

REPUBLIC OF SOUTH AFRICA COMPETITION COMMISSION

Competition Act, 89 of 1998

MEETING WITH FRUIT AND VEG CITY, FOOD LOVER'S MARKET

DATE: 31 OCTOBER 2017

VENUE: CSIR PRETORIA

CHAIRPERSON: MS MTANGA

COMMISSION MEMBERS

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In the hearing of

COMPETITION COMMISSION AND FRUIT AND VEG,
FOODLOVER'S MARKET

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PROCEEDINGS ON 31 OCTOBER 2017

CHAIRPERSON: Good morning ladies and gentlemen, we are ready to resume with our public hearings, Gauteng Public hearings which are being held at the CSIR in Pretoria. Today we have Fruit and Veg City, who would be making their submission and first appearance at these public hearings.

Just before we proceed, yesterday I did announce and I think maybe for your benefit, I should indicate this, we have decided to dispense with the formalities that you may have seen in the other
10 proceedings where we announce the conduct of the hearing and the rules applicable, we are hoping that you in house legal advisors would have given you some guidance as to how this, how the proceedings operate.

Should you have any questions with regard to certain things, we can still, give you, provide you with some guidance on that and the second thing that I also want to touch on is that, you may note that the Chairperson of the inquiry is not amongst us today, the reason for this is, it is, well, it is due to circumstances beyond our control and his control as well and he sends his apologies, he will not be
20 joining us at all in these public hearings.

I am the panellist in this, my name is Lulama Mtanga and I will be chairing the rest of the public hearings, thank you. If you are ready we can proceed and before we proceed, as you would know from the letter that was sent to you or the set of questions that was sent to you, we basically said we would like you to make a presentation on the various topics that are covered in those questions, but before we delve into your, or go into your presentation, we just want you to take us through some of the questions, all of the questions that you requested.

30 Some of them we do understand why you may be asking for a closed session on and then where we not sure, we will just ask for clarification for you, on you and then we just want that to go on

record for our purposes thank you.

Okay, thank you and when we, I do not know if you will all be talking, can you just give us an indication on that as to who will be talking, but when we ask questions feel free to have any of your, any member of your delegation to answer the question, we are not very formal on that, so feel free to decide who should take on the question. And then... (Intervened)

MR MEINTJIES: May I ask, if we address you, do we need to press this button here?

10 CHAIRPERSON: Yes and then the light goes on.

MR MEINTJIES: Okay.

CHAIRPERSON: Ja, and then just before we proceed, I want to, before you proceed and deal with the confidentiality, can I request that you place yourselves on record?

MR MEINTJIES: Thank you Madam Chairperson, my name is Nigel Meintjies, I am the in house counsel, the Legal Director at Food Lover's Market. On my left, immediately left is Mr Michael Coppen, and Mr Coppen is the, a Director of Food Lover's Holdings and he is responsible for the development of new stores
20 in our group and he will particularly be dealing with the issues relating to exclusive lease agreements and related matters.

On his left is Mr Stephen van Vuuren, Mr Stephen van Vuuren heads up our Grocery Division and he will be able to deal with you on the grocery related topics and then immediately behind me is my colleague who has an office in Johannesburg, her name is Mirella Gestaldi and she is the person who has been dealing most closely with the commission with regard to the submission, with our submissions before yourselves, so that is the four of us.

CHAIRPERSON: Thank you very much Mr Meintjies. Okay, let me
30 just go through, now I am just going to go through the confidentiality, or the questions that you would like to present confidentially, the first one is question 14, which basically means

generally any matter relating to that, but I just want to understand the context of the question as well, so that we see what else can be dealt with in this public forum. That question says:

“To what extent does Fruit and Veg, Food Lover’s Market require the landlord to contribute to the furnishing and fitting of their store in the shopping centre?”

What exactly is confidential about that?

10 MS GESTALDI: Thank you Madam Chair. In terms of claiming confidentiality, we would like to claim confidentiality in the event that you require us to disclose any figures and amounts that we have reached agreement on with the landlords in their contribution toward tenant installation allowances.

CHAIRPERSON: Okay, sure and then our next one is question 16: “How does Fruit and Veg or Food Lover’s Market negotiate rental per square metre for a store?”

20 MS GESTALDI: Right, thank you Madam Chair again. We are happy to give you broad information on how we enter into negotiations, but we would like to claim confidentiality on rentals per square metres and escalation rates.

CHAIRPERSON: So you want to claim confidentiality on the actual amounts... (Intervened)

MS GESTALDI: On the actual amounts, yes

CHAIRPERSON: okay.

MS GESTALDI: Thank you.

CHAIRPERSON: Okay, and then, my next one is question 33, do you agree Maria?

MS MARIA: Yes.

30 CHAIRPERSON: Okay: “Indicate and discuss all criteria that must be met in order for a supplier of goods to be listed as a Fruit and Veg or Food Lover’s Market supplier?”

Why would that be confidential or what aspects of that would be

confidential?

MS GESTALDI: I think we are, in that question we have pity way of confidentiality, there is nothing confidential, apologies for noting that one incorrectly.

CHAIRPERSON: Okay, sure and then the next one is question 36: "Discuss Fruit and Veg City or Food Lover's Market Procurement Policy indicating trading terms for all suppliers including a breakdown of all discounts, rebates, allowances fees an any other factor impacting on the net price that Fruit and Veg of
10 Food Lover's Market pays to suppliers for products stocked in is stores, including the instances where the discount, rebate, allowances or fees apply and the impact this has on the net price that Fruit and Veg City or Food Lover's Market pays to suppliers."

MS GESTALDI: Thank you, we happy to again speak in broad terms around those issues, but we would like to claim confidentially on specific amounts, percentages that we have reached with suppliers.

CHAIRPERSON: Okay. My colleague just whispered that, are you willing to discuss the actual, the different types of rebates and
20 allowances that you actually do get, not necessarily, not specific to one supplier, but the ones that you are able to negotiate at Fruit and Veg City, are you willing to discuss those publically?

MS GESTALDI: Yes, we are willing to indicate those allowances.

CHAIRPERSON: Okay and then my next question is 42: "Does Fruit and Veg City or Food Lover's Market require store opening or reopening allowances from its suppliers? What are their reasons for this? How are these allowances negotiated?"

MS GESTALDI: For that we happy again talking in general terms but just amounts we would like to claim confidentiality over, and I
30 think that goes for all of... (Intervened)

CHAIRPERSON: So it is specific amounts and percentages that you would not want to discuss, okay and then the other question is

question 43: "What are warehouse distribution allowances?" Can I take that it is also again amounts as well... (Intervened)

MS GESTALDI: Yes, just amounts and percentages.

CHAIRPERSON: Okay, then the next one, 46: "What are damaged goods allowances?" Would it be the same issue?

MS GESTALDI: Same issue, thank you.

CHAIRPERSON: Okay and the settlement terms discounts, same issue?

MS GESTALDI: Same issue there.

10 CHAIRPERSON: Category management contributions?

MS GESTALDI: Same issue, yes, thank you.

CHAIRPERSON: Okay and then question 50, same issue... (Intervened)

MS GESTALDI: Ja.

CHAIRPERSON: The advertising or promotional allowance... (Intervened)

MS GESTALDI: Ja.

CHAIRPERSON: Okay.

MS GESTALDI: Just figures and percentages.

20 CHAIRPERSON: Okay and then 52: "How does Fruit and Veg City or Food Lover's Market use the deduction rebates and allowances to finance its operations and determine prices for its products on store shelves?" And what exactly would you like to claim there?

MS GESTALDI: I think the is quite commercially sensitive information, it goes to the root of our operation and I think we would like to claim confidentially over any submission made in response to that question.

CHAIRPERSON: So you want the entire submission to be done in a closed session?

30 MS GESTALDI: Yes we would, thank you.

CHAIRPERSON: All right and then the last one on my list is 54: "Does Fruit and Veg City or Food Lover's Market negotiate base

rebates and growth rebates with its suppliers?”

So the answer to that specific question is, will not be necessarily confidential I take it, but again, the specific amounts and rates that may be asked.

MS GESTALDI: Yes, agreed, just specific amounts.

CHAIRPERSON: Okay, we are, you may then proceed with your presentation, thank you.

MR MEINTJIES: Madam Chair we are of the mind that we are not inclined to provide a presentation at this time and we are happy to
10 proceed straight to the Commission’s questions.

CHAIRPERSON: Okay, all right, we will, I hope this is not going to take up a lot of time, but it should be fine, can I just double check something. Okay I was just conferring with my colleagues on how we should conduct this, in light of the fact that you would like us to sort of put the questions to you and then you give us the answers. We also think it might be best that we ask for any clarification or follow up questions and be done with the question instead of asking questions and then go back again to the whole list of questions, so we will proceed then. When did... (Intervened)

20 MR MEINTJIES: We will be guided by yourself.

CHAIRPERSON: Okay, when did Fruit and Veg City and Food Lover’s Market enter the grocery, retailing market, indicate and then, when you answer this question, obviously the first part is very simple because that is just going to be a matter of a year, the years that you entered thereto, entities entered the market but we also want you to cover the obstacles that the two businesses faced when entering the grocery retailing market.

MR MEINTJIES: Madam Chair may I, we need some guidance here, may I just get some clarification from the Commission, when
30 we refer to groceries here, the groceries has a particular meaning within the context of our, the retail environment, can we get clarity as to what the Commission actually means by groceries?

CHAIRPERSON: Okay, the inquiry, the grocery retail inquiry is intended to cover food, vegetables, so your fruit and vegetable business would actually be covered by this, your Food Lover's business would actually also be covered by it so every, my understand of your stores and what you selling your stores would actually entirely apply, so... (Intervened)

MR MEINTJIES: Thanks for that guidance Madam Chair, you will understand that in our business, in our environment, when we refer to groceries, Groceries is normally a department within the store,
10 so you would have Groceries, you would have a Meat Department, you would have fresh produce, and a number of others, bakery etcetera... (Intervened)

CHAIRPERSON: Okay.

MR MEINTJIES: So if you are using groceries in the context of everything that is really denoted by food... (Intervened)

CHAIRPERSON: Yes.

MR MEINTJIES: Then we will have to address it in the context of that interpretation.

CHAIRPERSON: Correct.

20 MR MEINTJIES: Okay so, let me start off and my colleague, Mike Coppen is one of the founders of the business and he has lived through the journey from the start, but let me say that Fruit and Veg City came into existence in the early 1990's, I think it was 1992?

MR COPPEN: 1993.

