

REPUBLIC OF SOUTH AFRICA COMPETITION COMMISSION

Competition Act, 89 of 1998

MEETING WITH PICK N PAY

OPEN SESSION

DATE: 2017-11-03

VENUE: CSIR - PRETORIA

CHAIRPERSON: Ms L Mtanga

COMMISSION MEMBERS

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

ON BEHALF OF PICK N PAY

Mr D North : Group Executive
Ms T Mazibuko : Head: Commercial Support
Mr I Joubert : Group Executive - Property



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In the hearing of
COMPETITION COMMISSION AND PICK N PAY

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PROCEEDINGS ON 3 NOVEMBER 2017

OPEN SESSION

CHAIRPERSON: Ladies and gentlemen, good morning. Without wasting any further time, I would like to greet everyone, especially Pick n Pay and thank you for coming before us this morning. I am sorry I am late, traffic problem. I woke up very, very early I assure you.

10 My name is Lulama Mtanga, I will be chairing this public hearing and I have been chairing them. Due to some health issues or being unavailable, due to unforeseen circumstances and I will be chairing them up until Monday and I would like my two colleagues who will be assisting me today, to introduce themselves.

Thereafter I will ask the Pick n Pay delegation, especially those people who will be answering questions or participating in this public hearing, to also introduce themselves and then I would also, I would like you to give us a guidance as to how you intend to proceed and then we can then proceed.

20 MS GRIMBEEK: Good morning. My name is Sunel Grimbeek, I am a principal economist at the Commission and I am leading the technical team that is working on the grocery retail inquiry.

MR KHUMALO: Good morning. My name is Thabo Khumalo, I am the senior legal counsel working on the inquiry.

CHAIRPERSON: You may proceed.

MR NORTH: Thank you Chairperson, and thank you to the panel. We are very pleased as Pick n Pay to have the opportunity to take part in this public hearing today. As you have requested Chairperson, let me begin by introducing myself and the team that will be participating this morning. I am David North and I am the group executive for strategies at Pick n Pay.

30 And my team and I will move to my right as I am introducing the team, first of all on my direct right is Anthony Norton who is our

competition attorney who will guide me on any legally sensitive matters and I think this is probably an appropriate moment for me to say that our aim as the Pick n Pay team this morning, will be to cover the grounds that the Commission and the panel have asked in their written questions that you sent to us on 13 October, although obviously I will be guided by Mr Norton on any specific points that we think shouldn't be aired in a public hearing.

To Anthony's right is Thembi Mazibuko who is our head of commercial support and then to Thembi's right is Isaac Joubert
10 who is our group executive for property and I have other colleagues also present and assisting us today but in the interests of time, I won't introduce them, if you and they don't mind.

We have, as a company, set out our position on the issues raised by this inquiry in some detail, in two written submissions, one of them was submitted on 31 August last year and then we responded in detail to a series of written questions posed by the Commission at the end of June this year.

But I would like to begin by introducing our company briefly. Pick n Pay was established in 1967 by Raymond Ackerman with just three
20 stores. It has grown since then but core to the value and culture of our company, is a belief that the customer is sovereign and that success for a retail business lies in meeting the customer's needs, providing exceptional value and operating in a competitive market and identifisise [sic] that final point that we are believers in operating in a competitive market and we believe the market is competitive.

We are committed to the communities that we serve and we serve many communities across the country and beyond and more than that, we believe that only companies with that commitment and
30 who demonstrate that commitment will thrive. This year, 2017, is our 50th birthday as a company. So it is a year of reflection and

celebration. But just in terms of numbers, in this year our group has, broadly speaking, 450 company owned stores, large and small across the country, 3870 franchise stores and then 142 or so stores outside South Africa.

Now Chairperson you asked me to explain the way that I intend to proceed and I would like to make an opening presentation, to address essentially four issues which I believe bear directly on the questions that the panel posed in its letter to us of 13 October and which we believe are central to the outcome of this inquiry.

10 And so I have set it out on this slide. My presentation will first of all cover an issue that we believe is important for the Inquiry, which is to discuss the size and composition of the South African grocery retail market, where we believe that the Inquiry is at risk of proceeding from, what we think is a false premise in relation to the size of the market and the share of the market held by the largest four supermarkets and I will explain that in a moment.

Secondly, to address the questions that the Inquiry has posed to us in relation to shopping centres and lease agreements, which essentially covers questions 1 to 58 of the letter of 13 October.

20 Thirdly to cover the questions 59 to 80 which relates to suppliers and trading firms and then finally, my fourth section I would like to address with the panel's permission, some of the questions which I think the panel has raised throughout the week, with other retailers in these public hearings, in relation to the impact that large retailers like ourselves, have on the sector, on consumers and on suppliers. And I would like in that section to explain why we believe we operate in a fair and competitive market and why that brings benefits to all stakeholders concerned.

30 But let me begin if I can, with the first of those issues which is the size and composition of the South African grocery retail market. Now in this section I would like to begin by referring to the

Commission's terms of reference for this Inquiry which of course takes us back to October 2015 when those were published and paragraph 3.1 of those, state that the four largest supermarket chains operating in South Africa, collectively account for more than 90% of the market.

And this claim is reiterated in the Inquiry's Statement of Issues published in July 2016 which then, as a consequence, describes the market as concentrated. And we have, from the outset of this Inquiry, been concerned to point out and I think to explain that we
10 believe this claim that the four largest supermarkets collectively account for more 90% of the market is factually incorrect and is quite significantly incorrect.

And we believe it is an important point because if there these incorrect pointers are left unchallenged, then it risks the Inquiry, we feel, proceeding from an assumption that the market must be uncompetitive or unfair because it is concentrated in a few large players. So that is the reason why we think this is an important point to start with.

Now in its terms of reference in justifying that number of 90%, the
20 Commission relies on two reports. One by Barclays and one by or called Who owns Who and our view and we can explain this, we have explained it in our written submissions but we can explain it in detail if required, those reports are based on incorrect, unfortunately incorrect data as to the size of the overall market in one of those reports and as to the turnover of the largest players in the market in the other report.

And I think that is unfortunate because actually calculating the size of the market and the share of the largest players in the market, is relatively straightforward, even in a very diverse market such as
30 we have in South Africa. And I think it is possible to do that with a strong degree of reliability by using three data sources. The first of

them is Stats SA, so we are relying on the official data and Stats SA do, we think, a very good job of recording sales and consumption data in this country.

Secondly Nielsen which is the foremost source of market data in the country and then thirdly, the audited and published turnovers of the companies concerned.

So the best place to start is with the Stats SA data and when we look at turnover data as published by Stats SA, there are two categories that most closely correlate to the grocery retail sector and those are general dealers which are broadly speaking the supermarkets and then secondly, specialist food, beverage and tobacco retailers.

And taken together, Stats SA records that these two categories generated sales in 2016 of R483 billion and that essentially is the Stats SA read of the formal grocery retail sector. Now clearly in additional to that, one needs to take into account the informal sector, that is a less straightforward task by its very nature, it is difficult to be precise about the size of the informal sector. But we believe that the most reliable recent estimate was made by Nielsen which sought in achieving its number, to try and give out various data sources including manufacturing and consumption data and Nielsen estimated that the informal grocery sector in 2015 accounted for 40%, 4-0 percent of the total market which would give around R322 billion sales in 2016 .

Now if one simply adds those two together, it produces total grocery retail market of around R800 billion in 2016, 805 to be exact. I think it is reasonable for somebody looking at this to say: well do you have a different data source by which you would seek to corroborate that conclusion and another way of assessing the total size of the market is to look at consumption data and again we turn to Stats SA for this purpose.

Its data on consumption of food, beverages, tobacco and household goods is 2016, produces a total grocery retail market of R771 billion which, as you can see, is I think, encouragingly close to the total that I gave a moment ago of R805 billion using turnover data and the Nielsen estimate of the informal market.

And when you add up the four published turnovers, South African turnovers of the four largest retailers that is simply done by looking at their audited and published accounts, those four largest retailers account for no more than 35% of the total market. As you can see,
10 there is a huge difference between 35% of the total market and the claim of 90% of the total market.

Now even if we were to say: alright the figure on the informal market is an estimate done by Nielsen, if we were to exclude that entire 40% of the informal market and simply relied on the data on the formal market, the four largest players would still have a share of no more than 55% of the formal market which is still, I think, significantly short of the 90% estimated by the, or claimed by the Commission.

And of the total market which is the, either the consumption
20 number or the production number that I gave for the total market, our business, Pick n Pay accounts for under 9% of that total market. Now the question then is whether that total share which we put on the slide as 35% for the four largest retailers, constitutes concentration which the Commission is concerned about. Clearly it is way below the 90% quoted by the Commission but we did seek briefly to benchmark it internationally on the next slide and this is how it looks.

And what this chart shows is that the share of the total market held
30 by the top four retailers in this country is well below those of other markets in the world which are nonetheless seen and deemed to be competitive.

So that concludes the first part of my presentation which we do believe is important. It is important to have a good sense of the size of the market and the part which the largest retailers play in that market. I will return later in the presentation if I may, to the benefits that we think that we experience in operating in a fair and competitive market and benefits that flow to other stakeholders.

But I would like now to turn to the issues raised by the Commission in its letter and begin with the issues around shopping centres and lease agreements and as I explained Chairperson, I do intend to
10 address the questions that the panel posed to us in its letter but I will, with your permission, defer to my colleague Mr Norton if we get into territory that he deems to be choppy in one way or another.

So this is questions 1 to 58 of the panel's letter and on this I think much has been written and probably even more has been said including by some participants in the public hearings this week, about exclusive leases in shopping centres and the purposes that exclusive leases may or may not serve.

So I think it would be useful for me to begin by setting out briefly
20 why we believe as a company, that exclusivity, exclusive leases serves a useful purpose in the market and that broadly covers questions 1 to 6 posed by the panel in its letter and in particular, question 3.

