSON: So are you saying irrespective of [intervenes]

MR BAUERMEISTER: You know normally [intervenes]

CHAIRPERSON: We, we have been told it depends on many factors?

MR BAUERMEISTER: No for sure it does.

CHAIRPERSON: It is not just the centre, it is the market size and [intervenes]

20 MR BAUERMEISTER: Yes. No, no it definitely it depends on the market size but you know as I say let us take an example of Resilient they are not going to build a 15 or 20,000 m² centre if they have not done their market studies and tested the market in terms of what is the, the need for firstly, I mean it is not just food retail it is clothing and, and all the others as well.

30 CHAIRPERSON: We have also been told that some of the, by some of the retailers that the reason that they resist entry by a competitor is to protect their investment, the amount of money they put in and to ensure that they, they have a viable store, a store that succeeds because should a second player be put into the market it will, it will eat on their own growth and therefore affect their viability and profitability and affect their ability to pay some of their,

I mean comply with the lease terms in some of these centres.
Doesn't Choppies not have the same concern aren't you also...
what kind of investments do you put in, is it less than your bid for
retailers in South Africa, how would you explain the situation, why
would this not be a concern for you and yet a concern for a number
of the dealers?

MR BAUERMEISTER: No it would definitely be something that we
would look at, I mean we would not just blindly, let us say now the
book opens and everybody says no Choppies you got now an
10 opportunity to enter into the next 30 stores or centres, I mean we
would definitely first look at is it going to be viable for us or not.
So get information from the centre in terms of what is your, what is
your foot traffic in terms of you know the centre itself, what are you
going to build, where is the store going to be situated, is it going to
be part of the, you know part of the unit, is it going to be sort of
something that has been, just been added at the back of it, there
is, sorry, there is definitely many factors that would be considered
prior to saying yes we would go.

In fact I would say it is more expensive to build a Choppies or
20 more expensive for Choppies to put up a store as opposed to
another retailer, I mean if you just take our specifications is a
probably a 14 page document with a couple of attachments
referring to, whereas if you have got the spec of a Shoprite it is
almost like a little booklet whereby they say you need to put this in,
you need to put that in. So from a cost point of view to the landlord
it is definitely by far more expensive to put a Shoprite in than a
Choppies.

CHAIRPERSON: Okay.

MR BAUERMEISTER: So and then the, the play off on that is,
30 whatever the landlord does not put into the store for us it comes
out of our pocket, you understand what I am saying?

CHAIRPERSON: Hmm.

MR BAUERMEISTER: So from a recovery point of view we need to recover by far more than what they would recover because that is our approach, we would rather and then, then it comes to rental. So we need to agree on what rental price to pay.

Now for a typical Shoprite I guess the going rate at this point is between R85 and R100 or not.

CHAIRPERSON: Per square metre?

MR BAUERMEISTER: Per square metre. Whereas we would ask
10 the contractor listen you first look at our spec before you approach me with a price because our spec is much less rich than that of the others and that is how we would negotiate, for example if we cannot get to a price where, let us say the guy starts with R80 a square and then we say okay right we will, we will put in the air-conditioning at our cost what would your rental price then be. They would work it out, they will make a saving of let us say it is a million rand, they will deduct it and they will come back and say right now I can pay, I can offer you R75 excluding aircons and that is how we will sort of negotiate our way into getting that lesser
20 rental but that cost then gets added to our recovery cost.

CHAIRPERSON: Okay.

MR BAUERMEISTER: But it, but we see it as a once off as opposed to [intervenes]

CHAIRPERSON: When you say a recovery costs it is, you come in at a lower rental and later have to pay?

MR BAUERMEISTER: No, no we would, for example, the example I used on the air-conditioner so we would put the air-conditioning in ourselves [intervenes]

CHAIRPERSON: Yourselves oh.

30 MR BAUERMEISTER: Ja. So [intervenes]

CHAIRPERSON: Instead of asking the landlord?

MR BAUERMEISTER: Instead of asking the landlord to put in the air-conditioning so, so that already would be a saving for him and that saving would be passed on in terms of the rental per square and so, so actually a long way around for your question in terms of the other retailers saying they have to recover their cost.

CHAIRPERSON: Yes.

MR BAUERMEISTER: Our cost at this point are based on our specification is much higher. So for us to decide to go into a centre we need to be really sure do we want to be there or do we
10 not.

CHAIRPERSON: In your understanding is it in all instances that other retailers' specifications are paid for by the landlord, the developers?

MR BAUERMEISTER: Yes.

CHAIRPERSON: And in your case you always pay for your own...

MR BAUERMEISTER: Well we have got, we have got a specification and then we say okay right this is our full spec, for example the most recent meeting I had with the landlord he said okay full spec excluding aircon you will give us for R75 m². It is
20 once again standalone store but the location is good enough because it is right across the taxi rank.

CHAIRPERSON: Ja.

MR BAUERMEISTER: So, and that is how we negotiated it because he started at R85. So he was prepared to give us R10 a square off aircon, I mean that is, that is quite big. But every negotiation is different, everybody's calculators work a bit differently.

CHAIRPERSON: Yes.

MR BAUERMEISTER: And you know they have got certain ways
30 and means, they have maybe got a, they maybe have an air-conditioning supplier on the, you know on their team so they would

be able to do it most cheaper so for this guy it might be R5 for the next guy it might be R8 and that is how, you know but that is the negotiation at the end of the day.

CHAIRPERSON: So in your view are exclusive leases justified at all? At all?

MR BAUERMEISTER: No because why would you want to keep the opposition out?

CHAIRPERSON: So you would not even be arguing about duration thing or initial, with your initial investment maybe you need the...
10 because of the cost that they incur, would that investment, in your view you just do not think they are necessary at all?