MR MEINTJIES: 1993 with a store that we opened in Access Park in Kenilworth Cape Town and it grew under that brand and brand name for the rest of that decade and indeed in the early part of this millennium in the first, just after 2000. The predominant focus of
30 Fruit and Veg City as the name suggests, was at that stage the retailing of fresh produce, which took up the vast majority of the products sold and it was only around 2007 when the nature of our

business changed and we opened, with the opening of our first Food Lover's Market store and that opened up here in Hillfox near Roodepoort and the journey of Food Lover's Market as a brand started.

Food Lover's Market as you would have seen, if you have entered our stores, encompasses significantly more than just fresh produce, it strives to be a retailer of a variety of categories of food, virtually exclusively food but a variety, categories including a substantial fresh produce division, a large Butchery, Bakery a
10 Grocery Department and a variety of other subsidiary or allied departments as well.

Okay, and we have since 2007 migrated substantially towards the Food Lover's brand and you will find today that there are very few pure Fruit and Veg City's that remain, so that is in brief the history and development of the two brands. As far as the obstacles of starting a new business is concerned, well, anybody who has opened a new business will tell you that there is a variety of obstacles which you encounter including, often, your own lack of experience.

20 They, but with that of course, is making sure that you are in the right position, making sure you understand your customer completely, making sure that you have enough starting initial capital and also of course with that the working capital, and to understand your business, the competitive environment in which you find yourself and indeed also your ability to procure the products for your own offering. That merely scratches the surface of the obstacles that you encounter in starting a business and of course we were no exception in this regard.

CHAIRPERSON: On the list of, on the retaining products, would
30 that include liquidator, because you do not specify that in your answer Mr Meintjies, does that include liquor?

MR COPPEN: No.

MR MEINTJIES: Did that include liquor?

CHAIRPERSON: Yes, that is my question?

MR MEINTJIES: We did not retail liquor at all, Michael please correct me where I am wrong, we did not retail liquor at all until we, until the development of the Food Lover's Market store... (Intervened)

CHAIRPERSON: Yes.

MR MEINTJIES: And then over a period of time, and I am not quite sure when, we introduced in house Wine Departments, on the
10 normal grocery liquor licence and then about four years ago we as a group acquired a, the controlling interest in a group called the Diamond's Discount Liquors and with it came about 35 odd liquor stores, we have also since then, developed our own brand called market liquors of which there are a number dotted around the country side.

CHAIRPERSON: So in total, how many liquor stores do you have including the ones that you required from, that were Diamond Liquor stores?

MR MEINTJIES: Subject to correct it is about 40.

20 CHAIRPERSON: 40.

MR MEINTJIES: Okay so there were about 35 odd Diamond stores, ja, as time goes by, you open some, you close some, but there are about 35 of those and there are about five Market liquor stores throughout the country.

CHAIRPERSON: Okay, you also mentioned that since opening your first Food Lover's Market store in Kenilworth, you... (Intervened)

MR MEINTJIES: The first Food Lover's, the first store in Kenilworth... (Intervened)

30 CHAIRPERSON: Yes, sorry... (Intervened)

MR MEINTJIES: Was a Fruit and Veg City... (Intervened)

CHAIRPERSON: Fruit and Veg City, sorry.

MR MEINTJIES: Okay, it is now a Food Lover's as it happens it has been converted... (Intervened)

CHAIRPERSON: Yes, ja.

MR MEINTJIES: But the first Fruit and Veg City store was in Keniworth Cape Town and the first Food Lover's Market store was in Hillfox here in Johannesburg.

CHAIRPERSON: I just wanted to understand the migration, so are you now migrating the whole concept from, should we as the inquiry understand that any existing Fruit and Veg City stores that we see are likely to be migrated or changed to or converted to Food Lover's Market, is that a possibility?

MR MEINTJIES: That is correct.

CHAIRPERSON: Okay, can we then proceed to the obstacles that you faced in entering the market, first as Fruit and Veg City, I would like you to sort of be very clear on that, because that will be pre 2007 era and then we want to hear what your obstacles were in entering the retailing market as Fruit and Veg City as well as what were specific obstacles that you may have encountered with the new kind of business that you have in Food Lover's Market since 2007.

MR MEINTJIES: Madam Chair, I have given you the, a kind of a broad overview of the obstacles but that is not unique to us, these are obstacles that any new business encounters and you know, with it is also the opportunities that gives rise to one entering into that business.

So I am not entirely sure if there is a particular area of obstacle that you would like us to focus on, certainly you know, many books and text books have been written about entering new businesses, so to try and go, cover that ground, one might as well read one of the books. But if you are asking me to say that, to focus, us to focus on a particular aspect of obstacle, I will certainly do so... (Intervened)

CHAIRPERSON: Yes.

MR MEINTJIES: Just as I say, I just need some guidance as to what you want us to hone in on.

CHAIRPERSON: Specific to this week's inquiry, it would help us a great deal if you could maybe over to what extent exclusive leases impacted both on Fruit and Veg City as well as Food Lover's Market, entering into the market.

MR MEINTJIES: Do you want us to deal with that particular point before we get to that question?

10 CHAIRPERSON: Yes, as a broad topic.

MR MEINTJIES: You will have seen in our written submission that certainly we encountered issues relating to exclusive lease agreements. One must understand that in the early days of the business, getting into shopping malls was not necessarily even our focus, let alone an obstacle, our first store opened in, as I mentioned in Access Park and the first, Mike, it is before my time. But in the first year or two the focus was just making sure that the store was profitable and to make sure that everybody was involved and focussed on making sure that that business succeeded and
20 then as time went on, it was a question of grabbing opportunities to open stores where the opportunities arose. Now maybe you want to address whether you were looking at shopping centres at that stage in the early, mid 90's or... (Intervened)

MR COPPEN: I think for the first, probably five years, we were not looking at going into any shopping centres of sort, we were really stand alone's and finding sites where we could open a store on its own, only later in the 90's where we really approaching shopping centres and looking at possibilities of opening a Fruit and Veg City in a shopping centre and that is when we encountered the first
30 obstacle of exclusive leases which would have prevented us from going into a shopping centre and that was really late in the 90's where we first came across these exclusive lease.

CHAIRPERSON: Okay.

MR KHUMALO: Maybe Mr Coppen if you can, pardon me, if you can just give us an indication of what were the challenges in, you know, obtaining trading space while you were focussed on standalone stores, was it easy, what were the challenges?

MR COPPEN: I think the difficulty was trying to get the correct rentals, paying the right rentals in the space, because obviously we want to always pay the lowest rental to make it viable, to it was getting the space that suited us with parking close access to a shopping centre, but not necessarily in a shopping and looking at whether the store could work, that was more, the focus was, was it viable for us to work.

MR KHUMALO: Okay, so you did not, you know, buy land that you owned, you preferred to rent?

MR COPPEN: Yes, we were never into buying land and building centres.

MR KHUMALO: Okay.

CHAIRPERSON: Okay and then can you speak to, or speak on what are your experiences then after 1998, I will say 1998 post, after that five year period where you were happy to be, to have this stand alone stores and that is what you were happy to consider at that time, as you said in your presentation.

So post 1998, when you then started having stores that were, that started looking for location in malls or centres, can you just speak to the differences, are there any major differences in operating a store, a standalone store and operating a store in a mall or in a centre, what became your experience as Fruit and Veg City?

MR COPPEN: So I think as Fruit and Veg City where we were not able to find a standalone store and there was, we were going to a smallish town and there was only a shopping centre, then we would look at the section and say well, could we get into the shopping centre and if there was not space available or there was

not a building available to open a Fruit and Veg City store and we would therefore look at the shop and then we would say, can we get space in the centre, that was the only reason we would then start looking at the centre.

Very similar there was not really much difference, whether we were in the centre or in the stand alone, outside the centre, the operation was really the same, it was not a different operation, we would design the store the same, it would not be any different, did that answer your question?

10 CHAIRPERSON: Did you find that looking, let us say in hindsight and looking where the business was at or is at, was it easier to have a lot of customer or a better foot traffic in a standalone store or was it, you had much more traffic, foot traffic in a store that is located in a shopping centre, because that is what we are, we are trying to see are there any market difference in a store that is stand alone and that is located, in that which is located in a shopping centre.

MR COPPEN: So I think we class ourselves as a destination, that people would come to a Fruit and Veg City as a destination, we do not live off passing traffic, so whether we were in the centre or outside the centre, people would come to our store, we would be classed as an anchor tenant to pull people to a centre or to a destination outside the centre.

CHAIRPERSON: And then, maybe just to move a little bit to question 2, as Fruit and Veg City who did you consider to be competitors or who do you consider to be your competitors, for those stores that are still operating as Fruit and Veg City?

MR COPPEN: When we were just exclusively a Fruit and Veg City there was not really a lot of competitors, we were really just focussed on produce and fruit and veg, nobody else was doing it that well anyhow so we did not really consider, ja, the chain stores as competitors, so we were a different operation, so we did not

think of anybody as a competition?

CHAIRPERSON: What made you different, what made you consider yourselves as different?

MR COPPEN: At that stage, why Fruit and Veg was different, because it was really focussed on Fruit and Veg, the other, the chain stores really had very small fruit and veg departments, they were not focussed on, they were focussed on what we call groceries and hard goods, we were focussed on fresh fruit and veg only, it was really our focus.

10 CHAIRPERSON: Okay, let me make an example, for example, would it not affect, if you had a standalone Fruit and Veg City and a Pick 'n Pay or a Shoprite or a Spar set up business next to you, would that nor have had an impact on your business as Fruit and Veg City at that time?

MR COPPEN: Sorry, if we were in the same centre?

CHAIRPERSON: Even if it is a standalone store, next to each other, just being located next to each other, would that have any impact on your store?

20 MR COPPEN: Not really, they were not very good in fruit and veg anyhow so we would really be the leaders in that division, in fruit and veg... (Intervened)

CHAIRPERSON: Okay.

MR COPPEN: That what, was really our focus.

CHAIRPERSON: So basically you are saying that you were the first store of your kind... (Intervened)

MR COPPEN: Correct.

CHAIRPERSON: And you experienced no competition... (Intervened)

MR COPPEN: In the fruit and veg business.

30 CHAIRPERSON: At that stage.

MR COPPEN: Correct.

CHAIRPERSON: Okay, sure and then now that you have, okay,

has that since changed with regard to Fruit and Veg City again, let us just focus on Fruit and Veg City, has that changed in any way or form?

MR COPPEN: Ja, Madam Chair I think one must understand the movement of retail dynamics, okay, in the early 90's we had a particular competitive advantage, we were small, we were agile on our feet and we could compete comfortably with the bigger retailers because they were far more, can I say, rigidly confined in terms of their procurement processes and the way that they went around
10 doing their business.

This created the opportunity for the evolution of Fruit and Veg City, it was an advantage that we exploited and we felt that we could bring good quality product to the customers a lot more quickly and with a lot more agility and at decent prices and we did that and that is how the Fruit and Veg City really started, it is being able to with, can I say, market agility, take advantage of that opportunity at the time.