Now the first point I make here and the first point on the slide is that South Africa has around 1 800 shopping centres. It is quite difficult to get scale for, don't get a sense of whether that is a lot or a little. It is in fact a lot, it is in fact the sixth highest number of any country in the world. So I think any claim that the exclusivity or indeed any issue would somehow constrain the development of
30 shopping centres, I think needs to address the question of how it is that we have the sixth highest number of any country in the world

in terms of shopping centres and that's not per head of population that is actual numbers.

I think it would be difficult to construct an argument that exclusivity in leases, as I say, has in any way constrained that, that growth. In fact we believe that the opposite is the case and that certainty for developers is created by a combination of the ability to attract tenancies to shopping development or to a proposed shopping development. The ability then to agree long leases and this point has been touched on but I think only touched on in the course of
10 the public hearings this week.

And the third part of that is the important role played by exclusivity provisions and these together, we believe, create a degree of certainty which has actually encouraged and facilitated the development and investment in shopping centres and choice for consumers.

I will try and put that more simply. Having a successful supermarket to anchor a shopping centre, I think we have heard this from others who have taken part this week, is very often a key to the development of a centre and to the success of a centre once
20 it's open and I think listening to others who have taken part in the public hearings this week, even those who oppose in one way or another exclusivity, would agree that actually having supermarkets to anchor a development, is important.

A thriving anchor tenant supermarket brings customers to a centre, it brings footfall and makes it a destination centre. That is the term that tends to be used by the experts in that field.

Now to ensure certainty on both sides and I think this is important to the banks, some of whom took part in the public hearings this week, long leases which are very often for periods of 15 years or
30 longer, are often agreed between landlords and the supermarket anchor tenant. So when we agree to put a store in a supermarket,

we very often are asked to and do agree to sign long leases and that gives the necessary confidence for the funder to fund the development.

Now the next point I am going to make sort of sounds incredibly obvious but shopping centres vary in size from large to small and larger centres may well have the space and the customers, the number of customers in the footfall to justify more than one supermarket and we would not seek to dispute that for a moment.

In recent years in fact in this country and we can see it in Pretoria,
10 we can see it here in Johannesburg, there has been a tendency to build larger shopping centres and exclusivity is often not a feature of these centres. So put simply, these centres justify more than one large supermarket and exclusivity is not a feature of those centres.

Having said that, many shopping centres we believe, lack the customer footfall to accommodate more than one viable, full range supermarket and in those centres, and I think this is we believe, a very important point, in those centres, if a second supermarket were opened in the same centre, the first supermarket could well
20 become unviable and unprofitable.

Now I think it would be open for someone to say in response to that, well that is the way it works but I would respectfully refer you back to the point I made earlier on, on this slide which is that we are required as a function of the long leases that apply in centres, both to trade the store and to pay the rent for the full duration of that lease. And so again, if I try and put it more simply, we believe that exclusivity provisions serve a clear and useful purpose and that is to enable supermarkets to maintain their financial viability in a centre, over the period of a long lease, in centres where that
30 viability could be threatened if another supermarket opened.

Now I think within this issue of exclusive leases, the Commission

and the panel has and has this week, sought to address itself in particular to the impact on smaller operators and the panel has raised that in question 6 to 9 that it addressed to Pick n Pay. So I should now turn to that issue and this is slide 8 of my presentation. Where Pick n Pay has exclusive lease agreements, I should point out first of all these only apply within the shopping centre to which they are agreed. They do not impact on retailers outside those specific centres and clearly they do not impact on any operator, retailer in the informal sector. So I think it is worth pointing that

10 out.

Moving now to the situation within a shopping centre itself, Pick n Pay's policy is not to apply exclusivity to small traders and by small traders, for example, what we have in mind are butcheries or bakeries or other types of store of up to 250 square metres larger centres or 100 square metres in smaller centres and to get a sense of what that is, I think if we looked around this room, that would be roughly the size of 100 square or a little bit more than 100 square metres. So it would be about the size of this room that we are in today.

20 And in fact our lease agreements over the past ten years or so, ten years or more in fact, have in general explicitly exempted smaller traders from any exclusivity provisions. So we believe that that addresses the position in respect of smaller retailers and the impact of exclusivity on smaller retailers in centres.

I would not like, if I can, to turn to the issues raised by the panel in questions 48 to 58 of its letter under the heading of Market Definition. And I think the key question posed by the panel here is whether lease agreements pose a competitive constraint or substantively less in competition in the market.

30 And we believe that the answer to those questions is firmly no and I have set out briefly on this slide, three reasons to justify that

conclusion. First of all, individual shopping centres do not constitute a relevant geographic market in their own right. The Competition Commission and the Competition Tribunal have consistently defined the relevant geographic market as being wider than an individual shopping centre.

Secondly, as I have already outlined, there are many shopping centres in South Africa and in our experience, many in close proximity to the shopping centres in which we have stores and the truth of the market as we see it, is that customers choose between
10 centres and they choose between stores inside centres and stores outside centres.

And I think one of the simply ways of looking at that is to look at the way in which each of us as consumers, actually shops for our groceries and we can in our own minds I think see that by and large we will shop in a range of stores at different times, some in centres and some outside centres.

Thirdly and this responds to a question posed by the panel to us at an earlier stage and it is written questions, Pick n Pay operates national pricing and national store formats and decisions on pricing
20 and range are not determined or influenced by whether a lease in a centre is or is not exclusive.

So having covered the issue in my presentation of leases and exclusivity, I will if I may now turn to the issues raised by the panel in its questions 59 to 80 on suppliers and trading terms. I think much of the panel's focus this week has been on understanding what one might describe as the apparent intricacies of trading terms and I think the, if I may, I think the panel's aim in doing so, has been in order to probe where the balance lies in the relationship between the retailer and the supplier.

30 Our view on this is that there is room for both to succeed, both retailer and supplier and I go further than that to say that that

relationship has to be mutually reinforcing, in other words they both must succeed or in the end, both will fail.

One cannot succeed out of the failure of the other. One can only succeed if both succeed. It is not one at the expense of the other and I will seek to explain that in my next few slides.

10 So turning to slide 10, Pick n Pay sells over 45 000 products and services in total across our stores. It is a large number and our aim in doing so is to provide customers with the best choice and quality that we can, to provide them with exceptional value and therefore to enable us as a business, to be competitive and to meet customers' needs.

To achieve this, we rely on over 3 000 suppliers and the vast majority of whom are local to South Africa. Many are suppliers of longstanding, quite a number of whom will have started their relationship with us when our founder, Raymond Ackerman was running the business personally.

20 Now we think the consumer goods sector is dynamic and because it focusses on the needs of customers and we take on new suppliers, we have to take on new suppliers because it generally is new suppliers and quite often smaller suppliers who come forward with innovative, better or better value products. They are a very important part of the market and it is important to respond with innovation because customers' needs and desires change over time. For example in recent years, seeking greater convenience products or more convenience products or more healthy options, just to give two areas where there is dynamism and innovation in response to change in consumer needs.

30 In response to questions 60 to 61 posed by the panel, we don't classify our suppliers into categories, other than the small embryonic suppliers who benefit from our specific programs which seek to grow and develop those suppliers and I will turn to those in

a moment.

Our largest suppliers include diversified local players as others this week have said in respect of their suppliers, as well as multi national brands, a number of whom frequently have large market shares within their product categories.

We have many small suppliers and the smallest may only supply us with one or two products or even one or two stores but working with us, they can succeed by responding to what it is that the customer wants and they can use, they can leverage off our
10 networks to grow over time into, if they wish to do so, regional brands or even national brands.

And question 59 that the panel posed to us, asked for the criteria that companies must meet in order to supply Pick n Pay and I think this was reasonably well covered by others participating in the hearings this week, in highlighting the need to meet food safety or hygiene requirements, compliance with legislation, the ability to ensure a steady and sufficient supply of product and so on.

But more broadly our relationship with our suppliers is in pursuit of the following objectives and I am now on slide 11 of my
20 presentation and I have listed those into four there First of all the ability to produce high quality, nutritious and safe products with the highest standards of traceability, supply chain integrity and consumer protection.

And I think it is important in respect of that point, to emphasise that having stable, long term suppliers is the key to meeting those standards and upholding those standards. If it were the case that a retailer had essentially an unstable supplier base, based on a series of transactional short term relationships, they would not be able to uphold those standards with quality or safety.

30 My second point is the drive that we seek in terms of achieving low prices and exceptional value for customers and that is achieved by

working with suppliers to increase the efficiency of their operations, the efficiency of our operations, whether that is methods of manufacture, whether it is having a more integrated supply chain or whether it is reducing waste.

Thirdly the objective of providing consumer choice and using our 3 000 suppliers to provide the widest range of products, to suit different tastes and different budgets.

And then fourthly and this is an important point, we celebrate in particular our relationship with suppliers who share our values, for example on sustainability, protection on the marine environment which we have held as a high priority in recent years or animal welfare, particularly in the meat sector.

Now moving on from that, a number of the panel's questions focussed on procurement policy and in particular trading terms and the extent to which these terms differ between suppliers to our business and again I thought it would be helpful to begin with some clear principles and this is on, we are now on page 12.

The key features of our supplier agreement are as follows. Firstly of all we have a standard supplier agreement which is applicable to all suppliers. Secondly it is varied in the case of small suppliers who are participating or who have come through our specific programmes for small suppliers and they enjoy preferential trading terms.

We don't restrict suppliers from supplying other retailers although clearly in the case of formulations for our private label, our own label products, we do ask those suppliers not to share our packaging and specifications that were developed for our private label products.

Our trading terms are applied on a fair and consistent basis across our suppliers. We believe that working constructively, delivers mutual growth and benefit. Question 62 and a number of those

questions which follow, address themselves to the detail of our trading firms within our standard agreement and I know that that has been an issue that the panel has pursued with our competitors in the course of the week.