MR BAUERMEISTER: Well we as, as the smaller player would not keep anybody else out I mean at the end of the day it is competition, let the customer decide where they want to shop but once again it will depend on the viability for both retailers to make an existence, I mean that is, that is also important.

CHAIRPERSON: Just for us to understand how you operate in South Africa, are your stores in South Africa identical to the shops or to the Choppies Supermarket stores that you have in Botswana,
20 like the 80 plus stores that were mentioned?

MR BAUERMEISTER: In terms of the look?

CHAIRPERSON: In terms of the look and, *ja* and the offering *ja* and the cost as well.

MR BAUERMEISTER: *Ja* well the model, the model is similar. Rental here is higher than in Botswana and salaries here is, is higher than in South African and electricity those are the three major differences in terms of costs.

MR MATLAHAPE: But I think in terms of layout what you say is correct, but in terms of layout as well I think of recent we have
30 been going after sort of like a hybrid model.

CHAIRPERSON: In South Africa?

MR MATLAHAPE: *Ja* we have just acquired one, not long ago I cannot remember when, but we have acquired one which was, they owned a hybrid sort of stores so we acquired them and then we are running with that for now.

CHAIRPERSON: What are those stores?

MR MATLAHAPE: Develand.

CHAIRPERSON: Develand?

MR MATLAHAPE: *Ja*.

CHAIRPERSON: Okay.

10 MR MATLAHAPE: *Ja* we acquired about four.

CHAIRPERSON: So Develand, Develand already operated as a hybrid store?

MR MATLAHAPE: Yes.

CHAIRPERSON: Wholesaler and retail.

MR MATLAHAPE: Yes.

CHAIRPERSON: Okay.

MR MATLAHAPE: That is the only difference in terms of layout and, but from operations perspective obviously it would be different here compared to Botswana because of the low cost base in Botswana where here it is a bit higher so our payback period is prolonged here than in Botswana.

20

CHAIRPERSON: What is higher here, sorry?

MR MATLAHAPE: The cost of running the business here, the operating costs.

CHAIRPERSON: Are higher?

MR MATLAHAPE: Yes.

CHAIRPERSON: Okay and why is that, why are the costs higher?

MR MATLAHAPE: If you look at [intervenes]

CHAIRPERSON: What is that a function of?

30 MR MATLAHAPE: The main contributing factors are the regulatory costs. Your labour, your electricity and of course a bit of rental,

these are the three main costs, higher costs inputs. So when we put up a store here we always take into effect, we always factor in those.

So when we do our projections in most cases the payback period here is a bit longer than in Botswana.

CHAIRPERSON: So it is rental, electricity and?

MR MATLAHAPE: Labour costs.

CHAIRPERSON: And labour costs.

MR MATLAHAPE: *Ja*.

10 CHAIRPERSON: Those three?

MR MATLAHAPE: Yes.

CHAIRPERSON: Okay.

MR BAUERMEISTER: Sorry maybe if I can just on your question, does the Botswana stores look the same as the...

CHAIRPERSON: South Africa.

MR BAUERMEISTER: South African stores, the stores that you compare build now today is the same all over in all countries, however Botswana is much older than, than South African so you have got some stores that are, I would say really terrible but you know that is all that they had known at that point in time.

20 There is a store close to, what is that hotel where everybody stays?

CHAIRPERSON: Your own stores?

MR BAUERMEISTER: One of the, one of the first shops you know and it is close to one of the big hotels so a lot of suppliers would fly in and, yes what is that store's name? Now there is a store in Block 5 in Botswana, it is probably the worst Choppies that I have been to and people would stay in the Grand Palm close by and they would go and have a look at that store and say oh I have been to a Choppies and you would ask them which store, oh no close to the hotel and that is the worst store to look at because you know,

30

but it was one of the first stores so you know once again if you compare what is build today versus in all countries there is a standard.

Unfortunately obviously if you go back into town and yes that store will be renovated when it is needed and then it would be renovated to the same specification as, as what we have now.

MR KHUMALO: I just wanted to check, you have mentioned on a couple of occasions that your recruitment of the investment is, is higher and it takes longer here. On average how long does it take
10 if you are in a, in a centre as opposed to where you, a standalone store especially those that you bought the land from which you operate from. How long does it take you to recoup that investment?

MR MATLAHAPE: I would be speculating if I say this is how long it takes for a standalone, this is how long it takes for a centre because of the different dynamics, the different variables you put into making it a success. So it differs from one area to the other you know.

For example the store we got in Heilbron it is actually doing more than we expected so and the cost base is more or less of the same
20 as the one operating in a centre but if you look at the revenue it is a bit higher than the one operating in the centre so it is a bit difficult to say this is how, how long it takes for the one in the centre and this is how long it takes for the one in a standalone.

MR KHUMALO: So at this stage you, have you, you have not yet worked out whether it is more profitable or preferable to operate from a centre as opposed to a standalone?

MR MATLAHAPE: The, the stores we recently took like for example the hybrids they are actually showing to be a bit more, signs of profitability would be achieved in a shorter period of time,
30 these hybrids because of the higher volumes and then obviously the margin as well if you compare the, if you look at the margin mix

of how much you do wholesale and how much you do to normal customers the mix is quite good.

So in that alone I would say the recent ones we have acquired yes it is showing signs of a shorter period of payback and shorter period of profitability, achieving profitability.

MR KHUMALO: But is that a function of, I mean if I recall at Develand was a cash and carry right, and it remains what one would wake up in the morning and say I want to go and buy X or X category of products or the cash and carry, so is that a, is that a
10 function of the attraction being Choppies or is it because I wanted to go to a cash and carry anywhere?