Over a period of time however, the bigger retailers became alive to this and they upped their game considerably and we realised that
20 the marginal difference between where we were and where they were at that stage was narrowing and for that reason, we had to then start looking at making our offering better, not better, but more diversified okay, and hence, we got to a point where, in the early 2000's we started looking right, what would take us to the next level in terms of being ahead of the marketplace.

Michael and his brother Brian who, the founders of the company, they travel extensively all over the world to go and see what the trends are and they went to America and to other countries and came back with the idea of developing Food Lover's Market and
30 that is why we moved into that space in the mid 2000's.

CHAIRPERSON: Okay, on the, when the other, when the supermarkets, when the other supermarket chains started

adopting, or adapting their stores to what you were also, to the Fruit and Veg City kind of model, up to that point, how many stores had you been able to open more or less if you can...

MR COPPEN: I would guess probably about 50, we had approximately 50 stores at that stage.

CHAIRPERSON: Okay, this is nationwide?

MR COPPEN: Yes... (Intervened)

CHAIRPERSON: All across... (Intervened)

10 MR COPPEN: Yes, across Africa. Yes, that would be corporate and franchise.

CHAIRPERSON: Corporate.

MR COPPEN: Yes.

CHAIRPERSON: And then the splits between corporate and franchise, more or less?

MR COPPEN: Probably 50/50, probably half, half.

20 CHAIRPERSON: Okay, and when, and then you say you then moved or adapted to Food Lover's Market and then can you give us the reasons for entering that market or changing the model, what informed the Food Lover's model and the change from Fruit and Veg City basically?

MR COPPEN: I am not sure how much I can add to what I said earlier, the change was really dictated by market dynamics, the fact of the matter is that we found ourselves in the position, as I say, where our competitive advantage over the major retailers was narrowing... (Intervened)

CHAIRPERSON: Okay.

30 MR COPPEN: And we wanted to, we saw the need to move away from a, being a specialist, predominately specialist fresh produce store to being a store that focussed on fresh produce generally, sorry, I beg your pardon, fresh products generally... (Intervened)

CHAIRPERSON: Okay.

MR COPPEN: Hence the movement into everything meat

environment, the bakery and the like.

CHAIRPERSON: Okay, I think what would help us a great deal is if you unpack the market dynamics that Fruit and Veg City was experiencing. So would I be correct to say that when that other, when other supermarket stores started adapting to your model, you then started experiencing competition and you then started to realise that you must then not be a specialist store, were you feeling constrained as a store in terms of your growth?

MR COPPEN: No, I think what we realised that we had done a
10 great job in fruit and veg... (Intervened)

CHAIRPERSON: Yes.

MR COPPEN: And there was an opportunity with all these customers we could do the same job in meat, there was not anybody doing a great job in meat, in butcheries, so if we were doing that well in fruit and veg we could do the same kind of job in meat and open butcheries... (Intervened)

CHAIRPERSON: Yes.

MR COPPEN: Bakeries, fish departments, in the same space. Our focus has always been on fresh, we have never really been that
20 focussed on going into the groceries as in Pick 'n Pay and in Shoprite, so that has really been our focus all along, so with the event in 2007 of launching our first Food Lover's, it was really opening a massive butchery, bakery, fish department, dry fruit and nuts.

So that was our focus really, not to take on the Pick 'n Pay and the Shoprite's of the world, it was really to open something different again, but focussing really on fresh which nobody again was doing a great job on and that was the movement into those divisions and we had a lot of customers coming to us for fruit and veg so, we just
30 grew into the other departments.

CHAIRPERSON: So your move to Food Lover's Market was not as a result of any constraints in your competing as Fruit and Veg City,

you had just identified opportunities?

MR COPPEN: I think it was more a demand from customers saying well, we are buying all our fruit and veg, now we have to go somewhere else for meat and somewhere else for fish so, it was sort of a request really from the, coming from... (Intervened)

CHAIRPERSON: Market demand.

MR COPPEN: The market, asking can we do the same job in the rest and that was really the focus that we... (Intervened)

CHAIRPERSON: Okay.

10 MR COPPEN: Decided to go that direction.

CHAIRPERSON: Okay.

MR KHUMALO: So, do you still consider yourself as a destination store, as Food Lover's Market?

MR COPPEN: Yes, totally.

MR KHUMALO: So you, again you do not really depend on foot traffic that is generated, say in a mall by other parties, you can survive as a stand alone... (Intervened)

20 MR COPPEN: In fact, we probably trade better outside a mall than we do inside a mall, we are definitely a destination store than surviving on foot traffic.

MR KHUMALO: Okay.

CHAIRPERSON: Okay, can you just speak to that, why is that, because in this, throughout this inquiry, we have been told of the importance of having a store in a mall and, from a foot traffic point of view, what is it about your, the type of customer, or what the customer would be looking for, that would want, that has kind of created that preference for a Food Lover's Market or a Fruit and Veg City that is a standalone store and not in a mall setting?

30 MR COPPEN: So I think it is all about convenience, the customer today does not want to park and then walk 300 metres to go and buy fruit and veg and buy meat... (Intervened)

CHAIRPERSON: Okay.

MR COPPEN: And then push the trolley back into the car park, they want to park as close as possible to the entrance and you get to the car park, so, we finding in our, as the business grows, the stores that are, have a car park closer, we trade onto a car park, we trade a lot better, we do not trade better in malls or deeply placed in a mall, we trade better, if we are in a mall, very close to the entrance, but our better stores are not even in a mall, and when I say a mall I am talking about these massive shopping centres.

10 CHAIRPERSON: Yes, shopping centres.

MR COPPEN: We trade better as, value centres we trade better.

MR KHUMALO: Okay, so would we be correct then to say that the focus of your business is still on having standalone store even in, under the Food Lover's Market concept or mode?

MR COPPEN: Not really standalone, we like the model of a value centre, where there are one or two other anchors in a value centre, but still focussing on convenience for the customer, where the customer can park closer to the store.

20 CHAIRPERSON: Okay, so how you, so the manner in which you locate the store in that mall, still, must still create that convenience... (Intervened)

MR COPPEN: Correct.

CHAIRPERSON: That you could... (Intervened)

MR COPPEN: Yes.

CHAIRPERSON: That could be created with a standalone store basically.

MR COPPEN: Yes.

CHAIRPERSON: Okay.

30 MR KHUMALO: So, if you can just basically explain, as you are aware, we are not business people, so we do not really know what the difference is between a value centre and what you referred to as a big mall, what are the sizes, so if I walk outside, what would I

identify as a value centre?

MR COPPEN: So maybe if you took Eastgate shopping centre which is multilevel and got ten car parks onto it and over the road we have Park Meadows, which is a value centre, which is Pick 'n Pay on the one side and the car park and Food Lover's on the other side, that is the best example I could give you where we, we would not want to be in Eastgate, we would rather be outside of Eastgate shopping centre.

MR KHUMALO: Okay.

10 MR COPPEN: If that helps.

MR KHUMALO: So if, so a value centre is what I as a layman would call a shopping centre?

MR COPPEN: It would still be classed as a shopping centre yes.

CHAIRPERSON: Yes.

MR KHUMALO: Okay, does not matter how many stores are there or the size, as long as not... (Intervened)

MR COPPEN: Ja.

MR MEINTJIES: I think Madam Chair, it is a kind of a loose distinction... (Intervened)

20 CHAIRPERSON: Yes.

MR MEINTJIES: But if I can give you an example of, where we find ourselves say in Somerset West, you are familiar with Somerset West... (Intervened)

CHAIRPERSON: Yes.

MR MEINTJIES: You got the Somerset Mall, right, massive edifice, big shopping centre, big anchors inside and whole series of line shops, but it is a self contained entity.

CHAIRPERSON: Yes.

30 MR MEINTJIES: Then, around the outside of the, that shopping centre, you will then say find a number of value centres, all right, and in one of those is where we find our store located, okay, it is in close proximity to the shopping centre but it is a separate entity

completely, we are one side and I do not know who else was in there, a number of other, medium sized shops, if I say medium sized shops I am talking about anything in between 500 and 1 500 square metres.

MR COPPEN: Correct.

CHAIRPERSON: And how would you describe your presence in Nicolway in Bryanston, is that a shopping centre or a value centre or it is just a good location within a shopping centre?

10 MR COPPEN: So in Nicolway I would class as a shopping centre, it is three levels.

CHAIRPERSON: Yes.

MR COPPEN: And it is a store that does not trade particularly well because it is not convenient, it is not easy to get in, not easy to get out.

CHAIRPERSON: Okay.

20 MR COPPEN: With hindsight, we probably would not have got into it, but you know, you do not always know these things upfront, we would have probably traded better as a standalone, but we are in it and we are there, that again is something we would have to look at again further.

CHAIRPERSON: All right.

30 MR KHUMALO: So, again for us, you know, it is really important to determine this differences, given that when we look at exclusive leases, it does not matter if it is a U-shaped or and L-shaped supermarket, if there is an anchor there who is saying no one, lets trade, you know, we need to determine whether or not, the effects of that exclusivity is the same as that, say in Eastgate mall. So again, I mean, outside of convenience, what is the difference between having a Food Lover's standing alone on some other property than the one that is standing alone in a value centre, what is it that would attract you to rather be in a value centre and not have your own piece of land where you trade from?

MR COPPEN: I just think it is viability, I do not think you can build a standalone on its own and get the kind of rental deal to pay for it on its own, you need to build a few shops together to make it viable. As far as you first comment on exclusivities, we do not believe there should be exclusivities on either, whether it is value mall or shopping centre or U-shape or L-shape, there should not be on either of them and that is the concern.

CHAIRPERSON: You have come, sorry, you want to say anything?

MR KHUMALO: It is fine.

10 CHAIRPERSON: When you, you have sort of distinguished yourselves by saying that you are a destination store, that is how you are perceived by consumers, can you give us examples of other destination stores that are out there that we can have a, just to have a sense of the market and that you consider to be your competitors other than the supermarket chains, which tend to be located in shopping centres or have preference for shopping centres?

MR COPPEN: Destinations, not in food... (Intervened)

CHAIRPERSON: In food, are there any in food?

20 MR COPPEN: Well, Pick 'n Pay would be a destination, so Pick 'n Pay would build a standalone store and be a destination of its own, it does not have to be in a shopping centre and so could Checkers, they would be a destination. So there are many instances where they are standalones and they build their own centres... (Intervened)

CHAIRPERSON: Okay.

MR COPPEN: With a couple of line shops, so they are all a destination on their own in anyhow.