And with that in mind, I thought it would be helpful if I sought to un-serve the panel's series of questions on this point, in a structured way that I hope will elucidate the key elements of our trading terms and I am not on slide 13.

10 Our trading terms can be summarised as follows and broadly into three categories. First of all the list price of goods, including any standard discounts and these discounts reflect our role as a purchaser of large volumes and our ability to reach large numbers of customers. It is key to our role in delivering lower prices to customers.

20 Secondly there are a number of standardised contributions which suppliers make to the cost of specific activities and I think these will be familiar from some of the sessions that you have held with other retailers in the course of this week. First of all promotion and advertising, we do not charge listing fees but we do ask our suppliers to meet the cost of promoting their products sold in our stores, including when we open new stores.

30 Secondly contributions that focus around distribution, damage and defects and I should say that these only apply to suppliers who distribute their products through our centralised distribution system. And where these products go through the centralised distribution, the supplier pays an allowance which reflects the cost of delivery from the distribution centre to the store. That cost was previously, before centralised distribution, met directly by the supplier in a way that we believe is less efficient than how it is achieved now, where we have centralised distribution and we bear the cost of taking the product from the distribution centre to each

of our stores.

Suppliers are also no longer required to collect damaged or defective goods from our stores and they pay an allowance which reflects the fact that that role, that responsibility has transferred to Pick n Pay.

In a number of specific categories, suppliers may pay contributions to other specific costs, for example and these do become very specific, meeting hygiene requirements in relation to infant formula or in some cases, the removal of infant formula if it is not sold.

10 Thirdly then is a group of negotiated discounts or contributions and I will highlight the key ones here. First of all, discounts it hurdles on the number of orders or sales are met and I think as other retailers have explained this week, that is something which is agreed because it is believed to be mutually beneficial to the supplier and to the retailer to increase sales and to increase production and to benefit from the economies that flow from that.

Secondly, negotiated contributions, if suppliers choose to take part in value creating programs, such as additional ad hoc promotions or receiving customised insight on customer behaviour and we
20 believe that this mix of standard terms, including contributions to defined activities which benefit supplier as well as ourselves and optional contributions as I have indicated, is a fair and transparent way of conducting business with our suppliers.

Now I will now turn as I promised to do so, to identify and nurture new and small suppliers, particular those from previous disadvantaged groups and I noted Chairperson that it was a question that you posed directly to our competitors in the course of the week.

I am now on slide 14. Pick n Pay's enterprise development
30 program for small suppliers supports at any given time, it is a movable number but at any given time, up to 100 small businesses

and support is provided across the following key areas.

First of all we have a small business incubator and what that does is, it seeks to ... [intervention]

CHAIRPERSON: Excuse me Mr North, is this what you referred to earlier as a new program?

MR NORTH: Yes it is Chairperson. So we have first of all the small business incubator and that seeks to identify potential entrepreneurs who have an idea and want to try to develop that idea into a business proposition. In some cases the idea will be
10 stronger than the business proposition and so we seek to nurture the idea into fruition. The duration of this program is generally three years and the keys to success are coaching, mentoring and training. This is essentially prior to the investment phase very often.

Secondly we have an enterprise development academy and that is when the embryonic supplier has formulated a plan, has begun to produce the products and is then provided with business development support, including mentoring which remains important, including coaching but also loans to some of those
20 suppliers. And the companies involved typically then have annual turnovers of around R5 million to R8 million per year.

And then thirdly, under the category that I call supplier development here, our aim is that the companies that we have nurtured, should become and should become successful suppliers to Pick n Pay and those companies which have taken part in our enterprise development program and who have then become suppliers, benefit from preferential terms as suppliers, including shorter payment periods for example, lower marketing fees, dedicated shelf space, health and safety or other regulatory and
30 similar requirements.

And they continue to receive this dedicated support until their

turnover with Pick n Pay reaches R8 million per year. Now I should say that we have stated that in a rather definitive way on the slide. In practise we do seek to nurture our suppliers beyond that point. We do seek flexibility with our suppliers beyond that point where that is appropriate.

Now I would like if I can, to draw these threads together, having covered the issue of suppliers. I know that as a panel you will have further questions on those but I would like to draw these, the threads of my presentation together by talking briefly about how we
10 believe we operate in a competitive market and how in doing so, we think we bring benefits to stakeholders.

Now I think the key tests of a competitive market are set out on the next slide on page 15 and that is, I have listed only five here, competition to offer low prices. Secondly low profit margins and I think that is an important point that I will cover. Thirdly innovation in format, this is separate from innovation in products that I have already covered.

Fourthly fluctuations in market share. In other words, the ability of
20 retailers to improve their market share if they pursue the right strategy and if they meet customer needs and in some cases to be punished if they are not meeting those needs as well as they might be.

And then fifthly, the ability of new entrants to emerge and grow rapidly. Clearly if new entrants are able to enter the market and to grow, it does indicate that the barriers to entry are not such that they preclude the emergence and growth of new entrants. I am only going to cover each of those points briefly because I know that you will want to move to questions, but I will do so if I may briefly.

30 So turning to page 16, it is a complicated looking chart and I suspect the panel will want to look at it in your own time but let me

explain. It is a chart published by the Bank of America Merrill Lynch, she updates it on a fairly regular basis and what it does is, for each month the supermarket which offers the lowest price across a basket of goods, is indexed to 100 with the others plotted according to the percentage by which they exceed that price of the lowest in the market.

And what I think that chart demonstrates is the intensity of competition between the main supermarkets to offer low prices. You will see that one of the four is less involved in that intensity
10 but that may reflect their own strategy.

But we do see retailers competing to offer the best price with different supermarkets coming out on top in different months. Now we believe that this has major benefits for consumers, in particular the major supermarkets who consistently produce and declare price increases well below general food inflation and on this I will speak only for Pick n Pay and I am now turning to page 17 and the chart on the right of that slide shows the gap between food CPI which is the red line and our own internal increase in prices, our own internal inflation from the period from financial year 2013
20 through to financial year 2018, the first half of the year.

We have just declared our first half results a few weeks ago and what that showed in our latest half year results is that while general inflation CPI food was 5.1%, our internal inflation was held below that at 3.6% and I hope Chairperson that that helps to answer some of the questions you were posing earlier in the week about how it is that retailers can demonstrate that they acting in the interests of consumers when it comes to pricing.

And we have achieved this, as I have said, by becoming more efficient in our operations through the value chain and by reducing
30 waste and examples might be better demand planning, reducing energy use in the supply chain and in our stores and more efficient

distribution systems.

And as a very broad retailer that seeks to operate across the socio economic spectrum in the country, we do think that is important and we know it is particular important for our customers who subsist on very limited incomes. The emphasis on delivering low prices and exceptional value for customers, gives rise to another feature which we believe demonstrates a competitive market and this is slide 18.

10 And slide 18 shows the differences in net profit margin, trading profit margin. In other words if you look at Pick n Pay on the far left, the little red column on the far left, what this shows is that we had in 2016, a trading profit margin of 2.1% and what that means is that for every R1.00 product we sell in our stores, we are making 2.1 cents before tax.

I am pleased to say that in our published results at the end of the last financial year, we had improved that slightly to 2.3% but as you can see, the average across the four largest grocery retailers was 4.5% and purely for illustration, we have also included some of our largest suppliers there and you can see that the trading 20 profit margin of our major grocery suppliers, averaged 16.5%. So you can see we have drawn the dotted line there to show the difference between the average trading profit margin of the retailers, the four largest retailers and those of our key suppliers.

Innovation is another indicator of a competitive market and I turn now to slide 19 briefly. And I think all that I want to highlight from this slide it shows a number of things that we have done over the years to bring either a new proposition or a new way of serving customers to our customers.

30 But I thought it was interesting looking at this slide, to see two trends that are unrelated to the question of trading in shopping centres and I think increasingly we see these two trends playing

out. One of them is online grocery shopping. I mean obviously online grocery shopping has not yet in this country, reached the levels that we see internationally but it is nonetheless growing. We launched our online grocery shopping business in 2001 and then we opened the first of two dedicated warehouses for online customers last year, the first one in the Western Cape and the second one in Gauteng quite recently.

The second trend there is that as customers lead busier lives, they increasingly, as I have explained, wants convenience and there is
10 a long term trend away from what we used to experience, very large monthly or infrequent shops in very large stores, towards convenience and top-up shopping in smaller stores, closer to work or to home and we are responding to that trend with our express convenient stores and with our local former, both of which take place very largely, outside shopping centres.

Now a market which is dynamic and fluid, should reward retailers who succeed in attracting customers with higher market shares and I have included this next slide, although it is not entirely comfortable for us in Pick n Pay. It shows how market shares have
20 fluctuated for three of the main supermarkets over the past decade or so.

And as you can see, Mr Norton told me, I was not allowed to seek a closed session for this next sentence I am going to say, so I will say, which is that we did have the highest market share of those three retailers in 2006. We were overtaken by Shoprite Checkers shortly thereafter and as you will have seen from an earlier slide that I presented, the largest retailer in the market now is a market share which is somewhere in excess of ours.

So in a fluid and dynamic market, new entrants emerge, sorry, in a
30 fluid and dynamic market, we do see fluctuations in market share in the way that we would expect to, as the customer rewards or

fails to reward retailers. We do also and this is my final set of points on this presentation, you do also see new entrants emerging and growing rapidly and this is slide 21 of my presentation.

And again you may want to look at it in more detail at your leisure but I will highlight only two points. The first one is that if you look at Fruit and Veg City and Choppies as the most obvious examples of successful new entrants over the past decade or so, in the period between 2012 and 2015, the compound annual growth rates in turnover for those two companies were 22.5% and 20.7%
10 respectively, you will see that that is some way in excess of the largest, more established retailers with our compound annual growth rate for Pick n Pay at 5.9%.

And I think as, you have heard from one of those retailers this week and I think the others is participating at the beginning of next week, I believe they have demonstrated the absence of material values to entry or fundamental impediments to growth in this market.