So, so what I am trying to figure out is does it matter whether you are, as a new entrant you are operating from a centre or as a standalone you know which one is more costly because at the end of the day we had to, we have to determine whether or not this exclusive lease agreements you know lessen competition at all, so that is why I, you are, you are as a new entrant in, at least in South Africa you are our best case study in this,

So, so, so which [intervenes]

CHAIRPERSON: Are there basically, are there difference in being, in having the standalone store through a Choppies point of view and in having the store, or you, and in having the store in a shopping centre what is the, what is the preference for Choppies or what is it that Choppies is looking for and especially on the standalone store versus that located in a centre?
20

MR BAUERMEISTER: You know I think just we, we do not know what the difference is at this point because there is what the store in Carletonville which we share anchor with Pick a Pay unfortunately that centre has not taken off yet and then the one in Moutse where we share with Shoprite the anchor. That [intervenes]
30

CHAIRPERSON: Moutse?

MR BAUERMEISTER: Moutse, mall of Moutse *ja*.

CHAIRPERSON: Can you spell that for me please?

MR BAUERMEISTER: M-o-u-t-i [intervenes]

CHAIRPERSON: M-o-u not M-o? M-o?

MR BAUERMEISTER: M-o-u.

CHAIRPERSON: M-o-u?

MR BAUERMEISTER: t-s-i.

CHAIRPERSON: t-s-i.

MR MATLAHAPE: o-a.

10 CHAIRPERSON: i, Moutse? So it is at the end?

MR BAUERMEISTER: Yes.

CHAIRPERSON: Right where is Moutse?

MR BAUERMEISTER: It is on the Moloto Road on your way to
[intervenes]

CHAIRPERSON: North West?

MR BAUERMEISTER: No, no, no that is in Limpopo or
Mpumalanga.

CHAIRPERSON: Okay.

MR MATLAHAPE: I think it is in Limpopo.

20 CHAIRPERSON: Okay.

MR BAUERMEISTER: So you know those are the only two real
examples which we have where we are sharing anchor with a call it
the big four retailers.

The one as I say whereby we are sharing with Pick a Pay the
centre is a disaster, it has not taken off at this point and then
Moutse, I am not on the [intervenes]

CHAIRPERSON: Just go, going back to Carletonville, how long
have been in Carletonville with Pick a Pay?

MR BAUERMEISTER: Two years.

30 CHAIRPERSON: It has been, okay it has been two years now?

MR BAUERMEISTER: *Ja, ja* so [intervenes]

MR KHUMALO: Sorry and how long has the mall been there?

MR BAUERMEISTER: Two years, we opened with the mall.

CHAIRPERSON: At the same time?

MR BAUERMEISTER: *Ja* at the same time and then Moutse is probably what, two and a half years where we, we are sharing anchor with Shoprite in that case. So you know it is not easy to, to tell, I am sure we can, will be able calculate what the profitability of a store versus, you know but, but two centres sharing with main anchors the one not being able to be able to, to justify anything
10 because the centre is, is a white elephant at this point in time.

The prediction and the, the marketing behind that centre was that it was going to pull all the people from, the rank was going to move there and this is going to happen and that is going to happen so we bought into what Pick a Pay bought into and, and the realization of that was not what happened.

So, so that centre for us is a problem, if we take the Shoprite one [intervenes]

CHAIRPERSON: So the rank did not move closer to, to the Carltonville centre?

20 MR BAUERMEISTER: No, no.

CHAIRPERSON: Okay, so basically it is the market that got, you, the market is not, you do not have customers close by?

MR BAUERMEISTER: Correct yes. There is a lot of development and a lot of RDP housing which is being build in the area but that is still work in progress.

CHAIRPERSON: Okay.

MR BAUERMEISTER: So probably long term yes, we are now in discussions of reducing the rental in the store because it is just what was said and what is happening is two different things.

30 So that is the one and then Moutse, I mean Moutse is not a mall which is in a, you know it is a rural town, it is a relatively small

rural town so yes the turnovers there are not, are not what it is. Maybe just to add on the Develand stores which we have taken over, once we have taken them over and managed them differently you know putting a bit more of a retail feel and look to it, obviously equipment, butcheries and those type of things the turnovers in some of those stores have, have almost doubled.

So you know we have, in terms of Choppies whether they came for Choppies or not we can run a supermarket because what they were doing and what they are doing now is tow totally different things. And then sorry, sorry just to get onto your other question in terms of the stores that we acquired initially, the property company versus the retail company is totally separate so, so we would not consider the, the payback on the property as a cost to the Choppies group rather across to the far properties group, so we, we split the two entities completely.

CHAIRPERSON: I just want to confirm something for the record, the centre you have in Moutse is it, my colleague just pointed out, is it the one in Mpumalanga near Groblersdal and Marble Hall?

MR BAUERMEISTER: That is correct, yes.

20 CHAIRPERSON: Okay.

MR KHUMALO: *Ja* for, for me I think if you can maybe give us an indication of where the, the Develen stores are located? Which towns?

MR BAUERMEISTER: Okay the one store is in Zanspruit, the other store is in Thokoza, Alroad.

MR KHUMALO: Thokoza.

MR BAUERMEISTER: *Ja*.

CHAIRPERSON: Okay as you mention the towns please mention the provinces?

30 MR BAUERMEISTER: Okay. Alright so... Zanspruit is in Gauteng.

CHAIRPERSON: Okay.

MR BAUERMEISTER: And then Al Road or Thokoza it is also in Gauteng and the other one is in Heilbron.

CHAIRPERSON: Heilbron?

MR BAUERMEISTER: *Ja*. That, is that North West or is that Gauteng as well? It is on the border.

CHAIRPERSON: Is that not Free State?

MR BAUERMEISTER: No, no, no. No that is Heilbron is just behind Ga-Rankuwa. So that, I am not sure North West or Gauteng the border is, is [intervenes]

10 MR KHUMALO: No we also know where Ga-Rankuwa is.

MR BAUERMEISTER: But you know where it is.

CHAIRPERSON: So that is near Ga-Rankuwa?

MR BAUERMEISTER: Yes just behind Ga-Rankuwa in fact.