30 CHAIRPERSON: Okay, so being passive, when you call yourself a destination store, you are not a destination store because, the concept of destination is not market driven, it is basically by virtue of location, if you are standalone you are saying you are a

destination and you find that as Fruit and Veg City and Food Lover's Market you do better as standalone in a, with that element of convenience than in a shopping centre, am I correct to sort of summarise your submission in that manner?

MR MEINTJIES: Madam Chair let me explain, and I am sure you have been through a number of these presentations and I am sure all of our competitors have come up with similar rationales. Shopping centres bring, the big selling point of the shopping centre developer is the fact that they bring feet to, foot traffic...

10 (Intervened)

CHAIRPERSON: Yes.

MR MEINTJIES: To a centre and that is why they have an anchor and that is why they are called anchors because they anchor the shopping centre and then in essence they then become the destination that attracts the foot traffic and that is why very often, and particularly in the early days of the development of shopping centres, they were stuck right at the back, why, because they drew the customers through the shopping centre, past the other shops and into the anchor.

20 All right, so, in the development of shopping centres it is a question of who needed who most, did the, the shopping centre developer would sell the idea to the anchor on the basis that there would be a whole bunch, a whole lot of other feet that would be drawn to their store by virtue of the fact that there was a whole lot of, what was referred to as line shops.

The anchor was drawn to the, would be drawn to the shopping centre for a similar reason, that he would benefit from the fact that there were other shops there and that there would, a whole lot of foot traffic would be generated into the centre accordingly. So, it was a kind of symbiotic relationship with each one, help the other, okay.

30

Now, and I do not want to go into the dynamics of how these

negotiations played out in the early days, I am sure that has been fairly well documented already, but I can tell you that, certainly from my perception, the nature of exclusive lease agreements is one which was a trade off between the anchor and the developer and the anchor was, the anchor would proceed from the point of departure that he wanted to be the only, in this case, food offering. For him to spend the type of money that he would need in order to be able to go there if he was not the exclusive food offering, then it was not worth his while going in and hence the inclusion of these

10 clauses and the developer proceeded from the point of departure that he needed that lease because without that lease he would not have been able to generate the revenue that would be able to pay the bond and the finance that he was raising in order to develop the shopping centre self.

So it was really a negotiating consequence that happened between the two of them, as far as us being a destination is concerned, the crisp question really, that needed to be, needs to be addressed or would have to be addressed, is whether we would survive without the foot traffic that was generated by having all of these other

20 shops around us and that is a question that is not easily answered, okay.

We would generally say, we can deal, do without them, okay, but there is a benefit associated with having other shops around you, because there are then the customers that would come into your space... (Intervened)

CHAIRPERSON: Yes.

MR MEINTJIES: We regard ourselves as a destination in the sense that we would be the destination of the consumer at the time when they decided to go shopping, we are not an impulse buy type offering, it is a, very much a case when the consumer or the

30 customer decides that they want to go out and buy our products, that is why they go there all right and that is really the way that I

would distinguish it and if I can say it, the jury is out as to whether the, being in a shopping centre *per se*, adds a huge benefit to us, we have had both experiences, we have had great experiences of being in shopping centres and we have had some very mediocre experiences as well, and really it depends on how one analyses each and every situation, am I right Michael?

MR COPPEN: Ja, correct.

CHAIRPERSON: Okay, where you are located in shopping centres, can you just speak to us on whether you were ever
10 considered as Fruit and Veg City to be an anchor tenant or the second anchor tenant in a centre, were you ever considered by properly developers to be as such, alone or would there need to be another one, another anchor tenant with you and has that changed or is it different now in you Food Lover's model, are you considered an anchor tenant and to what... (Intervened)

MR COPPEN: So, in Fruit and Veg City I would not have considered us an anchor tenant, we were not strong enough to be an anchor, and with the event of Food Lover's coming along, initially we were not, probably strong enough to be an anchor or
20 the landlords did not perceive us to be an anchor, but we certainly now are looked at as being an anchor, to anchor a centre and we have been approach by land's to say look, you are strong enough to anchor a centre, we do not need another big chain store, we do not need a Pick 'n Pay or a Checkers in a centre. But as Nigel says, it is a case of, the jury is out, whether landlords will go that route and just have a Food Lover's.

CHAIRPERSON: Okay.

MR COPPEN: But it certainly is big enough now to be an anchor.

CHAIRPERSON: What is the... (Intervened)

30 MR COPPEN: Having said that, let me hasten to assure the Commission that, notwithstanding the fact that we have been approached to be an anchor, we have never been of the mind to

require exclusivity.

CHAIRPERSON: Okay, so you do not have any exclusive leases?

MR COPPEN: I, we have never signed any exclusive agreements... (Intervened)

CHAIRPERSON: Yes.

MR COPPEN: We have never asked for them, and on one occasion that I can recall, and I am trying to remember which one it was, we were offered it and we said no.

CHAIRPERSON: It was offered by the properties developer?

10 MR COPPEN: Ja.

CHAIRPERSON: Okay. What is the major, what would be the major difference, or what is the major difference in you, I just want you to just help us understand, that difference between Fruit and Veg City that could not anchor a mall and a Food Lover's Market that is now able to anchor a centre or a mall, what is the, what became, what was the defining moment, or what is the defining product offering that actually makes you now... (Intervened)

MR COPPEN: So the Fruit and Veg model was a lot smaller... (Intervened)

20 CHAIRPERSON: Okay.

MR COPPEN: Probably in size was between 600 and a 1 000 square metres, where a Food Lover's today is between 3 000 and 5 000 square metres and it can draw a lot more people and it can pull people, where the older Fruit and Veg City's would have a lot less people and would not be able to draw that many people to a centre.

CHAIRPERSON: And have you experienced any, when you came into the centre as Food Lover's Market, were you ever restricted on the size of the store that you must open as Food Lover's Market, because there are the obstacles we are trying to get through to... (Intervened)

30 MR COPPEN: So size has definitely played a big part in it and

today it is still a big of it so, although we are, the exclusivities are being wavered in many of the shopping centres, the size has not, we are still being restricted to date by the size we can open and as we sit here today, there is negotiations on the table in many centres where we are not allowed to open more than 2 000, 2 500 square metres.

That is coming from the main anchor, whether it be a Checkers or a Shoprite or a Pick 'n Pay who is saying, you can have a second anchor in the centre, but they cannot be bigger than a certain size, so that practice is still in place and in many of our leases it is in the lease that we cannot be a certain size... (Intervened)

CHAIRPERSON: Okay.

MR COPPEN: Or bigger than a certain size if I can put it that way.

CHAIRPERSON: As players in this space, can you help us understand what would be the underlying reason for that restriction by that other, by the other anchor tenant?

MR COPPEN: So my thinking, and maybe... (Intervened)

CHAIRPERSON: Or why would they require it?

MR COPPEN: Mr Van Vuuren will probably answer it because he comes out of that grocery trade of the Pick 'n Pay... (Intervened)

CHAIRPERSON: Yes.

MR COPPEN: I think the competitors which they see us as a competitor, they would try and prevent us from going into the grocery field which they see as their business and they want us to stay in the fresh business, being fruit and veg, being butchery, bakery, fish and not so much in the groceries and being restricted in size, we are then limited to the range we can carry and that is why we have the restrictions.

If we were allowed to open bigger stores we could properly then be allowed to put in more groceries, whether we would or we would not is debatable but if we are restricted in size then we cannot... (Intervened)

CHAIRPERSON: Okay.

MR COPPEN: Go into it.

CHAIRPERSON: If you are considered an anchor tenant currently in your model as Food Lover's Market and you are still being restricted, I just want to understand, if you are, obviously if you are being considered an anchor tenant, it is because you can pull customers, you have that ability to pull customers, and the other anchor tenant would also be able to do so.

10 Is there a possibility that there is so much, there is a limited number to, the cake is so small and therefore, should you both be pulling, the other is likely to lose or is it a question of, and by one anchor tenant the one enforcing the restriction on size, trying to ensure that they are getting as much foot traffic into their store and less so to their competitors, so they continue to grow bigger as a business, is it a cake, is it a function of a cake being too small or the market being so small, being different in size and therefore limited in terms of carry both?

20 MR COPPEN: So, we do not really know what the motivation is behind it, we think that what normally happens and a landlord would then negotiate firstly with the supermarket chain, for example, a Checkers, and then do a deal with them as the main anchor and we would be the secondary anchor and in that deal they would have a facility agreement and the likes of a shopper would then trigger and would then say, well, we will come in as the main anchor, it is the biggest store, provided your secondly anchor being, us or, it might be a Spar or it might be something else, cannot be as big as us.

CHAIRPERSON: Okay.

30 MR COPPEN: So it would be a restriction placed on the landlord by the first anchor.

CHAIRPERSON: Okay.

MR COPPEN: Which normally the landlord would say well, I need

one big anchor to start with and if it is a bigger centre, if it is a fairly big centre, they would really want one of the big players in, a Shoprite or a Pick 'n Pay and that restriction may be placed on by them, if it answers the question.

CHAIRPERSON: Okay. Have you ever conducted studies where you enter a centre and you are restricted, whether, firstly, we would like to have a list of all the stores where you are restricted in size, can you provide that to us in writing at a later stage and along with that, can you also indicate whether or not you have conducted any
10 studies of the market and whether you consider that market to be able to carry two big stores of a significant size and therefore, basically arguing for and against the restriction in size, that is what we want to understand, on what basis can the other player restrict the size of the other, of a competitor in this company.

MR COPPEN: Okay, I will give you a list of where we have been restricted and... (Intervened)

CHAIRPERSON: Ja, and also just discuss and give us your, what you think... (Intervened)

MR COPPEN: Okay.

20 CHAIRPERSON: What you think is happening.

MR COPPEN: I think we have already, have you got that list? I think we have already given you a list of five... (Intervened)

MR VAN VUUREN: We have not submitted this.

MR COPPEN: Okay, so I have got a list of stores here... (Intervened)

CHAIRPERSON: Okay.

MR MEINTJIES: Madam Chair, there was a list of questions that was submitted to us, I think somewhere around mid October... (Intervened)

30 CHAIRPERSON: Yes.

MR MEINTJIES: Question 8 is, addresses this point, it says: "Has the FVC, FLM ever been limited in space or location that they

occupy in a mall or shopping centre due to the existence of exclusive lease agreements, provide examples of these.”

Now, we have applied our mind very swiftly to those instances and there are a number that we can mention, if you want us to do a more in depth, can I say, recall and research, we can certainly do so, but we have a number of them we can mention.

CHAIRPERSON: I think in addition to that it would help us to just see if you conducted any market studies to understand the market and understand whether or not that market could actually carry two
10 big anchor tenants, and therefore the restriction in your view is unreasonable, or restriction kind of makes sense?