And then to underline this point in respect of the independent sector and I think you have heard from a number of sources this
20 week, about what I think is a fairly widely held view, that the independent sector in this country, is dynamic and is thriving and I think my final slide in this section shows that, slide 22 and I think again, I will summarise this simply that since 2009, for every new branded supermarket opening, large supermarket or supermarket being opened by one of the large players, an additional 69 independent stores open for each one of those opened by the large players.

So in summary from that section, on slide 23, we believe that a
30 combination of the factors that I have talked about, competition to offer low prices, low profit margins, innovation, dynamism in market share and the ability of new entrants to merge and grow

and independence to thrive in the market, demonstrates that the South African grocery retail market is intensely competitive with large and small players, new and old, competing for customers and competing for growth.

And we celebrate working in a market that is competitive and is effective because it enables us, we believe, to deliver benefits to customers, to suppliers, to communities and to the economy as a whole and my final slide sought, very quickly, to summarise that with just a few numbers, slide 24.

10 And what this slide shows is that over the past five years, Pick n Pay has invested R7.3 billion in infrastructure in the past five years. This is in building stores, refurbishing stores, developing our supply chain network, etcetera. This includes stores in under-served areas which we believe brings safe and affordable food to more communities. It reduces travel costs for customers for whom travel costs are a significant drain on their income.

But secondly we have created over 15 000 net new jobs in the past five years and I would emphasise here, if we had more time I would love to talk about how retail is a great career for people who
20 may not have started out on their careers with impressive or significant formal qualifications. It is a business in which people are able to join, essentially without a string of formal qualifications. Demonstrate a desire to work hard, a desire to engage with customers and to be rewarded for that with skills and with advancement within the company.

Thirdly, I think I have said this already but 95% or so of what we sell is purchased from local suppliers in South Africa and that contrasts very significantly with international experiences. South Africa I think is exceptionally fortunate, both to have a climate and
30 an industry which is able to essentially be self-sustaining on food but also to have the relationships it does have between producers

and retailers, such that those percentages of essentially home grown production can be maintained through the retail sector.

Fourthly we are committed and do have a track record of developing new entrepreneurs and that is in the retail side as well as on the supplier side. I know that you have focussed predominantly this week on looking at our relationship with suppliers including small suppliers. We do also extend our work to helping retailers grow and thrive.

10 And again if I had more time, I would love to talk about the partnership we have been running with the Gauteng government and now in the Western Cape as well, to assist independent spaza store owners who have come to us and said: look, we have been running our stores for a long time. We think we are running out of road in terms of the success of these stores. Can you help us?

20 And again it is many of the same things that apply in respect of suppliers. Mentoring, skills training, better access to better equipment or access to our supply chain and we have completed ten of those stores. We have got a further number to, where we are helping the independent owners and I think the beauty of this scheme, is that those independent owners remain independent.

It is their name that is on the top of the store, they are independent. The relationship with us is entirely one that they choose to have and they have become successful entrepreneurs in their own right.

Finally, we do seek and I think we have a track record of being a focal point in the community, whether that is on organising charitable events, we pride ourselves on being, wherever we can and quite often we are, the first to help a community in distress, whether it is a fire or a similar disaster.

30 And also we have a series of long running programs such as we have highlighted here, our Pick n Pay schools club which supports

over two million learners around the country and 3 000 schools.

So Chairperson, thank you for your patience and that of the panel in listening to my presentation. We are please, as I hope we are showing to be part of your dialogue and we hope we can assist the inquiry and we are here to respond to your questions.

CHAIRPERSON: Thank you Mr North. I do have a couple of clarification questions from our side. You mentioned that the data that the Inquiry relied on, that being the Barclays and Whose Who, data is factually incorrect.

10 However you have not said or indicated what it is, what is incorrect about that data. Can you just explain that?

MR NORTH: I can do and if it helps, we can set that out in more detail in writing. But the first of those reports and I will rely on my colleague behind me to kick me if I get this wrong, but the first of those reports from Barclays, the first, I just want to make sure I get the two reports, the difference between those two reports, set out clearly.

20 So if you will forgive me Chairperson, let me just make sure I don't get that wrong The Barclays report, I believe or we believe reaches an incorrect assessment of the size of the overall market. So it understates the size of the overall market and therefore it looks at the turnovers of the four largest retailers.

I can't, if you will forgive me, remember the exact number that they give for the size of the market but they do understate the size of the market. Now I think to be honest, to be honest if somebody spends some time on this, they will come to the same conclusion quite easily because if you look at the four retailers that are included in that claim, those would be Shoprite Checkers, Pick n Pay, Spar and Woolworths, then for the rest of the market to be
30 only 10% of the total market, one would have to conclude that Massmart for example, whether through its retail business or

through its wholesale business, in supplying independent stores and the informal sector, so Massmart combined with some of the other retailers who are here before the public hearing such as Choppies, Fruit and Veg City, plus all the other independents and the informal sector, were squeezed into that remaining 10%.

And I think the data shows that that is simply not credible and a very quick look at Massmart's published turnover will demonstrate that in respect of that Barclays report, the conclusion they reach is unfortunately factually incorrect and not credible.'

10 The second of those reports, the Who owns who report, we ...
[intervention]

CHAIRPERSON: Sorry, they must not publish results with those, the focus on groceries only. Just groceries.

MR NORTH: Sorry Chairperson.

CHAIRPERSON: You are saying if you were to contrast the Barclays total market, that 10% where they put in Massmart and others and Choppies as you have mentioned, and then you say if one looks at Massmart and Choppies for example and just looking at Massmart's own results, would those be results relating to
20 groceries only that you are talking about? Exclusively groceries.

MR NORTH: Yes. If you sought to extrapolate from Massmart's results, their grocery sales, I think that that would account for a large proportion of that remaining 10% if not exceeded and then you would have to say: well what about Choppies, what about Fruit and Veg.

Now admittedly both of those are not, will not have particular large market shares but they would put extreme strain on this remaining 10% number and then you would have to assume I think that all of the independent stores that we have seen in the country and the
30 informal sector, simply did not exist and I think that is not credible.

CHAIRPERSON: Mr North, okay, just tell us who are the independent stores in Gauteng for example that we should include in this analysis?

MR NORTH: I think, well I think, I mean some of those will be, there will be some regional chains ... [intervention]

CHAIRPERSON: Ja, that is why I say Gauteng.

MR NORTH: I think it would end up being, you know with respect, it would end up being a relatively long list and then of course there are the many independent stores who do not form part of chains
10 which operate on their own.

MR NORTON: Chair it might be easier I think if we give you a detailed written response in this. I think the facts are very self-explanatory once we set this out in writing for you and I think you will see, once you see all the numbers, that it is very self-evident that these reports have got it wrong.

But perhaps if we set it out in writing for you, all the relevant facts and details, it might make it easier for the panel and the Commission to consider.

CHAIRPERSON: Please do Mr Norton and also do consider the
20 fact that Choppies recently joined, I mean entered the South African market and they were primarily focussed in the North West and then sort of grew into the Limpopo Province.

So when you are going to build as if they are a national operator, when you speak about them, I think that is a bit misleading. We can talk national and as you provide that information, be very clear when you say nationally these are the players, geographically, sorry no regionally these are the players and you can give us some sense of what you are talking about because the 90%, if you are going to be disputing the fact that the four or five retailers in the
30 country are sitting at 50%, it means when one looks around, we will be seeing quite a very competitive market and you wouldn't

even have to stop to think, like you did Mr North.

When you have to think about who the independent retailers are, that would come at the top of your head.

MR NORTH: Well no, I understand what you are saying Chairperson but I think when we are talking about independent or informal retailers, by definition, it will be ... [intervention]

CHAIRPERSON: Not informal, formal.

MR NORTH: Okay but formal independent retailers ... [intervention]

10 CHAIRPERSON: Yes.

MR NORTH: They will go under many names and many faces. So it is quite difficult to list a series of those. I mean my colleagues have given me a list which will include for example, I really don't think it is useful for me to read out that because all I would do, is give you a long stream of retailers.

CHAIRPERSON: Unknown names, Would they be known names?

MR NORTH: Well some of them will be. So ... [intervention]

CHAIRPERSON: Please do read them because we would like to hear I think the public will want to hear.

20 MR NORTH: Food Lovers obviously you will have heard of. Sebright, Check Out not to be confused with Checkers, Super-Save, Hyperland, Jumbo Cash and Carry which is relatively well-known. United Meat Chicken, Choppies which we have discussed. Rustenburg Cash and Carry, ZIO Foods, Super Save Cash and Carry, Super Saver Supermarket, should I continue?

CHAIRPERSON: Yes you can continue.

30 MR NORTH: The Green Grocer, Giant Hyper Store, Bold Supermarket, Micabe Hyper, Rhino Cash and Carry, Check Save Supermarket, A and E Supermarket, Grand Supermarket, Mega Save, Urbe Land Hyper, Vryburg Cash and Carry, Jabula Wholesalers, Kroon Supermarket, exclusively food, Primo Cash

and Carry, Kimberley Cash and Carry.

That is simply a snapshot. So clearly the independent sector and as I pointed out earlier, the number of independent food stores that have opened for every one food store that has been opened by a major grocery retailer, shows that that will simply be a tiny snapshot. But if I can, Chairperson let me come, if I come back to the question that we posed and in respect of the Barclays report, let me try and explain it as clearly as I can.

10 I explained in my presentation that when you, if you look at the Stats SA data on the turnover of general dealers and specialist food dealers in the market and if we take that back to 2014 which was the date of the Barclays report, the Stats SA data will say that the turnover, the sales in that sector were R400 billion, a nice round number of R400 billion.

The Barclays report says that the turnover of the food retailer market for that same year was R215 billion. So a significant underestimate of the government's own official data and I think we, along with a lot of people in the country, hold a lot of respect in the Stats SA data.