CHAIRPERSON: Okay.

MR BAUERMEISTER: And another store, other Develand store which we have taken over last month was the one in Bela-Bela.

CHAIRPERSON: Bela-Bela?

MR BAUERMEISTER: *Ja*, that is Limpopo.

20 MR KHUMALO: *Ja* I would like to, you know take a look at the stores, I know my colleague is quite keen.

CHAIRPERSON: The Choppie stores?

MR KHUMALO: *Ja* so the [intervenes]

CHAIRPERSON: Do you, do you have a store around Johannesburg, do you have a store nearby in Johannesburg because we have not seen any Choppies store other than, I am looking at the magazines and stuff so it would be nice for, for the enquiry just to see what [intervenes]

30 MR BAUERMEISTER: *Ja* I think, I think a good example would be going to Zanspruit which is the store we bought in a nice busy area which we have actually doubled in turnover, that is one of the hybrid stores and then we have got a store close by in Pretoria

North, Choppies and then Brits but *ja* Pretoria North would probably be the closest to here.

MR KHUMALO: *Ja* the, the team, many members of the team that have actually seen the Choppies stores are no longer with the enquiry team you see.

MR BAUERMEISTER: Oh okay.

MR KHUMALO: Yes but for me I think we would like to see the ones that are hybrids, we have a fair idea of what a Choppies store looks like.

10 MR BAUERMEISTER: Okay.

MR KHUMALO: But we would just like to see the differences.

MR MATLAHAPE: I would say the one in Zanspruit and Heilbron.

MR KHUMALO: Zanspruit and Heilbron.

MR MATLAHAPE: Those are our referenes.

MR BAUERMEISTER: *Ja* and if you go to Zanspruit you might as well pass past Brits for those who have not see a, because then it will be on route, the three stores are sort of in a line.

20 CHAIRPERSON: So can we understand then that the, all your Develen stores have continued to be hybrids, you have continue with the wholesale and the retail aspects of the stores?

MR BAUERMEISTER: Yes we have.

CHAIRPERSON: And what is Choppies strategy, is it to be a retailer or to, to do whatever the market allows you to do, be a hybrid where it is in the market and is looking for that, what is your thought?

MR BAUERMEISTER: Well I think you know for, for now we would, we are taking what we can in the market to obviously grow and, and I do not know if you have seen our financials in South Africa I mean to become profitable.

30 So at this stage whatever it takes, we are a retailer, that is our forte that is what we know, so you know if you look at the hybrid

stores that we have added, we have added a lot, we have added our expertise in terms of our retail as well as our service departments, there was no take-away in there so we have got, we have got a brand called CFC which is like a fried chicken version of KFC if you want to call it that so that we added a take-away, we have upgraded the bakery whereas previously they have just sold bread so now we have got some cakes and you know some confectionary going there and then the butchery with the, I mean if you know about the Jualani take over that we have bought Jualani

10 [intervenes]

CHAIRPERSON: In KZN?

MR BAUERMEISTER: Correct *ja* so they are specialist butcheries, so their expertise has actually done our business the world of good in terms of what we now can do in butcher. So the butchery component added to the hybrid stores has also changed them around completely.

MR MATLAHAPE: Because if you look at it with wholesales the margins are quite low, very low, but when you bring in the retail aspect of it the margins are better so if you have a mix of these two you can maximize on both sides so that, that is what we are pursuing in a way by default because the market is dictating to us as well to do that in a way.

20 CHAIRPERSON: Just to understand then, in your understanding of what the landlord or property developers may be looking for which of your store formats would be suitable for a centre, would it be the hybrid, will the hybrid format be suitable for a centre or would you more, your retail format be the most suitable or is the most suitable for the centre?

MR BAUERMEISTER: *Ja* in centres definitely retail

30 CHAIRPERSON: Definitely retail?

MR BAUERMEISTER: *Ja*.

CHAIRPERSON: So that, that is what you would be selling when you approach a landlord?

MR BAUERMEISTER: Yes.

CHAIRPERSON: Okay and how many of your stores are in shopping centres, even if it is a percentage I do not really need the figures unless you have got the figures and those that are standalone versus those that are standalone?

MR BAUERMEISTER: And what would you consider as a centre, even a strip mall with maybe three, four stores?

10 CHAIRPERSON: What you do consider as a centre or a mall For example, I think for our purposes I think if in a street centre you are likely to encounter an exclusive lease then to us it will be a shopping centre.

MR BAUERMEISTER: Correct yes, so I would, I would split them then in three, standalone versus strip mall versus shopping centre.

CHAIRPERSON: No, no, no I am saying if a strip, if a strip centre would actually have an exclusivity for our purposes we categorise them or we would include them in the broad definition of a shopping centre.

20 MR BAUERMEISTER: Would you include that?

CHAIRPERSON: Yes we would.

MR BAUERMEISTER: Okay.

CHAIRPERSON: We would consider *ja* the, because we think the broad term would be a shopping centre and then in that broad term we decide [intervenes]

MR BAUERMEISTER: Okay.

CHAIRPERSON: Look at whether is it a strip centre, valley centre, convenient centre, community centre, so we have been told.

30 MR BAUERMEISTER: Alright. Okay. We did that. I think *ja*, let us get that figure for you and maybe send it to you that we can just go through the list of stores, it is very easy to determine.

CHAIRPERSON: And would you say the bulk of your stores are standalone or are in centres?

MR BAUERMEISTER: Bulk would be standalone and strip malls i.e. three, four little stores you know, attached to the big store.

CHAIRPERSON: Okay.

MR KHUMALO: But you did say that there are only two there where you are.

MR BAUERMEISTER: Two where we are co-anchor in a big centre, yes.

10 MR KHUMALO: Now are there any other where you are in a big centre by yourself?

MR BAUERMEISTER: No.