I am not saying it is competitively correct from a competition perspective, but from a business operation point of view, you consider that it makes sense because the market is not too big to carry too big anchor tenants, and you understand the context of that restriction, for example?

MR MEINTJIES: Madam Chair, let me mention to you that in terms of formal feasibilities in each instance those would not have taken place, however, you know, we are dealing with people with
20 significant experience and background in this environment, and particularly on my left, and we also regarded our offer, if I can use that word, to be sufficiently distinguishable from that of the standard anchor, that we would happily go into a centre, all other things being equal, because we did not regard them as a direct competitor, you know, ours was predominantly, was and remains a predominantly fresh orientated offering.

Even though we do stock the dry grocery category, it is predominantly a fresh offering, so although the anchors do themselves have that offering, and consequently we compete with
30 them in part, we are not the same type of business, we are similar, but we are not identical.

CHAIRPERSON: Just to move on, on the issue of exclusive

leases, we understand that you do not have any exclusive leases and then you have got a couple of, you were saying that currently a number of these exclusivity clauses are being waived in your favour.

Can you also indicate, I am not sure if you have indicated that in writing already, as to where this has been done and by whom it has been done and the circumstances under which it has been done, so we would like your answer to encompass all of that?

MR MEINTJIES: Okay, fine, I have got that.

10 CHAIRPERSON: And then ... [intervened]

MR MEINTJIES: Madam Chair, the submission submitted to yourselves on the 31 May 2017 at paragraph 17.3 indicates the areas where exclusivities have been waived ... [intervened]

CHAIRPERSON: And the circumstances?

MR MEINTJIES: Well, again, it is hard to understand why in these instances Shoprite Checkers and Pick 'n Pay, what motivated them in making those decisions. I speculate that there were probably, it was probably the current dynamics of forces in the sense that, you know, exclusive lease agreements have come into sharp focus of late, and I think there is possibly a realisation on the part of those people that, you know, to try and rely on exclusive lease agreements, particularly with the background of recent litigation as well, is going to become more and more difficult, and there is, I think, also an emerging realisation on the part of some of them that it actually is not a bad thing to have other competitors around, that, you know you develop a node and that you, if anything, can draw more customers to a particular area, a particular centre, if I can call it that, by having competitors together, and that certainly have been in our experience and from which we benefitted in the past.

20
30 CHAIRPERSON: Thank you. Just to move to questions that focus more on your operations and how you operate, how you set up business.

On question 14 we asked if you have any contributions made by landlords to your furnishings and fittings of your stores, and to what extent does this happen? Do you require landlords to contribute, and also just the reasons behind this?

MR MEINTJIES: Only to building, we only ask landlords to do the building, in other words, really whatever remains in the building in terms of lighting, flooring, and that type of thing. We do not ask landlords to do any equipment fitting for us.

10 CHAIRPERSON: Okay. Can you just share a view with us, where stores do, where supermarket chains or food retailers do ask for refurbishments and fittings done for them by the landlord, what do you understand to be the business rationale behind this?

MR MEINTJIES: I can only give you my opinion of what I think happens, is that the landlord desperately needs an anchor to come in and is prepared to pay for those things to get an anchor to come in and is prepared to pay for it, then he would contribute more towards it to get an anchor to come in.

20 CHAIRPERSON: Okay. Then just to go back at that, have you ever entered a mall where there was an exclusive lease and this was not waived in your favour before you entered the mall, and can you give us instances where this had occurred?

MR MEINTJIES: Sorry, Madam Chair, did you say have we ever entered a mall where the exclusivity was not waived?

CHAIRPERSON: Yes, waived, both as Fruit & Veg City and Food Lover's Market, you can speak to both ...

MR MEINTJIES: In other words, what you are saying is instances where the landlord, notwithstanding the failure on the part of the anchor to waive the exclusivity decided that they would conclude a lease agreement with us?

30 CHAIRPERSON: Yes.

MR COPPEN: Sure. So there has been one or two instances that recently happened, where we went into a centre and it firstly was

not waived and the landlord took a decision to give us space, and we opened the store and it has traded very well and, in fact, the other anchor still traded very well.

I believe they came to an agreement eventually, there was no court case about it, and I think they eventually reached an agreement not to take it any further, but there has been one or two instances where landlords have just made a decision to ignore the exclusivity.

10 MR MEINTJIES: Madam Chair, I think, again, it is a question of a relative bargaining strength, you know. In that particular instance we were dealing with a landlord which is a major listed company and headed up by an individual who had firm conviction on the fact that the decision he was making was right, and he made the decision and stood by it, and the anchor in that instance, in the face of his conviction, decided not to necessarily take it on, so, you know, again, you know, it is competitive dynamics that are at play there.

20 CHAIRPERSON: Okay, in the list of questions that were sent to you, that would have been question 10, would your answer, your written answer have given us the exact location of that...?
[Intervened]

MR MEINTJIES: Yes, correct.

CHAIRPERSON: And who the landlord was and who the other anchor tenant was?

MS GRIMBEECK: It is clause 17.3 in our written submissions.

30 CHAIRPERSON: Sure, thank you. And can you also speak to the instances where you have been approached by developers to be anchor tenants, is that happening more frequently and are you happy now that you are considered an anchor tenant in the market, so you do not actually need to go out and look for opportunities but you actually have opportunities presented to you, just like other anchor tenants, to anchor tenants?

MR COPPEN: So the market is particularly tough at the moment, I think there is more space out there available than there was two or three years ago, so we are very happy, we are being considered as anchors but we are a lot more cautious in going into centres. We are careful that we do not want to open stores that will lose money and, yes, we are being approached to go in as anchors, but we still have to have a look at can it make money and ask the landlords to do viabilities and feasibilities to see if it can work, are there enough people, but there is certainly too many stores at the moment and the retail business is a bit tough at the moment to open more stores, so right now we are not opening too many stores.

CHAIRPERSON: And more than three years ago, what was the position, were you still, were you considered an anchor tenant before the market was... [Intervened]

MR COPPEN: Probably three years ago we were not considered as a single anchor, we had come in as a co-anchor and not as a single anchor, we would be considered as a secondary anchor or one of the two anchors to come in.

20 CHAIRPERSON: And in the past three years you were considered, you were considered to ... [intervened]

MR COPPEN: In the last year we were definitely looked at as a single anchor.

CHAIRPERSON: Okay.

MR COPPEN: Yes, in particular in the smaller centres we would be, not in the massive centres; they would have sometimes four anchors or five anchors. In those centres we will be approached, they would approach all the big players to come into the centre today.

30 CHAIRPERSON: Okay, and then moving to the question of the rental space and your negotiations with the landlord. Can you just take us through how are rental spaces and the actual rental

amounts agreed, negotiated? How do those negotiations occur between yourselves, typically, and the landlord?

MR COPPEN: Okay, so a landlord would approach us and say we are building a centre or we are building a daily centre or a shopping centre and would we be interested. I would then say send me a plan of what you are doing.

I would look at the plan and see do we like where they are putting us and who else are the other tenants in the centre. If we like what we saw, we would say can you send us a feasibility, what, do you
10 think the centre can work, which they would send a feasibility saying there is so many houses in the area, this is how big the catchment area, this is what we think the grocery trade or the fruit trade is worth, and then we will sit down and negotiate a rental. In my mind I have a rental I want to pay; it is never what the landlord wants me to pay but it is really sitting around the table and what we are prepared to pay and what he wants us to pay.

CHAIRPERSON: Okay, so in terms of the actual rental amount, you would come up with a figure that the landlord would need to counter?

20 MR COPPEN: Ja, so there would be a rental offered by the landlord, they would offer a rental ... [intervened]

CHAIRPERSON: When the offer is made?

MR COPPEN: Yes, they would come up first with a rental offer. They by now know what kind of rentals I would pay or as Food Lover's would pay. It is very much in line with other supermarkets, most of us pay about the same rental, so it is all in a ballpark figure of about the same, so they know what the supermarket chain is paying, and then we would sit down and negotiate what they would contribute towards the store in terms of fitting and building,
30 what they would build, what kind of store they would build for us, how much they would pay towards the lighting and flooring, and that type of thing.

CHAIRPERSON: And in terms of increases, how are those built into the agreement and how are they fitted in, ja, can you just...?

[Intervened]

MR COPPEN: Escalation?

CHAIRPERSON: Escalation clauses.

MR COPPEN: It is normally based on inflation, we would try and get it as close to inflation as it is and they ... [intervened]

CHAIRPERSON: On an annual basis?

MR COPPEN: On an annual basis, yes.

10 CHAIRPERSON: Okay, and ... [Intervened]

MR KHUMALO: And the increases, do they happen from the beginning of the leases or do you get the standard lease and then upon renewal do you get increases, because there have been some people who have said different stores do not get the same... [Intervened]

CHAIRPERSON: Terms.

MR KHUMALO: Ja, you know, some stores they get a five year lease with no increases, that pay increases ...[intervened]

CHAIRPERSON: For five years.

20 MR COPPEN: So it is obviously, it is part of negotiation, so you could negotiate that you do not have any increases for the first three years or for the first five years, or you would have increases from year one. It will depend on what kind of rental you would start with, and the lower you started, the more they would want an increase from the first year, so it depends on how good the centre is and how desperate the landlord needs you in the centre, but you could really negotiate the kind of increase you wanted.

30 MR MEINTJIES: It must be mentioned, however, that lease agreements where you do not have an annual escalation are exceptional and they are in my experience a handful of leases, and I do not recall which, where you were not normally tied into an annual escalation, okay, but as far as the amount of the rent is

concerned is that, you know, the landlord is doing his own homework, I mean, he is saying, look, this is what it is going to cost me to build the centre, this is what it is going to cost me to put the building component into the premises, how do I recover that over the period of the lease, and then he would come back and generally says, well, that will or will not work for me, and the to and fro negotiation takes place from there, where after you settle on the rental or you do not, you know, and in many instances you have got to walk away from the negotiations because you just cannot get to a point where it is viable.

10 CHAIRPERSON: Okay, just a follow-up question on this point for me. Would you, what is your understanding of the gross lettable area in a mall and how much rental is supposed to be made by the landlord, basically we just want to understand whether or not it is possible that, let us say big players, like yourselves now, and other major supermarkets benefit from lower rentals and then the landlord is actually able to extract higher rentals from smaller stores to make up for what they are supposed to be earning anyway for that area and to be able, for example, to service the loan, the funding that they may have on that property, do you have any comment or views on this question?

20 MR COPPEN: So we are not developers, so I cannot really answer for a developer, but I would imagine that the developer would need to first get an anchor to agree to come into a mall, so you would have to offer him an attractive rental to come in, probably lower than what he would like, and to get the anchor to sign, whether it will be one anchor or two, and sometimes three anchors, he would have to give a lower than average rental, and then you would have to make it up on the line shops, and purely because the anchor is drawing the people and the anchors normally run at a lower mark-up or a lower gross profit than the line shop, so he would have to get a higher return on the smaller stores, and that is really how a

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developer would play it, but then we are not developers, we do not build shopping centres, but that is how I would understand they would try and do it.