20 Now the Who owns Who which is a second of those reports, I think has an even more, actually I would say inexplicable error which is massively to over-state the turnovers of the four biggest retailers, which I think is hard to understand, given that those numbers are published in the annual reports of each of those companies.

So for example it gives a market share for Pick n Pay which would have a turnover of R100 billion for that year, whereas our turnover for that year in respect of South Africa was R60 billion and we see that error being played out across the report.

CHAIRPERSON: Okay.

30 MR NORTON: Chair, could we just clarify whether the Commission has in fact reconciled the numbers in these two reports with the

Stats SA data? Because I think that will be helpful to know whether the Commission has in fact done that cross-reference checking when it came to these numbers and whether it has had regard to the Stats SA data in coming to those calculations. It will just be useful clarity for us to understand whether the Commission did do that cross-reference checking?

CHAIRPERSON: I do know that an effort was made to approach Stats SA to kind of understand how they obtained their data and what it included and if I recall, there were huge confidentiality
10 issues that they raised with us at the time.

However I am not in a position to confirm as to what came out of that inquiry with them but this is something that we would definitely do. So we won't conclude on this point without doing that exercise or conducting that exercise.

MR NORTON: Thank you Chair.

CHAIRPERSON: Thank you. However I just want to also caution Pick n Pay and in the manner in which you highlight some of these players. Some of the, even in the list that you are providing on the retailers, some of those retailers are not grocery retailers in our
20 view, one and also if you look at the urban setting and look at who the players are there, if you look in rural, peri-urban, then that is when you start seeing some of the new Jumbos and your Usave, USaverites, those are the entities that you see.

They are kind of confined in their operations and a lot of them are very regional. If you are coming to us and saying that, I was using Gauteng because Gauteng is, should be one region where there should be a presence of a clear competition that if you speak, you will be able to say: look at these entities, look at, this is who else is competing in this space and I don't think we would be in doubt as
30 to who are other competitors in this space.

Without even crunching figures, without going into the figures as to

how much market share to they really have. Just thinking what we are talking about here when you say there are other independent retailers that are operating in this space. Food Lovers Market, when did they enter the market, when did Food Lovers Market enter the market and how many Food Lovers Markets are there, stores are there? Because it was a conversion process from Fruit and Veg City which was a fresh produce offering that has been over time been converted into a grocery retail and that has been done over time so the timing, the region whether it is national I think let's not lump it, because I think it tends to be very misleading so we really would like you if you are going to be of help and assistance to this enquiry we would like it to be very accurately done and not be globally done in the manner that you are providing this statistics for us.

It would really help us because we are not disagreeing with you, we are not agreeing with you either but all we asking is can you be more factual as well when you appoint us to the statistics and this players that we must look as this enquiry.

You are the operators, you are the players, you are on the ground we are not. So if you going to be refuting any of the statistics that are before us we would like a better data to rely on in order to do so.

MR NORTH: Right.

CHAIRPERSON: Yes and so I would like then maybe as he had suggested that you provide this in a written submission as Mr Martins has said, I think. I am happy to receive that but it must consider what I have just said that the regional players must be pointed out as regional, what they do must be very clear and national players must be clearly identified when they were in operation, which years are we talking about at each point or you can lump the years and say four years ago this is how the market

looked, currently this is how the market looks. That kind of data would help us better.

MR NORTH: Okay. Thank you, Chairperson. We will of course respond carefully to the points that you have made. I would, however if I may I would not want us to move away from this, this point. Without I think my emphasizing the, without my emphasizing the point that I made in my presentation which is that it was the commission not us who said that the top four players accounted for 90% of the market.

- 10 It was the commission and not us who defined it in terms of the market and not in terms of either the Gauteng market or peri-urban or rural market and therefore my response was simply to take that assertion which I said was repeated then in the statement of issues. In the way that it was stated by the commission and not to change what the commission said and to point out why we believe on the basis of the governments own data for any of the years that we wished to select. I do not believe this is a recent phenomenon. I believe that it is true that the grocery retail market in South-Africa has at least looking back over the past 20 or 30 years has been a
- 20 mix of the large formal supermarket increasingly national players. A very strong independent sector which by it's very nature will not be household names outside those areas in which they operate and a large informal sector. And I was also careful, Chairperson to say that even if we, even if we excluded from the calculation the informal sector that would still produce a number of 55% not 90 for the largest four retail grocery operators and that if the production, the turnover data was not deemed to be sufficiently persuasive one could turn to the consumption data and I think that would help to answer the point that you may, Chairperson about some of the
- 30 businesses that I listed being cash and carry businesses. Now on the assumption that those cash and carry businesses do not

operate as retail operators which I think is your assumption. But they go on to sell to a smaller grocery operator, that will still end up being consumed by the private consumer.

And the consumption data as published by Stats SA I think reached a very similar conclusion as to the overall size of the market. But we will as Mr Norton has indicated set that out and respond to this specific points that he made.

10 CHAIRPERSON: In the interest of time, Mr North I will not respond to what you have just said and you will wait, and we will wait for the returns submission that you will making on this point. In your presentation you said that Pick 'n Pay is a believer in operating in a competitive market and I just want to understand from you, from Pick 'n Pay and any person from the Pick 'n Pay delegation can answer this question. What are the benefits in operating in a shopping centre, in a mall shopping centre, whatever they call them?

MR NORTH: The benefit of operating in a, well we do have stores inside and outside centres and they serve customers in different ways so the benefit of operating... [Intervened]

20 CHAIRPERSON: Sorry, Mr North just on that point. Do you know what is the split, percentage wise, between your standalone stores and those located in a mall? Can someone?

MR NORTH: I definitely, I mean I can give you that straight out of the top of my head because obviously again as the panel will know centres will differ and one would have to explain what we, how we define a centre for example a straight mall. Do we define that as a centre? Etcetera, etcetera.

30 CHAIRPERSON: In a shopping centre, I take shopping centre to be a broad team who would include, that will be inclusive of everything. Mall or convenient centre.

MR NORTH: *Ja.*

CHAIRPERSON: So, my question is. Just of the top of your head are you able to give us a split, sense of whether you have got a majority of Pick 'n Pay stores located in shopping centres or and what is that percentage more or less compare to those that are stand alone.

MR NORTH: I am going to turn if I can to my colleague Mr Joubert.

MR JOUBERT: Thank you David, thank you Chairperson. Most of our stores, sorry. Most of our stores are in shopping centres of some kind of nature whether it is a large regional centre with the re-stripple whether it is a convenient centre, whether it is a neighbourhood centre. We consider true standalone stores, stores similar to one that you maybe be familiar with would be a Pick 'n Pay on Nichol even though it has five line shops. It is predominantly standalone and CBD stores and I would say and I state it is less than 10% that are truly standalone stores.

CHAIRPERSON: Les than 10%?

MR JOUBERT: That is correct.

CHAIRPERSON: So you have got over almost 90% that are located in shopping centres then?

MR JOUBERT: Sorry I am talking for the Pick 'n Pay brand here.

CHAIRPERSON: Yes, I am talking about Pick 'n Pay as well.

MR JOUBERT: If I look at the Pick 'n Pay brand only then that would be correct.

CHAIRPERSON: Okay.

MR JOUBERT: Some of our other formats are more standalone especially when they trade in rural areas.

CHAIRPERSON: Understood. Mr North you may proceed with your answer on what are the benefits in operating as a grocery retailer in a shopping centre?

MR KHUMALO: Sorry perhaps before that based on your answer

to the Chairperson, maybe if you can explain what are the differences in the shopping centres. I mean she gave you, I understand with what a shopping centre includes but for us if you can maybe give us a sense of what is a regional, what is a street mall and whether or not these are the same or they serve the same purpose.

MR NORTH: Thank you, I think again my colleague Mr Joubert is probably, certainly a better answering that first part and then I will if I may return to the Chairpersons question.

10 MR JOUBERT: Thank you, Chairperson. I think the best will be is to use examples probably so the largest shopping centres that you will find in South-Africa would be what we term super regionals and Mall of Africa would be a super regional centre.

Then we will have what we would have call regional centres which would be a Clearwater Mall for example. Then we get neighbourhood centres which are typically larger than convenient centres and have more tenants than convenient centres but they are not truly regional centres in the sense that they do not have most of the national tenants and an example of that would be
20 Morning side on Bowling Avenue that we use to call Gallow Manor. Then you get convenient centres an example of that would be Blue Hills out in Midrand.

Then you get value centres an example of that would be Woodmead Value centre where we have got our Pick 'n Pay Hypermarkets. Then you have got what I would call CBD, some of them are completely standalone in other words they are in a high street environment. Simply a shop in the main road in the CBD but some of them are CBD type malls and this is not an official classification from the South African Council of shopping centres
30 but we would call those CBD malls.

And then you have got, you have got pretty much standalone

stores and the last I would suppose would be, well it would not be a shopping centre, the real convenience which is Express stores in forecourts and things.

MR KHUMALO: I might have missed it but do they all serve the same purpose, I mean these centres?

MR JOUBERT: They serve different purposes and you will shop at different centres at different times. You may well find that you shop at Mall of Africa and when you shopping there you might buy some stuff at Checkers Hyper. If you live in the Midrand area you might
10 also shop in a number of stores in the Midrand area.

You might also travel to Woodmead Hyper. So the purpose of shopping is very much dictated by what the customer is intending to do, are they buying for the month, are they buying for the evening on the way home, are they buying something to eat on the way to the office in the morning. So it is very much purpose driven as oppose to what type of shopping centres it is. In other words a customer could use a regional shopping centre. A good example would be the staffing regional shopping centres use what is fundamentally a destination in the regional shopping centre to do
20 convenient lunchtime purchases. So it is very much purpose driven.

CHAIRPERSON: Okay. You may proceed, Mr North.

MR NORTH: Thank you. The question was.

CHAIRPERSON: Benefits?