MR MATLHAPE: As far as I know, no.

MR BAUERMEISTER: No.

CHAIRPERSON: And in terms of geographic presence at the till or as a last question on this, on your geographic footprint in South Africa, which provinces are you in at the moment and where are you planning to go?

I do not know if you want to mention your strategy as to what you...
20 where you want to expand to, but currently where are you as Choppies?

MR BAUERMEISTER: Okay so currently we are operating strong in the North West, Limpopo. Then we have got a few stores in the Free State, we have got one store in the Northern Cape which is Hartswater which is sort of on the top of the border of the Northern Cape but it classifies as a different province, Mpumalanga we do have. Gauteng with the acquisitions we have now entered into the Gauteng market and then obviously KZN now with the Jualan brand. We are currently busy constructing a Choppies in the KZN
30 province as well so we will obviously mix the two brands with each other.

CHAIRPERSON: So you are building your own store?

MR BAUERMEISTER: Well not ours ourselves, we are going to rent but we have concluded a lease, yes. And then there is with the Jualani brand, there is another one or two stores in the Eastern Cape Province as well.

CHAIRPERSON: Okay.

MR BAUERMEISTER: So our strategy for now is to establish our footprint in the Eastern Cape, KZN, obviously entering Gauteng which is very new for us but which is a massive market and Free
10 State is also quite a big focus for us in the next year.

CHAIRPERSON: So you want to be a national retailer basically?

MR BAUERMEISTER: Ja, for sure.

CHAIRPERSON: In South Africa.

MR BAUERMEISTER: That is the strategy eventually, obviously we need to grow as our footprint allows it, yes.

CHAIRPERSON: Allows it. Okay.

MR BAUERMEISTER: Ja. So for now at the moment if somebody from the Western Cape would approach us, we would unfortunately have to decline because it is just too far from our resources. But
20 eventually, I mean KZN is now going into Eastern Cape, once Eastern Cape is established obviously Western Cape will be the next step.

CHAIRPERSON: Okay.

MR KHUMALO: So if you can maybe elaborate or what do you mean Western Cape would be far from your resources? What are they?

MR BAUERMEISTER: Okay so currently we operate from two regional offices, one based in KZN and one based in call it Gauteng or Rustenburg where the main DC is.

30 So part of our infrastructure and part of what makes us compete against the bigger retailers I believe would be our logistics, our

warehousing, so buying in bulk obviously getting the maximum discounts on product and then obviously distributing it ourselves. So for us to send a truck from whether it is KZN or from Gauteng to Cape Town would not be cost-effective.

CHAIRPERSON: Okay just to move to the questions relating to suppliers and how you interact with suppliers.

Do you have any criteria that your suppliers must meet as to supply Choppies? Are there any requirements and what are these requirements or what is that criteria?

10 MR MATLHAPE: In terms of supply, look if you can give us the product at a good price, good quality, you qualify. Obviously we have to do the legal checks and all that but our main focus is on the price and the quality of the product and obviously the distribution reliability, supplier reliability in terms of logistics as well. So those are the main criteria.

CHAIRPERSON: I know you are a newer player in the South African space, do you have any small suppliers that you have brought into your... whose products you have brought into your stores that are local suppliers, South African suppliers and can you
20 tell us about how that has happened, their journey in your stores if you have got any stories to tell on this?

MR MATLHAPE: Okay, I will be speculating on that because suppliers is not my area that I cover, we have got a chief buyer. I think he will be more in a better position to explain the details how the supply chain works. But we do have small suppliers naturally because, part of our commitment is to uplift the community area you operate in as well.

CHAIRPERSON: Okay so you have that as a strategy?

MR MATLHAPE: Yes, it is part of our strategy but bulk of our
30 suppliers are mainly centralised suppliers.

CHAIRPERSON: Okay.

MR MATLHAPE: Big suppliers.

CHAIRPERSON: Okay.

MR BAUERMEISTER: Ja, maybe just added to that you know, part of the uplifting of the local community is we like to buy like cabbages, spinach and all of those like fruit and veg fresh produce items, w definitely buy locally, that I know from my time in the stores.

CHAIRPERSON: Okay and just to give us a sense of who you buy from, are these established?

10 Because people can say they buy from a community and they talk an established farmer. Would these be small farmers in those areas?

MR BAUERMEISTER: Ja no, definitely, small farmer with a bakkie comes and offloads and ja, we buy from them.

Ja, so definite, the established farmers already supply the markets or supply our DC, we have got a fruit and veg DC in Rustenburg as well so they call it the commercial farmer, they would supply our DC's there.

20 CHAIRPERSON: Okay and then in all the provinces where you are located, this is the strategy to look for the smaller players if they are a viable source of supply for you?

MR BAUERMEISTER: Yes.

CHAIRPERSON: Okay and do you have any... do you charge bates on your suppliers, allowances, deductions in your trading agreements with them?

MR MATLHAPE: Definitely, retail is part of its income is from rebates and... [Intervened]

CHAIRPERSON: Part of your income is from rebates?

30 MR MATLHAPE: Ja, definitely it is from rebates, it is from settlement discounts, it is from DC allowances, we definitely, it is a must in retail, it is core.

CHAIRPERSON: Okay and... okay can you speak on your damaged goods allowance, how does that work?

MR MATLHAPE: There are two ways to it. we have something called swell allowance.

CHAIRPERSON: What is it called?

MR MATLHAPE: Swell allowance.

CHAIRPERSON: Swell allowance, okay.

MR MATLHAPE: Ja, I do not know if Deon can explain it a bit better, I am not privy of the details.

10 MR BAUERMEISTER: Yes, so swell allowance is just the supplier does not take back his damages whereby they give as a percentage discount off invoice in view of damaged goods and then obviously the other alternative is that the supplier would take back his damages and give you full discount... ag sorry, credit for the product.