MS GRIMBEECK: Just a follow-up question on that. Would you please explain to us the different components that make up the rental of the store in a shopping centre? So we understand that there is something called the “base rental” and something called “turnover rental”, if you could just please explain to us how these components are calculated and what they actually are?

10 MR COPPEN: So it was one of the questions that we had. So you have got a base rental, we normally negotiate a gross rental, which includes base rental, rates and operation costs, operation costs being the lighting of the car park, the cleaning of the car park. I would negotiate normally a gross rental and it is all built in. Landlords, on the other side, would break it down into probably three different equations, base rental, operations cost and rates, plus VAT.

My negotiations would be really on the gross rental plus VAT, so those are the..., and then, of course, turnover rental, you would
20 have some turnover rental, which will be an overriding clause, so if you sign a turnover rental, that would be over and above your rental, that if the turnover reaches a certain point and if you have signed a percentage turnover rental, whichever one was the higher, you would pay the higher, if the turnover rental was higher, then base rental. Does that help?

CHAIRPERSON: Just moving to our trading terms, your trading terms would be supplied. I do not think we've got further questions on the leasing aspect of malls or centres or all that. Is there a
30 criteria that you have for your suppliers in order for them to become Fruit & Veg suppliers or Food Lover's Market, as you are now?

MR VAN VUUREN: Madam Chair, yes, there is. Obviously there

are a couple of factors that we look at when a supplier would come and see us and approach us to be listed as a vendor with us.

Obviously there is a couple of legal issues which we have a look at, are they food safe, which is vitally important to us, the law governs us on that, so we would not deal with a supplier that does not have food safety audits. We then also have a look at the packaging, do they conform to the standards as prescribed by the laws about barcoding, about the size, the weights and measures, and all those type of things, are they registered, and when I say
10 'registered', from a payment point of view, have they got a bank account, could they handle the payment to us, and we would obviously insist on that type of proof from that person, but other than that, yes, we obviously have a look at can they transport goods around the country, and we have different suppliers, so the guy will approach us and he does not want to be a national supplier, so has he got the capability to deliver to all our stores, so is his transport up to standard, and those are the type of requirements that he would have to give us. Other than that, that is about it.

20 CHAIRPERSON: Do you have any, do you have any Fruit & Veg City stores in rural areas, sorry, do you have any Fruit & Veg City stores in rural areas, in the townships, because I do not remember seeing any in the townships or, ja, can you answer that question initially?

MR MEINTJIES: Madam Chair, if Soweto constitutes a township, then we have two there, we have one in Jabulani Mall and one in Diepsloot, okay, we have one in Umtata, of course. We are shortly going to open one in Dobsonville, and that will happen within the next three weeks, we have one in Mdantsane, we still do
30 ...[intervened]

CHAIRPERSON: Okay, is that in Mdantsane Mall?

MR MEINTJIES: Ja, Mdantsane Mall. I am trying to... Is there any

others offhand that I can think of?

CHAIRPERSON: Would you be converting those to Food Lover's Market or have they been converted already to Food Lover's Market?

MR MEINTJIES: They are all Food Lover's Market, okay.

CHAIRPERSON: Okay.

MR MEINTJIES: Of different sizes, but they are all Food Lover's Market. I may also mention that we are in the process of developing a lower cost model store, which we intend, with which
10 we intend to specifically target the township, rural and peri-urban areas, and we are engaged in extensive negotiations with landlords of various centres and smaller shopping centres with a view to developing that particular type of store, and the reason why we are looking at it at a lower cost model is that we wanted to make it affordable for franchisees, and we have numerous franchisees that come from the previous disadvantaged communities, that we are targeting with a view of having them benefit from our expertise but develop their own business.

CHAIRPERSON: Okay, just looking at, you mentioned there is one
20 in Umtata and then I know you do have one in East London, which is still ...[intervened]

MR MEINTJIES: Mdantsane.

CHAIRPERSON: Mdantsane Food Lover's Market, and then you have got one in East London, which is just Fruit & Veg City ...
[intervened]

MR MEINTJIES: Ja, in Vincent Park, that is in the city.

CHAIRPERSON: In Vincent, yes.

MR MEINTJIES: Ja.

CHAIRPERSON: Is there any reason why you have not opened
30 any stores in the rest of that region, I come from the region so I can speak better on it, in terms of your store model, store, your strategy and whatever?

What does it mean for you, why would you not have expanded in the light of the fact that you consider yourselves not to compete with any of these players that are actually present, like your Shoprites, you will find them across what is the former Transkei, and yet Fruit & Veg City has never been opened in those areas other than in Umtata?

MR MEINTJIES: There are a variety of reasons for that, I mean, the one is the fact that we are still developing our network, and obviously we have not necessarily penetrated into all of those
10 areas extensively yet.

The fact that one must understand is that you are dealing with perishable product, predominantly perishable product. These are products that are sensitive to handle and do not necessarily endure transport over long distance as well, okay, so your speed to market is of critical importance.

So to go to far outlying areas requires a logistical infrastructure, logistical and distribution infrastructure, which has to be very sophisticated otherwise you will fail, and we are developing that on an ongoing basis, and as we become more confident with our
20 ability to service those areas, we certainly do want to do there.

It makes good business sense, okay, but you do not want to, particularly if you are opening there with franchise stores, you do not want to set them up for failure, and we would rather be cautious and make sure that we do it properly than rush in and not make a decent job of it.

We have made mistakes before and hence we have the benefit of experience in this environment where, you know, we do not want to make those mistakes again, and it is not an easy product, it is not like you are taking dry goods and they can withstand any time in
30 terms of transportation and exposure in terms of climate and circumstances, you have got to be careful.

CHAIRPERSON: Okay, in terms of, you have mentioned, you have

touched on this by mentioning that you have got stores in Soweto, Mdantsane, Umtata, for example, as some of the examples, I am sure that is not a complete list, in the previously disadvantaged areas, where you then have these stores.

There has been a huge outcry from the previous hearings that we had, if you have been following some of the submissions, where the local businesses have complained to this inquiry about lack of support by retail chains that come and set up and yet never source from there.

- 10 So what are your, do you have any suppliers, for example, coming from Umtata, that are supplying your Umtata store, are there any suppliers from East London, in the community around Mdantsane, for example, and what, and you can speak to those in Soweto and elsewhere, what is your approach to that in empowering and supporting the local businesses and local manufacturers, small suppliers in those areas?

MR MEINTJIES: That is a fairly multi-layered question to answer, Madam Chair. Let me start off by saying that our point of departure in opening stores anywhere has always been to procure locally as far as possible, and the logic behind that is that you procure locally because you save the cost of transportation, you preserve the integrity of the product, it remains fresh and you can get it to the shelf, and by extension to the consumer quicker, okay.

So that has always been our mandate to our managers and to our franchisees, that if you can buy the same product, the same quality and you can buy it locally, do it, it is a good business case. The by-product of that, of course, is that you also support local business, so it makes good logistical sense and economic sense.

As far as the previously disadvantaged areas are concerned, and it is not entirely my part of the shop and I will get Michael to talk to it, if you look at Mdantsane, for instance, Mdantsane is close to the local East London Municipal Market, so you could have local

producers supplying into that market, and we would then procure from them, okay.

The position with regard to Umtata, Umtata is a franchise store, and I am not entirely sure offhand of what the franchisee's procurement policies are, but he is a particularly clever and astute businessman, and I have little doubt that he would not waste money procuring product from far distances if he could get it locally. Mike, have you got anything to add to that?

MR COPPEN: Yes, we have two stores in Mafikeng, and I know
10 both stores procure all their potatoes from that area, all the
cabbage from that area, so we are very lucky that being, fresh
produce being up to 50% of our basket, comes a lot from the area.
It does not pay to bring potatoes from Johannesburg all the way to
Mafikeng when they grow in the area, so we certainly will procure
from the area.

CHAIRPERSON: Okay, can I request that, as a follow-up point, in
your written submissions, that you just give us some, just cover
something on the extent to which Fruit & Veg City and Food
Lover's Market has as its strategy this approach to support small
20 suppliers where they are located and especially those coming from
previously disadvantaged areas, and we would like good examples
of how you are doing so because you are a growing business, you
are doing well as a business, so we would like to see how much of
that growth is also shared with the communities that you are
located in?

MR MEINTJIES: Madam Chair, I can also mention to you that,
although I always understood this to be groceries and dry goods, I
would have, had I known that we were also going to focus on fresh
produce, had my colleague, Andrew Milsom, here. Andrew heads
30 up our Earth Lover's Program, and we are particularly there
focussed to the extent that it is commercially viable sourcing
product from producers from previously disadvantaged

communities. I will, however, make sure that we address that in our written submission.

CHAIRPERSON: Okay, and the extent to which you develop them as well, because some of them, I know you gave a list of other criteria that you look for and a number of them may not even meet that criteria in the extent to which you assist them to ensure that they do meet your criteria.

MR VAN VUUREN: Okay, Madam Chair, we do have examples of those, where they have been to see us, and for obvious reasons
10 their factories are not up to standard and then we guide them through that process to be able to get to food safety standards.

CHAIRPERSON: So I would like, you ... [intervened]

MR VAN VUUREN: We will give you those examples.

CHAIRPERSON: That will be, that will be great, thank you so much. Then moving to trading terms, can you just speak to us on the trading terms that you have with suppliers, and as a first question from our side, we understand that there are rebates, there will be an ad allowance, all these allowances that you require from suppliers, is there any, do you require these from your small
20 suppliers as well, are they applicable, therefore cross board, as long as you are a supplier, or is there a certain type size of a supplier that you start applying them on?

MR VAN VUUREN: Not really, they are applicable to all suppliers, so we treat all suppliers the same, whether it is a large supplier or small supplier, we have trading terms with everybody.
Obviously the degree of trading term differs, and that is as per the negotiation. So you mentioned there is a lot of different facets of the trading term, there is the rebate, there is the settlement, there is the advertising allowance. Not all of these apply to every
30 supplier that we deal with, so it is a negotiated settlement between us and the vendor.

We would sit down, obviously if we decide we want to do business

with them and they conform to all the standards, we will then talk about trading terms, but the trading terms do differ.

A lot of the times the settlement and the base is the same. Obviously the big difference is trading terms are not a fixed thing, it changes every year, so every year the supplier gets called in and you renegotiate the term, they are only valid for 12 months, and there are increases or decreases, depending on the circumstances from the supplier's side and from the retailer's side.