MR NORTH: Ja. What are the benefits to Pick 'n Pay of operating in shopping centres.

CHAIRPERSON: Yes.

MR NORTH: The answer simply is that customers like to shop in a different range of, as my colleague has explained. In a different
30 range of shops but there has been for historical and other reasons an emphasis on food stores in this country being in shopping

centres and that goes back, I do not know twenty, thirty or perhaps even more years.

What that reflects is a customer preference for what it is that that shopping centres have historically offered. So a centre is, should be easy to access, it should provide safety and security, it should be a clean environment. It should provide convenient parking and it should provide customers if they wish with the ability to shop in other stores in the centre provided the centre is a good one which customers feel they are attracted to. Now I do not think, I think it
10 would be a mistake to indicate that is a universal for all time and as my colleague was explaining. Within the grocery market, within the retail sector whether you are looking at fresh foods or it's an ambient product. There is a trend over time that customers value convenience for example over the ability to or over the experience of parking in a high rise, high rise multi storey shopping centre. And I think that is a trend that we are seeing over time, it is another trend that is playing out more slowly in this country than we see elsewhere in the world. In particular in the United States for example where there has been a, I think nothing short of
20 catastrophic decline in shopping centres.

So the reasons that I would have given in as to why it is that the grocery shopping has grown out through shopping centres no longer applies in the United States.

CHAIRPERSON: Just talking on the, on the customer trends in preferring convenience over what you mentioned. He has a name for it on over convenience. Is that convenience still preferred when it is in a shopping centre setting, would you say that preference by the customer?

They would still prefer to go to a shopping, grocery retailer that is
30 located or a store that is located in a shopping centre setting.

MR NORTH: I think it, I think it would be wrong to over state the

move away from shopping centres. So in South-Africa, so when we talk to our customers, when we engage with customers the fact is that if there is a good centre which is attractive, which has been well maintained where the store is attractive, where it is convenient.

Where it provides the right range of products then that will be attractive and remain attractive to the customer. What I was pointing to is a long term trend towards convenience. And that has played out partly in terms of products in stores where the greater
10 emphasis on convenience products, foods that customers can either cook quickly or that are ready prepared and it is also playing out in terms of customers saying well in addition to the weekly shop or however often they shop. I am going to shop on my way to work, or more likely my way home from work.

I want somewhere where I can just walk into or where I can just park, I do not have to go up or down an escalator just go in. The store is smaller, get what I want, get out.

CHAIRPERSON: Convenience.

MR NORTH: And save time. Yes, that is the trend over time.

20 CHAIRPERSON: Okay. You have already indicated. Let us then assume that 90% of Pick 'n Pay stores are locators in shopping centres and who do you say are your competitors in the shopping centres where you are located, where 90% of your stores are located?

MR NORTH: Ja. Our principle competitors in centres in which we are located will be other national grocery retailers such as Shoprite Checkers, Spar, Woolworths. Some of who might be in the same centre and some of whom might either have a standalone store or be in a nearby centre. We also regard other retailers as
30 competitors including Fruit and Veg City for example Massmarts Game Foodco offer for example and depending on if, I will restrict

myself to that Chairperson because you only asked me in respect of shopping centres.

CHAIRPERSON: Centres, *ja* not stand alone, not nearby. We just want to know in that 90%, the 90% store, Pick 'n Pay stores that are located in shopping centres who are your competitors as Pick 'n Pay in those shopping centres, just give us a flair of who those are.

MR NORTH: To iterate that it would be of a mayor national grocery retailers. But I would want to other mayor grocery national retailers
10 together with, if there may be a smaller operator such as Massmarts Game Foodco or for example a Fruit and Veg City. Now the point I would want to emphasize is that we see them as competitors even if they are outside the centre. So I would not, circumscribe competition on the basis of the shopping centre.

MR KHUMALO: May I ask while the Chairperson is thinking. Why, going back to your exclusivity. I mean you mentioned that there is some centres able to accommodate one instead or more than one, you know large food retailers. Why would a landlord put more than one retailer in a centre that does not or would not likely support
20 more than one retailer?

MR NORTH: I think that is an extremely good question and I think it is important that the panel has raised it and in answering it I think I would draw a distinction between the long term perspective that a retailer has to take in a centre because we are, we are required to comply with the terms of long term leases as I said. Generally 15 years and longer and I would again iterate the key conditions, or two of the key conditions of those leases which is first of all that we are required to pay the rent notwithstanding any failure of the store over the entire duration of that lease and
30 secondly that we are in most cases required also to continue to trade that store even if that store operates in a way that is

unviable. And as you can imagine if you are operating a store that you believe to be under performing, or unviable in a centre and you have got another twelve years remaining on your lease that is a long time to continue to operate it.

What I would say is that the perspective of the centre owner may not be the same and if a centre owner decides for whatever reasons and they would have to account for themselves on this. They see a short term benefit in bringing another operator into the centre which would enable them to draw rent from that second
10 operator. They may well see a short term, short term benefit from that. Where I think we would differ from them is on the basis of our experience of centres. We believe that exclusivity exists essentially to ensure that stores in centres that can only house effectively one large grocery retailer should continue on a viable basis and we should not move down that path where you end up risking having two retailers in the same, two grocery retailers in the same centre and either one or in some cases both of them fail.

Now the only thing I qualify and having said all of that is we do accept that there are centres that can accommodate more than one
20 large grocery retailer successfully and the trend as I had said in my opening remarks over the past decade or so has been to build larger centres.

Hopefully in most cases where the developer and their funders and the retail operators believe that the, the footfall and the customer attractiveness of the centre will sustain to operators and in those cases exclusivity is not a feature of the market.

MR KHUMALO: Okay, so just to follow on that. According, meaning in your view as Pick 'n Pay, what type of store, I mean type of centre would be able to accommodate more than one or is
30 it based on size, what is it?

MR NORTH: I will answer the question and I look to, look to my

colleague Mr Joubert to see if he wants to add anything. We do not believe it is a function of size alone because of course accepting so far as if a developer and their funders and the retailers who go into a centre believe that the amount of customers or the customer footfall that that centre can attract is likely to justify the size of the centre.

So there is an element of chicken and egg in that point. But we can, I think we would prefer to, we would prefer to disclose it to you outside of public hearing, draw your attention to centres where
10 we believe exactly the scenario that we are concerned about has played out recently and is playing out.

In other words where centre owners or developers have, we believe miscalculated the amount of customer, customers and footfall they can draw to a centre. Brought in a second operator and the centre has effectively failed.

MR KHUMALO: Okay, so based on the latter part of your answer. I just want to check whether you would also want to answer this in a closed session.

As you were giving that answer I was thinking, is exclusivity
20 basically meant to protect you against someone you necessarily, someone whose judgment you do not necessarily trust. I mean during the week, during the course of the week and in other, on other platforms we were made to understand that the rent and you know the lease terms agreed way before the centre is build and you would have understood basically as a retailer you would have been sold an idea by the landlord that this is a type of centre that we are looking at and it would serve and is likely to be viable if it has one or if they have thought would be viable they would have told this long before you even signed the lease agreement then
30 check what kind of risks. Are you able to tolerate so are you able to answer that question in public or do you?

MR NORTH: I will if I may attempt to answer it and again I have Mr Norton to assist me. I think, if I may say so. I think you put the point very well which is to say that and again listening, listening to the evidence that others have given in the course of this week.

There appears to me to be no dispute on the part of developers and their funders that it is important in most cases imperative to attract an anchor tenant and generally a supermarket anchor tenant into a centre. The operators, the centre owners do believe that it is attractive at the outset of that centre development to
10 agree as I have explained. Both long term leases and essentially the protection for the retailer against what we would regard as action that would make our operation and potentially the centre unviable.

Now I think where it becomes more difficult to understand is why that understanding that everybody has agreed on at the outset should not apply sometime down the line. Now I think we would agree that circumstances may change and a centre may become so successful that it would be subject to an extension of that centre so that physically one could operate a operate another
20 retailer in that centre and therefore there should then be a discussion about whether exclusivity was still, was still the right course for that centre. What we have always said is that where parties enter freely into leases and their conditions at the outset and understand at the outset those, the reasons why those apply. One should not simply assume down the line that those conditions no longer apply and I think our truth given the number of shopping centres in this country. I think fortunately or unfortunately in most cases centres which can only sustain one large store at the outset. By large centres that can only sustain one large store down the
30 line and the only argument in favour of opening another store in that centre is as I believe the short term argument that it will

improve the outcome for one party usually the owner of the centre but not for the operators in the centre or for the viability for the centre.

MR KHUMALO Okay. As you correctly pointed out in the beginning. We are primarily concerned about the smaller retailers and not so much the larger retailers. If we can go back to your presentation, you mentioned that you would exempt from exclusivity.

10 You would exempt as Pick 'n Pay from exclusivity as smaller retailers that would take up less than 250 square metres or 100 square metres in other centres. Are you able to give us a sense of where it is appropriate for you to give say 200 square metres, what types of centres or size cashment area, what is the criteria for that exemption for 250 square metres and what type of centres would then limit you to 100 or less.

MR NORTH: I think that, apologies I did not put my microphone on. I think I want to make one, just one point clear first of all. It is not that we would exempt, it is if an operator or if a centre owner or a small retailer, a perspective small retailer approached a centre
20 owner we do exempt in those cases. So it is a current policy not a, not something we are proposing.

think we have drawn the distinction between 250 and larger centres. 100 Square metres in smaller centres. Mr Norton is advising that this is something that we might prefer to flash out and discuss with you privately.

MR KHUMALO: That is fine I think we do not have an objection to that.

CHAIRPERSON: Just to go back to what I was trying to understand. So you have 90% of Pick 'n Pay stores located in
30 shopping centres and in your presentation you have indicated that there are 1800 shopping centres in South-Africa.