CHAIRPERSON: So as a retailer you then dispose of those damaged goods yourselves?

MR BAUERMEISTER: Yes.

CHAIRPERSON: Where swell allowance is applicable.

20 MR BAUERMEISTER: Correct.

CHAIRPERSON: Okay and when you... just it is something that we forgot to ask one player in the market on this. How do you dispose of your damaged goods?

MR MATLHAPE: There is two ways, there is a regulatory point of view and then there is where we do not necessarily have to dispose it in accordance with what the regulations are saying, we donate them.

Because you know, for example a can of coffee if it is dented, it is a damage but the product itself is not necessarily damaged, so we
30 donate that. We mostly give it to charity organisations or whoever needs, we just give. We donate.

CHAIRPERSON: Are any of your damaged goods on sold?

MR MATLHAPE: Are they on?

CHAIRPERSON: Sold.

MR MATLHAPE: No, we do not.

CHAIRPERSON: Oh you do not?

MR MATLHAPE: No.

CHAIRPERSON: And then you have already mentioned that you also have DC allowances and how does the DC allowance work and how does it work in favour of the supplier? Can you explain that?
10

MR BAUERMEISTER: Yes. So DC allowance would be instead of ...

MR KHUMALO: We are not looking for the actual percentages what you charge them, we just want to... [Intervened]

MR BAUERMEISTER: No, no, no, I just want to say let us get the number of stores so Choppies almost has 80 stores in South Africa. So instead of the supplier delivering to 80 stores, waiting at 80 receiving and sending 80 invoices, they would deliver to one point in bulk, in truckloads, they have got very strenuous requirements as to how you can order from them to qualify for a DC allowance.
20

So for example you get pallet loads on certain goods, you get layers, you get certain amounts of you know, so in other words certain amount of cases on each variant of product which you order from them, so that is the sell-in for the supplier. We order in bulk, they deliver in bulk, it is one invoice, one delivery, one invoice entry, one reconciliation.

And then I do not know if you have been to the back of some of the stores any retailer for that matter, I mean they wait at the receiving for quite some time. So it is the saving of time, it is the saving of transport, it is the saving of invoice entry and all of that which
30

equate to a DC allowance.

MR KHUMALO: You know, I do not really understand this DC allowance, I have been, we have pursued it with cash and carries and retailers and suppliers like but what is it really?

Is it only because it is convenient to deliver in one space or is there a further requirement to qualify for it?

MR BAUERMEISTER: I would say that is the requirement. I mean if you... once again instead of having a fleet of smaller trucks, you have one big truck to go and offload. So that is... and the invoicing,
10 I mean it is a nightmare, imagine 80 stores, now you deliver, there is a shortage on the delivery, it is 80 claims. What happened to your damaged goods?

Is it going back with that truck? So what does the supplier do with the damaged goods? There is a lot of positive factors involved on rather going to DC as oppose to going direct to store.

MR KHUMALO: Ja, as you are aware one of the areas we are looking at is what is the impact of big retailers coming into the rural spaces and the townships. Now if the supplier rewards you as a retailer for delivering in one location and they are able to give you
20 one invoice and you know, take back damaged goods and things like that from that so that their truck is not going empty in one direction and full in the other.

There are a number of informal businesses like spaza shop owners who have come together to take advantage of the bulk buying aspect. Now what would, in your view if there are any difference, what would be the difference from a supplier delivering to a central location for a number, say 100 informal dealers and they offer the same convenience as oppose to a retailer? Is there any difference?

MR BAUERMEISTER: No, I think it is basically just the ability to
30 deliver in bulk and the benefit thereof to them.

MR KHUMALO: So the suppliers should be able to reward them

for convenience.

So they should be even if it is not a DC, I mean if it is not what they call a DC, they are able to take delivery of that bulk supply.

MR BAUERMEISTER: They should qualify.

MR KHUMALO: They should qualify.

MR BAUERMEISTER: Ja ja.

MR KHUMALO: No, I just wanted to check because... [Intervened]

MR BAUERMEISTER: Oh and then once again if it is one invoice, one claim, one drop-off point, one... Yes, because that is what the
10 benefit of the DC is.

MR KHUMALO: Okay. No, I wanted to check from a player other than the ones we have spoken to I mean my colleagues can confirm this, we have been told that cash and carries notwithstanding the fact that they are in one spot, they do not qualify for this and the smaller traders, well those groups have told us that they do not qualify for that as well.

So I mean these are... then we have been told that these trading terms are industry practice, you know every retailer expect them so we just wanted to check whether it is not one of entrenched
20 practices that are discriminatory.

MR BAUERMEISTER: Ja, I think you know, the requirement is set by the supplier as appose to us. I mean if... and they would, they would look at the volume but once again I mean if you tick all the boxes in terms of you know bulk delivery, one invoice for multiple stores and those type of things, I do not see why you should not qualify.

Ja, there is a lot of different things you call it a... you can call it a truck allowance or a DC allowance or whatever it is. So there is many different things but it all boils down really to the same
30 benefit.

MR KHUMALO: Ja, so for say I am buying 100 pallets of mielie

meal or... I should be able to qualify for the same rebate as a Choppies or a Pick n Pay right regardless of who I am?

MR BAUERMEISTER: Sure. If the volume is there then yes, definitely. That my opinion though, in my view, but yes.

MR KHUMALO: Ja, I want to be able to say when I meet a supplier say well it is not my opinion as a layman but you know having spoken to people who are in the market, there is nothing else that you can use to deny this benefit to the smaller guy, right?

CHAIRPERSON: Do you charge listing fees?

10 MR MATLHAPE: As far as I know, no, we do not.

CHAIRPERSON: Do you know why you do not have listing fees or do you have something similar?

MR MATLHAPE: Is there a necessity for us to charge it?