CHAIRPERSON: Based on these trading tools that you have, 10 there has been some outcry, I will not say a huge outcry, but we have had some suppliers complaining about two types of trading terms in general, not specific to Fruit and Veg or Food Lover's Market, but just the retail market and how it operates.

The first one being the advertising allowance, where it is said that there will be an advertising allowance that is actually deducted, basically you deliver your product and then a certain percentage, when you expect payment from the retailer and add allowances deducted, even when no advertisement or promotion has occurred, what is your approach to advertising allowance and how do you 20 deduct this?

Do you deduct them and how are they done? Are they specific to the number of promotions you have had, the number of advertising you have had, and therefore is there some kind of accounting for the advertising that you are actually doing for the money that you are getting?

MR VAN VUUREN: So are there advertising allowances? Absolutely, there are. No every supplier has an advertising allowance, it depends solely between the negotiator, which is the buyer, and the person from the company, and this is a negotiated 30 thing. So what they would do is have a look at their turnover and say on your turnover you want to pay or have an advertising allowance as part of the rebate.

Based on that, for that amount you could get five or six ads, those ads will be pre-booked and the supplier can get proof of that ad, so no money gets taken from a supplier without that supplier getting his return on investment.

CHAIRPERSON: Okay. Can I ask if then you have, if you have an advertising allowance that does not apply across board, let us say, for example, you are dealing with potato suppliers, then you have got big and small, and a big one can actually pay the advertising allowance?

10 How do you distinguish in your advertising between advertising potatoes of the supplier that has paid an allowance, or do the ones that have not paid also benefit from that advertising, even if they have not paid this advertising allowance, how does it work?

MR VAN VUUREN: Well, obviously everybody benefits from us advertising because when you advertise you bring new feet to the store, so whether the guy is part of advertising or not, if the business is doing poorly, he is not going to do very well in your store. So advertising, the reason why we advertise is obviously to bring people to the store, so everybody benefits from any ad that we do, really.

20 Obviously the products that are advertised are the key lines that draw the consumers in, and obviously and hopefully those things sell when we do advertise them.

CHAIRPERSON: Can you make an example of a key line product that you would advertise?

MR VAN VUUREN: All Gold tomato sauce, if I advertise All Gold tomato sauce, that would bring in people, so things known as 'KVIs', known value items in the systems, we have got about 150 of them. So because of the size of our stores we do not have the range that the big supermarkets have, so we, our whole policy or what we look at is we have got KVIs in the store and they are competitively priced, and then we have house brands, our own

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brands, and then we have confined labels, the products that you can find only at our stores, so we draw our advertising from these, obviously known value items bring customers to the store.

CHAIRPERSON: And the second type of allowance where there has been an issue on are the settlement fees. How do you, how are the settlement fees negotiated and what are your terms around settlement fees as Fruit & Veg City or Food Lover's Market as a group?

10 MR VAN VUUREN: Okay, the settlement fees is also discussed and negotiated as part of the trading term, so we would sit there and we would talk about settlement. Settlement is very simple, there is different ways of settlement. It is really a payment term, so you can negotiate seven days, 14 days, 30 days, whatever it is, there is a percentage attached to that and we will only claim that settlement if we pay on time.

CHAIRPERSON: Is there a fixed term, for example, do you have 30 days, seven days, or what term do you usually have?

MR VAN VUUREN: No, there is no fixed term, and as I say, it is part of the negotiations, so ... [intervened]

20 CHAIRPERSON: So it varies with each...? [Intervened]

MR VAN VUUREN: So I would look at the supplier that you are sitting with and the products that he is delivering to our business, you know, dairy and these type of things are quite sensitive, the payment terms are normally shorter because the guys need the cash, so that is how you negotiate it.

CHAIRPERSON: Ja, and just give us the range then of your payment terms, they range from the minimum being what?

MR VAN VUUREN: The minimum most probably is about 1% and it can go up to ... [intervened]

30 CHAIRPERSON: No, no, no, not the figures, the days, the payment days?

MR VAN VUUREN: Seven days.

CHAIRPERSON: Seven days to what?

MR VAN VUUREN: To 30 days.

CHAIRPERSON: To 30 days.

MR VAN VUUREN: That is in groceries.

CHAIRPERSON: In groceries?

MR VAN VUUREN: In what we deal, so it will be groceries, as the term is groceries and perishables.

CHAIRPERSON: Okay, let us take the seven day payment term supplier. When Fruit & Veg or Food Lover's Market is then able to
10 make the payment to the supplier on the seventh day that is within the payment term as agreed upon and negotiated by them, is there a settlement fee that you charge for meeting that seven days as a business?

MR VAN VUUREN: Well, it is the percentage that you negotiate with the vendor.

CHAIRPERSON: Why is that paid?

MR VAN VUUREN: Because you are paying him in time.

CHAIRPERSON: But you are not early, actually you have just met what is in ... [intervened]

20 MR VAN VUUREN: Okay, that is us negotiating, and then ... [intervened]

CHAIRPERSON: You have not paid six days or five days or four days less after receiving the product, you are paying exactly within the agreed term.

MR VAN VUUREN: Because that is the agreement, so that is the agreement with the supplier, that if we pay seven days we will get X, if we pay 14 days, we will get X, and that is how it works, so you are paying him on time. If you are going to pay him later than seven days, then you do not, then you are not entitled to anything.

30 CHAIRPERSON: Okay, let us talk about your maximum 30 days. If you have got a payment term that is 30 days and you meet 30 days, even then you still require the settlement fee to be deducted

from the amount?

MR MEINTJIES: Yes, you are correct. Madam Chair, I think we must understand ... [intervened]

CHAIRPERSON: I think we need to understand the rationale because it does not make sense to us. You have just, it is almost like a KPI in performance that you are not going to get a bonus for meeting your KPI, you need to exceed in KPI. That is how we look at it, that you have just met the term of your contract, so why must you be paid, why must you benefit from that?

10 MR MEINTJIES: Madam Chair, I think one must understand how these negotiations would come about, again, Stephen, you are welcome to correct me. We would generally want to pay groceries in 21 days, that would be a standard term that you would offer, or more, okay, but in your negotiations with the supplier you would say, look, we are prepared to pay you in a shorter time, okay, and if we pay you in a shorter time, then there is a certain allowance that we will agree upon for purposes of paying earlier, okay.

So it is not as if you have objectively said, well, we will pay you on seven days, but if we pay you on those seven days, we are looking
20 for a financial consideration.

So, in point of fact, the negotiations that led up to that would mean that you have actually agreed to anticipate the normal payment by the shorter period, and for that reason you get the allowance.

CHAIRPERSON: Okay, hence I made the example of a 30 day, because I asked you the range and you gave me 30 days, being the longest payment period. So why would you still be entitled to payment, a settlement fee, for example, where it is actually the maximum of what you offer anyway? So you cannot say, well, we could have paid you in five days ... [intervened]

30 MR COPPEN: Okay, so maybe I can help you there. In the past what the whole trade has been doing, and our competitors have been paying on 60 days and 90 days, we went to the market and

said we will pay you earlier, so we will pay you on 30 days we want a reward for paying on 30 days, that is where the 30 days came in, we said we will pay you earlier than what the other people are paying you. So although 30 days is our maximum, it is better than what everybody else is paying, so therefore...

CHAIRPERSON: Okay, and how far back does that past date ...?
[intervened]

MR COPPEN: Sorry, how far back does?

CHAIRPERSON: When you say "in the past" ... [intervened]

10 MR COPPEN: It has been for the last 40 years that suppliers have been paid on 60 days and 90 days inter

CHAIRPERSON: So when...?

MR COPPEN: It is still around today that the opposition still pay their suppliers in 60 days.

CHAIRPERSON: Okay, so your 30 day period, you say is the shortest, so it actually creates a better cash flow for your suppliers?

MR COPPEN: For the suppliers.

CHAIRPERSON: Okay.

20 MR COPPEN: So just on getting back to the rebate, we, as a company policy, do not pay any rebate, we do not pay any rebates on fresh produce, and we have always had that policy right from the start, that Fruit & Veg, we do not have rebates, and, in fact, in terms of payment, whatever we buy on the market we pay upfront, we pay the day before we buy it, so there is no payment terms on the market.

CHAIRPERSON: Okay, I do not know if you are willing to just take us through other than, we have discussed the settlement fee, we have discussed the advertising allowance, can you just take us
30 through other allowances that Fruit & Veg negotiates with the supplier typically?

MR VAN VUUREN: Ja, there is a distribution allowance ...

[intervened]

CHAIRPERSON: Ja, and what they are, just explain to us what is that, what is a “distribution allowance”?

MR VAN VUUREN: Okay, so when they deliver to our DC, so they drop off at one point, we then redistribute from the warehouse to our stores, so there is a distribution allowance which they pay for. Something that has come from the supplier side was a category allowance ... [intervened]

10 CHAIRPERSON: Okay, can I go back to the distribution allowance? So when you get that distribution allowance, is it because you saved the supplier from delivering at each store?

MR VAN VUUREN: Correct.

CHAIRPERSON: Okay.

MR VAN VUUREN: So instead of him running to 104 stores around the country, he goes and drops off at the warehouse ... [intervened]

CHAIRPERSON: Into one point.

MR VAN VUUREN: One point, and we then distribute from there to the stores.

20 CHAIRPERSON: Okay, and how many distribution centres do you have?

MR VAN VUUREN: Eight in total.

CHAIRPERSON: And the locations?

MR VAN VUUREN: Cape Town, Durban, Port Elizabeth, Johannesburg, Pretoria.

CHAIRPERSON: Okay, and then you were moving to the next, to the next...? [Intervenens]

MR VAN VUUREN: So category management allowance ... [intervened]

30 CHAIRPERSON: Category management allowance.

MR VAN VUUREN: Is what suppliers have really requested. This is really data sharing, so ... [intervened]

CHAIRPERSON: So the request for that came from the suppliers themselves?

MR VAN VUUREN: Ja, a lot of the suppliers need to have information from what their products do in the stores, you know, and how much of what they sell. Obviously we give them that information.

CHAIRPERSON: Okay, and how is that information given to them?

MR VAN VUUREN: So they would contact us once a month and we would then give them that data of sales ... [intervened]

10 CHAIRPERSON: So it is the performance of their own product?

MR VAN VUUREN: Correct.

CHAIRPERSON: Not against other products. Is it a matter of saying in the last month you supplied me with 50 or 100, out of those 100 in the first month I was able to sell 65 and we are actually left with 35, or is it a case of saying we sourced from you, we sourced from those, we sourced from the others and show them the whole picture of the competition?

MR VAN VUUREN: So we release their data to them.

CHAIRPERSON: Their own data?