And South-Africa is one of the, is the sixth largest country in having, in the list of countries that have shopping, that the more. When looking at the perforation of shopping centres we are sixth largest and here okay. And then you already have 90%. I just want to understand, and then you also made the point that most of the competitors in those shopping centres in which you compete in the shopping centre we are not talking about the standalones.

In the shopping centres that you located, your competitors are other national shopping centres. Am I correct to summarise what we have discussed so far?

MR NORTH: Thank you, Chairperson. On the first point what I said was that South-Africa has the sixth largest number of shopping centres of any country in the world. On the 90% point that you have repeated. We did not indicate, my colleague was not indicating that we have, we have supermarkets in 90% of the centres in South-Africa.

What he was saying that was broadly speaking, and again I think we can refine that, that assessment. The majority of our stores are in shopping centres although as I explained earlier, that dynamic I think is changing over time.

In terms of competitors what I was saying was when we looked at this and I have to say we generally look at this on a, we will look at this on a national basis not on a. But if I took your point and let me answer it which is. If you took a store in a centre.

CHAIRPERSON: If we have to confine ourselves to shopping centres.

MR NORTH: *Ja.*

CHAIRPERSON: *Ja.*

MR NORTH: Right. So if we take a Pick 'n Pay store in a shopping centre who are it's competitors and the answer would be well if there is another, if there is another food store in that centre that

will be a competitor. If there is a small store that would be a smaller competitor.

In a lot of our centres for example there would be a Woolworths as well in the centre. If you looked in a larger centre there might be another of the national grocers in that centre. We would then also regard as competitors, primarily the larger operators who might be operating outside the centre, either on a standalone basis or in a neighbouring or nearby centre.

10 And if I may, Chairperson I think the reverse would apply as well and I have in mind a store that we have in Tokai in Cape Town where our store, a store that we proud of is outside the centre. In fact it is across the main road from a very large centre called the Blue Route Mall in which there is a large and I believe successful Checkers store So in that case we would see, certainly see that Checkers store as a competitor notwithstanding the fact that we outside the centre and it is inside the centre but also look at, look at other stores in the area which in that case includes a Fruit and Veg city store in relative close proximity.

20 CHAIRPERSON: Okay. Just. Thank you for that explanation. With a 90% of your stores that are located in the shopping centres what would you say is the split between the stores where you approached, where Pick 'n Pay approached the developer to want to set up a shop in the centre, in the shopping centre and in instances where you were actually approached by the developer to locate yourselves in the shopping centre. More or less.

MR NORTH: Again, Chairperson I will answer the question and look to Mr Joubert if he wants to add. Our experience is that it is never quite as diametrically opposed as that.

30 Given that we do have an approach to opening new stores as the population moves and grows and develops in different areas. We do have relationships of long standing with developers and in the

course of those relationships those discussions then clearly the prospects of opening a centre in whatever area will be discussed.

I think I would say in fact that if we were to try to answer the question we would say that the opportunity to open a store in a centre will more often be one put to us rather than one that we put to a centre owner.

CHAIRPERSON: Okay. You would be approached by the developer, therefore?

10 MR JOUBERT: Ja, Madam Chair. For the most part we approached by developers. Now sometimes it overlaps with where we actually want to be then it is great and other time is does not. We try and be fairly proactive, we do not also align with the developer. So certainly the larger shopping centres are predominantly them approaching us.

CHAIRPERSON: Okay. You also indicated in your presentation that over the past 10 years you have exempted smaller traders from your exclusivity clauses.

20 Obviously exclusivity would be applied in leases where you are located in the shopping centres. So in that 90%, I am not saying all of that 90% would be covered by exclusivity. I am saying where you have an exclusivity list it will actually be an excessive list that is applicable in a shopping centre, am I correct?

MR NORTH: Where we have an exclusivity provision in place that would only relate to the centre, yes. That is correct.

The point I was making in my opening submission was that where we have opened new stores in centres over the past ten or so years those have explicitly excluded from an exclusivity provision smaller operators.

30 CHAIRPERSON: Is that the reading of your lease agreements where you indicate that this?

MR JOUBERT: That is the wording of lease agreements agreed

broadly speaking over the past decade in respect of new centres. So where a new agreement has come forward for a new development then we have explicitly excluded smaller players.

CHAIRPERSON: So when you say past ten years that goes back to 2007, since 2007.

MR NORTH: That is correct.

CHAIRPERSON: Mr Norton have you provide us, provided us with a list of, would you provide us of a list of all those smaller players.

MR NORTON: We have.

10 CHAIRPERSON: We have already. Okay. I thought we don't have that, and then so the restriction on size that you mentioned in slide 8 of your presentation of up to 250 square metres. Is that being in anticipation of who would be a small trader, or the maximum of what would be a small trader in a shopping centre?

MR NORTH: I am afraid I am being advised that this is a point that we would like to take in a close session if possible.

CHAIRPERSON: Okay. And then you also mentioned your supply program and that over 3000 suppliers. Some of whom have been, some of whom are longstanding suppliers of Pick 'n Pay and then
20 most importantly you have indicated that you also have, you source from.

In terms of your procurement policy you source 95% of your products from local suppliers and in that, in that list of suppliers do you, can you give us a sense of the percentages of who, of what will constitute small, medium and large suppliers more or less or who forms the bulk of your supplying. Is it your large suppliers, or medium or small? Just give us a sense?

MR NORTH: I am going to give you a broad sense, Chairperson. I am again advised by Mr Norton that if we get into detail then we
30 would like to cover that in a

CHAIRPERSON: Closed session.

MR NORTH: Closed session because of the commercial confidentiality. But broadly speaking our largest suppliers will be a small proportion of our total number of suppliers but they will account for a majority of our supply.

We do however have a large number, so a large proportion of the 3000 that I indicated to you will be small suppliers but again I can, we can elucidate on that in more detail if we did it in a close session.

CHAIRPERSON: Okay. We, there was a question in the list of
10 questions that you have provided with, that asked for a specific criteria that has applied by Pick 'n Pay to perspective suppliers and I know, I think slide 11 kind of touches on this but I was not sure if it is actually the actual criteria that you put out to your suppliers or it is the kind of things you look or overall.

Is there a criteria at all, if I may if I produce a product and I want to approach Pick 'n Pay is there a certain list of things that you would be looking for and it is that criteria that we basically we are looking for and it is against the background where we have been annulated by complaints and product developers that feel, that feel it is very
20 difficult to find their way into the large supermarket stores, or find their products into the large supermarket stores.

MR NORTH: Ja. Thank you, Chairperson. I think that is again an important area to explore. What I set out on page 11 of that presentation was primarily some of the key things that we look for in maintaining relations with our suppliers.

In other words we have, we have longstanding relations with suppliers and we want to develop new suppliers in order to achieve the objectives set out there. So the first one was nutritious high quality safe products. Then to provide exceptional value.

30 Thirdly obviously with a broad number of suppliers we want to demonstrate to customers that we have the choice available to

them and then fourthly sharing our values. Now I think you posed the question more specifically in relation to a small supplier. So if we took a small a perspective, somebody who wanted to supply Pick 'n Pay.

CHAIRPERSON: And you can add to that previously a supplier from the previously disadvantage group?

MR NORTH: *Ja*, absolutely. I will answer the question then again I will turn to my colleague Thembi Mazibuko for her to see if she wants to add anything.

10 I think you raise for us an important point which that the process of moving from an idea which is, I got a great idea to produce. Let me just sort of say one out of the air. Arrange of biscuits.

Into becoming a supplier I think is for any prospective manufacturer supplier a daunting process or it can be a daunting process because although they have a great idea and huge energy around the idea which is, you know I have been able to produce these products on a small scale and the people to whom I have given them or sold them on a small scale have loved them.

20 Once you get into the question of supplying on a broader scale, and I do not think supplying on a broader scale is limited to supermarkets, it could be through independent operators or whatever. You do then enter a world which maybe unfamiliar and that would be the world of insuring that you can, you can produce those products at a different scale from those that you were producing.

30 Without trying to over simplify it, it would be moving from producing in your own kitchen for example to producing in a factory. Once you, once you seek to, aiming to do that then you starting to address questions which you previously not addressed. Where would I secure those premises? What are the regulations that apply to those premises, what would the rentals be for those.

Then I think once you have the conversation with the perspective purchaser whether it is the independent shop or a retailer you end up having a conversation around can you supply that product at a sufficiently, at a sufficient and regular supply. Can you maintain consistency of production because it is for any of us it is easy to produce something once well but to produce it every day or on a regular basis well is a technical challenge?

CHAIRPERSON: Sorry, are you speaking to the criteria here because my question is really focusing on the criteria and I am
10 worried about the length of your answer in terms of dealing with this.

MR NORTH: Right. I think if I were to address the, if I were to answer your question simply in terms of the criteria I think I would not be answering your point because, because the point I am making is that in terms of nurturing a perspective supplier. It is not simply a case of going through a check list and saying you don't meet points one, three, four, five, seven. If it were done on that basis then I think perspective suppliers would have a justifiable grievance in saying that they cannot get into supplying our
20 business or any equivalent business.

What I am saying is that bringing new suppliers into our company is about understanding the challenges that face them in terms of building businesses and in terms then understanding the challenges that we need to overcome in listing them as suppliers.

Which is can you supply safely, can you supply the volumes, can you supply regularly and then there is a third series which I would not deal in detail given your last point, Chairperson which is a whole series of external requirements. For example do you have a sufficient banking setup? Are you compliant with taxes and
30 regulations? Et cetera, et cetera. And each of those can be daunting too, can be daunting to a supplier. And each of those we

seek to overcome but in our relationships with them.

CHAIRPERSON: Can I ask you that you will also want to deal with, if you wanted to just go into detail as to which suppliers you have assisted in your supply development program. Names, mentioning names. Will that also be in a closed session?

MR NORTH: I do not think that requires a closed session, Chairperson.

CHAIRPERSON: Okay, can you speak to that and just tell us who those are, firstly when did that supplier development program start
10 and then you can then tell us who those suppliers, what you did for them just.