CHAIRPERSON: No, we are just asking. We just want to understand. I guess the necessity speaks to the purpose, so we want to understand why are there listing fees in the market because it is the cost for the supplier or a cost for the consumer if that cost is transferred to a price that a consumer pays.

20 MR MATLHAPE: From our side there is absolutely no need for us to charge any listing fees because obviously one of the reasons would be that we are entering the market.

CHAIRPERSON: You are?

MR MATLHAPE: Entering the market.

CHAIRPERSON: Ja.

MR MATLHAPE: We need to build relationships with the different people who can supply the products. There is no need for us, even if you grow to a certain level there would not be any need for us to do that because even in Botswana we are the market leader almost at 40%, we do not charge listing fees.

30 We actually encourage people to submit to us to say that this is what they can supply to us at free charge nothing.

MR BAUERMEISTER: I think listing fees would also block smaller suppliers to actually enter the market.

CHAIRPERSON: That is your view?

MR MATLHAPE: Yes.

CHAIRPERSON: Thank you. And you say even in Botswana you do not have anything similar to listing fees?

MR MATLHAPE: As far as I know, no.

CHAIRPERSON: Okay and do you have a settlement fee? Do you charge a settlement fee with your suppliers? Do you have anything like that?

MR MATLHAPE: Settlement... [Intervened]

CHAIRPERSON: In your settlement terms with your suppliers, there would be a period within which...

MR MATLHAPE: Ja, definitely.

CHAIRPERSON: So you have something called a settlement fee, you may call it something else, but something similar.

MR MATLHAPE: We call it settlement discount.

CHAIRPERSON: Okay.

MR MATLHAPE: That is the one I alluded to.

20 CHAIRPERSON: How does that work?

MR MATLHAPE: We negotiate, you tell me you can supply me this product and you want payment, if you tell me you want it within 30 days and I will say okay fine because your product maybe moves the sales it is moving at a certain rate, then I will... if you want it in 30 days, give me a discount of this much to compensate for whatever... [Intervened]

CHAIRPERSON: Is left.

MR MATLHAPE: Yes.

CHAIRPERSON: Okay.

30 MR MATLHAPE: So give me a date... give me a settlement discount of this much for 30 days, if you want 15 days I will tell you

okay no, if you want 15 days because the opportunity cost for me paying you early this amount... [Intervened]

CHAIRPERSON: Before you have sold.

MR MATLHAPE: Ja, give me a settlement discount of this much.

CHAIRPERSON: Okay.

MR MATLHAPE: So that is what we do, that is what we call it, settlement discount.

CHAIRPERSON: Okay and what is your... how long is your settlement period as Choppies?

10 MR MATLHAPE: Normally it is 30 days.

CHAIRPERSON: Normally 30 days.

MR MATLHAPE: Ja.

CHAIRPERSON: Okay. So that is the maximum supply you can experience you can get payment?

MR MATLHAPE: There will be some suppliers which might be 45 days.

CHAIRPERSON: Why would those be exceptional?

MR MATLHAPE: If you look at maybe the product movement and if the product it is a slow mover, why would you want to settle early?

20 Because it means you are paying for something you have not sold.

CHAIRPERSON: Okay.

MR BAUERMEISTER: But there is also suppliers that are shorter than 30 days.

MR MATLHAPE: Exactly which is 15 days, some of them are actually seven days.

MR BAUERMEISTER: Or seven days.

CHAIRPERSON: Okay. So it depends on the product that the supplier is supplying to you.

MR MATLHAPE: If you look at our fruits and veg it moves...

30 [Intervened]

CHAIRPERSON: Faster.

MR MATLHAPE: Faster than any other products, so... [Intervened]

CHAIRPERSON: So the settlement periods there are shorter?

MR MATLHAPE: Yes.

CHAIRPERSON: And therefore there are a lot of... if the price is moving faster is there a settlement fee?

MR MATLHAPE: If the product?

CHAIRPERSON: Because the... if the product moves faster like you made an example of the Fruit and Veg, why is there a settlement fee payment? Because the product is moving faster anyway.

10

MR MATLHAPE: No, the products which move faster normally do not have settlement discount.

CHAIRPERSON: Yes. Okay sure. So there is no justification to have a settlement fee on your product that moves faster.

MR MATLHAPE: Absolutely not in my view. Unless maybe there are other factors one would take into consideration, maybe the costs, the costs is a bit higher then you can always argue for that.

CHAIRPERSON: But the cost of what?

MR MATLHAPE: Of the supplier supplying us we can always argue and say but your price is this much, give me a settlement discount of this much.

20

CHAIRPERSON: Okay and I think my last question to you, we were given, when Pick n Pay appeared before us, they gave us... in their presentation there is a slide that depicted, well I will give you the headings so you can get a sense of what it was trying to depict to us, they agreed to offer me entrance to emerge and grow rapidly and it shows Choppies at the top of that list in 2012.

Is it 2012? Up to 2015 actually and it says in 2015 you had about, in terms of your growth you had made about 183.8, I am assuming that is millions, 22.5% of the market.

30

So that is the highest growth and this actually lumps up, I do not

know if you want to have a look at this and analyse it for us and just comment on it because I think it would be fair of me to give you just a copy of this for you to see. Ja, ja, it was presented publically. It was put here, it is a public document that is not confidential.

It was a presentation that was done in this hearing publicly. Would you say that is a fair portrayal or depiction of Choppies in relation to other players in the market?

MR BAUERMEISTER: Sure Choppies is growing, yes.

10 CHAIRPERSON: From a zero base.

MR BAUERMEISTER: Ja, exactly! [Laughs]. So let us compare the baseline of those you know, turnovers. I am sure their growth at whatever percentage it is, is still more than ours in value terms than growth percentage terms.

CHAIRPERSON: Within that period from 2012 and 2015 if we were to ... okay.

MR BAUERMEISTER: Sure.

MR MATLHAPE: Because we went from nothing to something.