20 MR VAN VUUREN: Their own data, ja.

CHAIRPERSON: Okay, alright, and then it is for you to do that, so this allowance is for you to, it is to enable you to give them that information and to collate that information...? [Intervened]

MR VAN VUUREN: Correct, correct.

CHAIRPERSON: Okay.

MR MEINTJIES: I think also, and correct me if I am wrong, Stephen, you know, we would give them their date of their product relative to the overall category, so without giving them detailed information of their competitors' sales, et cetera, but their participation in the category, what their percentage participation is in that category, and how they are performing relative to the rest of their competitors without ... [intervened]

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MR VAN VUUREN: Without mentioning the competitor.

CHAIRPERSON: The competitor.

MR VAN VUUREN: Ja.

CHAIRPERSON: So... okay. So would it be, I just want to have a sense of it, would it be, let us say, I will go back to my example of a potato supplier because I know with potatoes there will always be different bags of potatoes from different suppliers if you go to like supermarket chains, would that say this is how much you have performed as Thabo, that is Mr Khumalo next to me, and then it shows, and then it says the other ABC, or will that be lumped as one figure for the rest?

MR VAN VUUREN: It will be lumped as one figure as a total sum, as a total category ... [intervened]

CHAIRPERSON: So they will say it as the total?

MR VAN VUUREN: Yes.

CHAIRPERSON: Okay. So they do not have a way of saying, of positioning themselves in that market and kind of figuring who could be number one, who could be two, who could be three?

MR VAN VUUREN: No, they do not.

CHAIRPERSON: Okay, from that information, okay. And then there is a distribution allowance and then there is a redistribution allowance, there is a warehouse distribution allowance. What is the difference between a redistribution and a distribution allowance and a warehouse...? [Intervened]

MR VAN VUUREN: Okay, so we only have a distribution allowance, we do not have a redistribution allowance.

CHAIRPERSON: Okay, sure. And then what are "drop shipment allowances"?

MR VAN VUUREN: Okay, we do not have drop shipment allowances either, so, ja... We have got a couple of questions that have been asked which ... [intervened]

CHAIRPERSON: Yes, that do not apply, they do not apply to you

... [intervened]

MR VAN VUUREN: No, they do not apply to our business.

CHAIRPERSON: Okay. What do you understand it to be, though?

MR VAN VUUREN: Well, listen, I do not really know. The only thing that I can assume is if a retailer is buying a fortune of stock, 10 trucks or 20 trucks at a time, and because of that he receives some type of discount. I could not imagine it as anything else.

CHAIRPERSON: Okay, and then you also deal with very sensitive products, fresh produce, and I would imagine you must have a damage goods allowance. Can you speak on that at length as to how does your ...? [Intervened]

MR COPPEN: Okay, maybe I will help you with that. So fresh produce, we do not have a damage allowance, we buy at the price from the farmer and we pay the farmer his price. We do not have a rebate structure or anything like that.

CHAIRPERSON: So what happens to your... What happens when goods are then damaged after you have received them?

MR COPPEN: We donate it to Meals on Wheels and ... [intervened]

CHAIRPERSON: At your own cost?

MR COPPEN: Yes. We have a wastage ... [intervened]

CHAIRPERSON: We have been told that that is a very expensive thing to do, to move these, once you have got these damaged goods, in fact, there was a submission yesterday to that effect, that it is quite a costly exercise, that once you have sourced the product and then there are damages to the product and then to actually move them from the premises, from your retail premises, the transportation and also the disposing of these products is quite a costly exercise. So how come Fruit & Veg would not have that?

MR COPPEN: Because we do it a lot better than them. So we do not, so we obviously move a lot of produce, but a lot of the homes will collect it from you as well, they will pick up that product from

you. Clearly it is product that is not too badly damaged and they can still use it ... [intervened]

CHAIRPERSON: Yes, the suppliers themselves...

MR COPPEN: No, no ... [intervened]

CHAIRPERSON: Oh, you mean whoever you take it to?

MR COPPEN: Whoever we are donating it to will collect it from the store. It does not go back to a warehouse or anything, it is collected at the store.

CHAIRPERSON: Okay, okay.

10 MR COPPEN: Ja. There might also be farmers that collect it for use as animal food, carrots and things like that, they will pick it up.

CHAIRPERSON: Yes, yes.

MS GASTALDI: Sorry, can I just add? At our Cape Town Fresh Produce Market we bought a right with the Food Forward, which is a non-profit organisation that we provide goods that are not top quality, so there is no cost there, we are right in the same facility.

CHAIRPERSON: Okay, okay. So ... [intervened]

20 MR VAN VUUREN: And then on groceries, with most of our suppliers we have a full sale of return policy, so if there is a product that is coming close to expiry date, it is taken off and the suppliers uplift it, so 90% or 99% of our suppliers have full sale on return. If he runs via the DC, certain suppliers elect to go the swell route, so he does not want to come and take it back from the warehouse, it has been delivered there. We would have a look at his average return percentage, and based on that, we will set a swell. So that swell he will then pay us and that stock will then not go back to the vendor and we will dispose of that stock.

CHAIRPERSON: How do you dispose of those?

MR VAN VUUREN: Well, there is different ways, so ... [intervened]

30 CHAIRPERSON: I am asking this question against also a background that came up in our Kwa-Zulu Natal hearings, where there were lots of complaints about the informal traders getting a

lot of expired goods that they are selling, and basically some of the business people in the area feel like they are now a dumping area for expired stores. That comes from well to do operators in the market and then they are just pushed into the rural areas in the area.

MR VAN VUUREN: Okay, so when we do dump stock, it is done by the Health Department and we get certification and everything, and that goes to landfill.

10 CHAIRPERSON: So there are processes to follow in disposing of... [Intervened]

MR VAN VUUREN: Absolutely.

CHAIRPERSON: Okay, and do you have, do you charge any listing fees?

MR VAN VUUREN: No, we do not.

CHAIRPERSON: Why do you not charge them?

MR VAN VUUREN: Well, what do you want to charge them for?

CHAIRPERSON: Oh. For putting them in those...

MR VAN VUUREN: No, I do not believe that is right, and we have never charged and we will never charge a listing fee.

20 CHAIRPERSON: Okay, and no merchandising fees either?

MR VAN VUUREN: No, no merchandising fees, but suppliers do buy space, so from a ... [intervened]

CHAIRPERSON: Shelf space?

MR VAN VUUREN: Not only shelf *per se*, but gondola ends in the front of the stores, so if you walk into a supermarket you will see the ends on display, they elect to buy that space. They sometimes put in what they call 'dump bins' or 'supplier bins', and they want that space, and obviously that we charge them for.

30 CHAIRPERSON: Which is more like marketing their products in so many words.

MR VAN VUUREN: That is exactly what it is.

CHAIRPERSON: Okay. Just on the listing fees, what do you

understand about the concept, because we are asking you and we know you said you are not applying it, you do not have them, but it is difficult sometimes to ask these questions to the ones, to the parties that are applying them because they try, ja, the answer becomes a very difficult answer for us to understand, so what is a listing fee, basically, in a nutshell, what is a listing fee, why are you charging a person for listing?

MR VAN VUUREN: Okay, so in my opinion, and this is purely my opinion, listing fees get charged to suppliers before they even sell
10 a product, which is unfair. Why somebody would charge a listing fee, I have not a clue. I have been in the retail industry for 30 years and have never charged a supplier a listing fee. I really do not do what they do with a listing fee, I mean, so I would not be able to elaborate more than that.

CHAIRPERSON: Okay. I just want to check if we have got any... And do you have any central office allowances?

MR VAN VUUREN: No, not at all.

CHAIRPERSON: Do you know what that is?

MR VAN VUUREN: No, but you are giving me some great ideas.
20 [Laughter].

MR KHUMALO: Well, we see people from suppliers, we hope they do not blame us when ... [intervened]

CHAIRPERSON: When you start charging them, we created this monster. We do not intend to go into a closed session, I am sure my colleagues will agree. We just wanted to understand what is it that you charge and the basis of it for you charging them, and I think, I am sure we are all happy with the explanations you have given us.

I do not think we intend to go into... Is there any questions that we
30 should go into a closed session for? Okay, and then just on your trading terms, are all your trading terms contained in your trading agreements with your suppliers? Do you have written agreements

or do you have letters and letters and letters where all the terms are set out, or do you just have one agreement which contains all the terms that are agreed upon with a specific supplier?

MR VAN VUUREN: Ja, we have an agreement, obviously. The agreement does not contain the terms, the agreement is more with legislation on packaging, et cetera, but we have one single page as a trading term document agreement, which all suppliers initial along with the buyer, so it is one single page.

CHAIRPERSON: Okay, and my colleague has just given me this
10 note. Do you obtain deductions and allowances over and above the trading terms agreed upon, additional deductions thereon...?
[Intervened]

MR VAN VUUREN: We have, we have. So part, so part of the trading terms would be a growth hurdle ... [intervened]

CHAIRPERSON: Would be?

MR VAN VUUREN: A growth hurdle, so we would set a growth.

CHAIRPERSON: Okay.

MR VAN VUUREN: So over the year the suppliers says we get to
20 grow at 10%, but if you as the retailer grows at 15%, we will give you another 0.25%, that is obviously only calculated at the end of the year. You have a look at your performance, and based on that you will claim that money from them.

CHAIRPERSON: Okay, so basically you are taking credit for having created a growth for them?

MR VAN VUUREN: Growing the sales for them, yes.

CHAIRPERSON: Growing the sales for them.

MR VAN VUUREN: Correct.

CHAIRPERSON: Okay. Why is that, it is my product, so if it is selling it means I am selling you a good product?

30 MR VAN VUUREN: Well, they want you to drive it as well, so between the buyer and the sales representative that sees the buyer, they have obviously got goals and targets to work at, and

based on that, they spend that additional fund.

CHAIRPERSON: Okay, so you are actually going beyond their expectations on sales?

MR VAN VUUREN: Correct.

CHAIRPERSON: Okay. I think that is all from us, unless there is anything else you want to cover. The only other thing that I would like you to consider, maybe just after this, given what you have said today and the discussions we have had, is to maybe... I do not know what you have in your written submissions on market
10 definition, but we would like to understand you better and I think you also need to try and conceptualise better what is meant by 'market definition', because, ja, from your competition point of view, what do you mean when you say you are competitors, and then you give us something on, just your understanding as to who your competitors are in the market, or if they compete with you in respect of certain products that you sell within your stores, what are those products, what is the effect of those competitors on you, and why they would consider themselves your competitors, and why you would consider them your competitors, can you just assist
20 us with that?

Thank you, I think that brings us to the end of this presentation. Thank you very much.

MR MEINTJIES: Thank you, Madam Chair.

CHAIRPERSON: This was very, very informative. Very. Thank you.

HEARING ADJOURNS