20 MR BAUERMEISTER: I mean so 2012, I speak under correction but we might have had 30 stores in our total company so now we are 80, you know that is the bottom of the barrel compared to where they are so yes, let us compare their turnover and their growth on their turnover and compare it to our growth value, different picture just depends on what message you want to carry I guess.

CHAIRPERSON: Okay. Do you have advertising fees or charge advertising allowances on your suppliers?

MR KHUMALO: Do you get promotional support I mean if a supplier... [Intervened]

30 MR BAUERMEISTER: Yes, I mean there is a... now we run a Christmas competition once a year, where we, I do not know how

many cars it is now.

MR MATLHAPE: It is in the 25, 26. I cannot remember the exact number.

MR BAUERMEISTER: Where we give away cars and obviously the suppliers assist in funding that but obviously they get something in return, so they will get adverts, they will get extra space in store, you know their product packed on the gondola ends for example, so yes, ja.

10 CHAIRPERSON: So do you have advertise... do you have a promotional allowance that is event specific or do you charge promotional allowances every time a supplier... every time you engage with supplier? How does it work?

MR MATLHAPE: Promotional allowance, I have never heard of it. maybe our buyer has an input on that but I have never heard of it and the only time that we engage with suppliers, especially during a promotional side is when we share the cost of promoting.

For example when we engage blue label, it is one of our service providers, we actually share the cost of setting up the blue label and then marketing it.

20 CHAIRPERSON: Okay so it is specific to... it is a very specific contribution by the supplier?

MR MATLHAPE: Yes.

CHAIRPERSON: Okay so it is not a standard charge?

MR MATLHAPE: Not that I know of.

CHAIRPERSON: Okay and then category management, is there is category management allowance?

MR MATLHAPE: No.

MR KHUMALO: Do you not get suppliers to come and look after the shelving of their products merchandisers?

30 MR MATLHAPE: We do, we have merchandisers.

MR KHUMALO: Are they Choppies employees?

MR MATLHAPE: No, they are the supplier's employees, they are not our employees, they are not on our payroll.

MR KHUMALO: How does that work?

MR MATLHAPE: They supply, they come and merchandise their product in out stores. Because it is also on their part they need to contribute in making sure that the product moves.

So one of the ways of doing it apart from just marketing on media platforms, is to actually get people into the stores and do the merchandising because that is where the stock moves.

10 MR KHUMALO: Ja, I mean we have heard this term but we do not know what is it, we heard that there is a merchandiser in the store but we do not know what they actually do, you know.

We were told you will see a person wearing a Tiger Brands shirt in the store, I am sure I have seen one or two but I would not be able to figure out what they do. I mean what is the benefit to the supplier? What is the benefit to you?

MR BAUERMEISTER: I think the benefit to the supplier would be simply that his... if he has got people representing his product, then the stock arrives at the back door, that product would immediately reach the shelves whereas oppose to if there is no merchandising, let us say there is no merchandising on any maize meal, I mean it is a heavy product, you know it is a labour intensive product to put on the shelves.

20 So whatever is in front our employees would take first, you know. So if the shelf would remain empty for let us say Snowflake cake flour because that is at the back so now you have got Golden Cloud and Sasko first being packed out, they potentially would lose sales. I think it is more... it is in their own interest to actually... it is more of a speed to shelf type of scenario as oppose to...

30 [Intervened]

CHAIRPERSON: So they facilitate the packing of the goods.

MR BAUERMEISTER: The packing of the goods, they see that the stock is rotated properly so in other words that they... you know, the older product is in front and the newer product is packed at the back, to avoid obviously damages and returns to them.

CHAIRPERSON: Yes.

MR BAUERMEISTER: Ja, so that is what I would comment or merchandising.

CHAIRPERSON: Okay and on your... the allowances that you charge on your suppliers together with that settlement period fee, 10 are these outcomes of your negotiations or do you impose them? Is it what the supplier would want or do they come out of your negotiations with each supplier? It is not something that Choppies imposes.

MR MATLHAPE: We do not impose it, we negotiate. We cannot impose, we are not in a position one to impose and... [Intervened]

CHAIRPERSON: Not at the moment.

MR MATLHAPE: Ja, and secondly [laughs] and secondly we do not like the business of imposing.

CHAIRPERSON: Okay.

20 MR MATLHAPE: Imposition is not what we... [Intervened]

CHAIRPERSON: it is not what you do, you do not dictate on your suppliers.

MR MATLHAPE: No.

CHAIRPERSON: Okay.

MR MATLHAPE: We always advocate for a fair playground, so we do not impose, we just negotiate. Because the moment we impose on somebody, if they are not able to fulfil the end bargain because you have imposed, they collapse. Do you want to see a supplier collapsing? No, we do not.

30 CHAIRPERSON: No. Okay and then you know when you give us... when you provide just on the follow up points, it would be nice for

us to see the different sizes, the categories of suppliers that you have and maybe give us a sense in percentage terms and figures, I do not know if figures would work, I do not know. I do not want to make this a burdensome task to anyone, but it just give us a fair sense of like how many small... how many do you consider small and what do you describe... what do you define as small?

How many of your, even if it is in percentage terms and how many medium suppliers do you have and how many large suppliers do you have and again just give us a fair sense of what do you define as medium, what do you define as large.

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MR MATLHAPE: Ja, definitely. I will engage the chief buyer on this and then he will give me the information, I will forward it to you.

CHAIRPERSON: Okay.

MR MATLHAPE: It is fine.

CHAIRPERSON: I think that is... I think that is all from us. Thank you. Oh there may be a question coming from the... That is all from us.

Thank you very much. I do not know if you have got any remarks or comments that you want to make.

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CHAIRPERSON: Thank you very much.

MR MATLHAPE: Thank you.

CHAIRPERSON: Thank you.

HEARING ADJOURNS