Just to give us a sense of what it is that Pick 'n Pay is doing in this space especially taking into account producers and suppliers coming from your previously disadvantage areas, communities where Pick 'n Pay may have stores.

MR NORTH: *Ja*. I will answer the first part of the question, Chairperson and hand to my colleague Thembi.

I would want to say first of all that from the inception of the company by our founder Raymond Ackerman he has always been
20 committed to the development of suppliers and new suppliers and it is still the case that Mr Ackerman is present in our headquarters and it is still the case that when suppliers come to see him his first question when they leaving the building is where you treated well by my team.

And so on that basis the specific programs that we've had in place date back to the previous decade. They are constantly being refined and enhanced. But I will if I may turn to my colleague Thembi to answer on any specific examples.

CHAIRPERSON: Yes.

30 MS MAZIBUKO: Chair, thank you. Thank you David. So on a personal basis I have probably in my time when I was buying will

see up to ten small suppliers a week. So it is not something that happens on an irregular basis but we are very proud of the many stories and the many lives that we have touched and helped to grow with the suppliers program.

I will just mention a few. uNtombi Noncibane she had a passion for helping women and new a lot of women in her community could sow but could not find the avenues to get into formal retail and so she came to Pick 'n Pay in 2007 and a company called Rise Uniform and the enterprise supply development program.

10 So right away that there was a big need to mentor because clothing is a very competitive space and so they partnered her up with our head of clothing Micheal Coles who spent, who allowed Ntombi to spend time in the division with the rest of the buyers looking at how formal clothing works and today she produces uniforms for our Pick 'n Pay employees. So not only did we give her some expertise we also gave her the market to start of her business.

And we are happy to say that today she supplies uniforms to other companies as well. Husband and wife team Zugty and Bulky Essa
20 they started a popcorn business in their kitchen in 2005. Today Comessa foods owns a factory in Wynberg in Cape Town. They manufacture tortilla wraps, popcorn roties, Indian nan and one of the programs that Pick 'n Pay has put into place because some of the things that seems so simple to us as a small supplier as to say do you have a bar code for your product.

And one of the programs that Pick 'n Pay has put together is a brand called Pick local and Comessa food is one of the first suppliers to go under this brand because I think often we forget that many of us are consumers and when you go to the shelf and
30 you see Comessa food you have never seen it before, you do not know who produces it.

You are more likely to Pick 'n Pay a brand that you do now and so by putting a brand like Comessa food under our own brand, Pick 'n Pay local with her story, with her product in there we are actually helping to give them that first step forward.

CHAIRPERSON: Mr North did present that he also gave them preferential space in your shelves, would Comessa foods be one those that have been given, is that in the Western Cape or a nationwide?

10 MS MAZIBUKO: It is a nationwide supplier now. She produces in the Western Cape and we have put it into selected stores. Understanding her product tortilla wraps, popcorn roties and Indian nan is now in every single store, like every other supplier is where the customer need is but she does have space on shelf, yes.

CHAIRPERSON: Okay, and the next one?

MS MAZIBUKO: The next one

CHAIRPERSON: How many would you be going through, just to have a sense?

MS MAZIBUKO: There are, I have got here five stories but I have got many others if you if that is sufficient, Chair.

20 CHAIRPERSON: Okay.

MS MAZIBUKO: We have got S'busiso Tshabalala. This is a product you will see a lot of times in your local Pick 'n Pay so S'busiso his family had owned a small holding farm and where they would do some wood cutting and sell them on the side of the street and he came to Pick 'n Pay and said he wanted to start a business and together with the team they started a charcoal business. Leveraging on what the family had already done.

30 So if you go to a Pick 'n Pay today and you see the Pick 'n Pay charcoal that is prominently displayed on the shelve that is owned by S'busiso Tshabala and his business Barry Hill Trading. One of our biggest... [Intervened]

CHAIRPERSON: What is the brand called?

MS MAZIBUKO: Pick 'n Pay.

CHAIRPERSON: Pick 'n Pay

MS MAZIBUKO: He packs the Pick 'n Pay charcoal, the one that you see in every Pick 'n Pay prominently displayed is, S'busiso packs that for us nationally.

CHAIRPERSON: Would that be considered as a private label or?

MS MAZIBUKO: Yes, Pick 'n Pay is our private label owned brand and I think.

10 CHAIRPERSON: Would S'busiso then be precluded from supplying that product to others?

MS MAZIBUKO: As Mr, as David had said. The formula, if our charcoal is a specific formula, the packaging.

That is exclusive to us but he is welcome to develop a different formula, a different product for any other retailer or for that fact to pack it under his own Barry Hill brand or whatever. But the Pick 'n Pay formulation is ours.

20 CHAIRPERSON: Okay, and then moving to trading terms. Let me just also give you the floor on that. Which trading terms are your smaller suppliers exempted from because we have had a concern and the concern raised by a number of suppliers that I repeated this as a concern in this hearings that they would want to offer their products at a certain price but when they approach retailers and especially the big retailers they always have to make contributions in the form of some type of allowance which pushes up the price and they end up not being as competitive as they would want their product to be and this has caused some kind of disgruntlement amongst some of his new suppliers.

30 And I just want to know which of your allowances are your new suppliers and smaller suppliers exempted from applying or having?

MS MAZIBUKO: Thank you, Chair. I am going to ask David just to

answer that question in support and if he would like me to carry on.

CHAIRPERSON: Okay.

MR NORTH: Thank you, Chairperson. I copied this outline in my presentation where I, would I explained was that we do have preferential terms our smallest suppliers. The type of suppliers that Thembi was talking about.

Some of those preferential terms include shorter payment periods, very important for a small supplier to improve their, very important for the short term payment, shorter payment period it is very
10 important for small suppliers because cash flow is often a critical issue for a smaller supplier. Lower marketing fees, so as Thembi was explaining where I have got a new product and that new product is unknown to the customer we do want to give that new product and that new supplier the best start that they possibly can have in terms of prominence in our stores and in terms of marketing for that product. And that will extend to dedicated shelf space which in the case of other suppliers maybe a issue of commercial negotiation and that is in assistance to the areas that I have outlined previously which falls broadly into the categories of
20 coaching, mentoring, training, assistance in producing a business plan.

A development of the health and safety protocol which they then meet. I think probably, Chairperson you were also looking for some specific line items and again I think if I may I would ask that we take those on a confidential basis.

I mean they only pertain to our smaller suppliers but none the less in commenting on them I think I would be likely to strain to commenting on the details of some of our broader commercial terms.

30 CHAIRPERSON: That is fine. On the, just to proceed on this line terms of suppliers. In your presentation you mentioned that Pick 'n

Pay no longer requires suppliers.

Sorry. You mentioned that Pick 'n Pay no longer require suppliers to come and collect, or to collect their damaged or defective, or to come and collect damaged or defective goods. When has this, when did this change occur and can you speak more about it, anymore substance if it is possible?

MR NORTH: Thank you, Chairperson. I want to perhaps if I speak more quickly that might that might assist the panel. It is linked to the centralisation of our distribution which I think looking at my
10 colleagues has been taken place over the past six years or so.

And therefore I think as others have explained this week so I won't go over all of that ground. As we centralised our distribution an increasing number of our suppliers will choose to be part of that centralised distribution. In other words they distribute product into our distribution centres and the responsibility there after goes from, transfers to Pick 'n Pay in terms of distributing to stores and related to that is the issue of damaged and defective goods.

And historically, and again this is a world trend not just a South African trend. Historically each individual company including the
20 charcoal supplier that Thembi outlined will have been responsible for going to each and every store to collect each and every item of defective charcoal or whatever it would be. So the process of distribution allowances and defective goods, and allowances relating to defective or damaged goods has replaced that system with what we and what our suppliers believe is a more efficient allocation of effort and resource which is given that we can do that on a centralised basis both in our stores and in our supply chain.

That work has transferred to us. In exchange for that the suppliers will pay us an allowance, that allowance is based on a historical
30 calculation of average defective or damaged goods as they were received into our business and that is something which is looked at

again on the basis of the annual negotiations to see whether it remains the appropriate way.

But it is something that is standardise, it is something that actually suppliers around the world believe benefits them as well as benefits retailers.

CHAIRPERSON: And these damaged goods or defective goods, are they taken back to the supplier or are they disposed of by Pick 'n Pay, how does this work?

10 MR NORTH: They are not taken back to the supplier, it is our responsibility then to dispose of them in various ways.

CHAIRPERSON: Okay. Does Pick 'n Pay also any of the expired items?

MR NORTH: Not of expired items, but again, Chairperson you raise an important point. Whether our products that we believe that we are not going to sell, particularly fresh and perishable products within their code then we have a relationship with charities in this country to take that food from us and to distribute it to needy people. But that is done at our expense and not at the expense of our suppliers.

20 CHAIRPERSON: Now let us start, none of those goods would be sold?

MR NORTH: No.

CHAIRPERSON: Okay I will allow my colleague to ask some questions and then we would like to go into the closed session that we can have a better discussion of some of this points.

MS GRIMBEEK: Thank you. During the course of this week we heard about front end and back end margins.

30 So I was wondering if you could firstly explain to us what those would be according to your understanding and then secondly also how does translates to the final prize that is charged to consumers?

MR NORTH: Okay, thank you. I have taken note of your request that I deal with it very quickly, but it is quite, you asked two questions which do require some answering. I think I set out in my presentation, I do not recall which page that in order to try and understand this issue of front versus back margin that I know that you have looked at in some detail.

Essentially it is more simple I think than if you look at every line by line item. Essentially there will be a list price and then there will be a series of either discounts or allowances and as I explained
10 when I presented there will be a standard discount that reflects the volumes that we sell and the efficiencies that we bring. Secondly then there are the standard contributions for the issues such of those of the Chairperson asked about in respect of in respect of either marketing activities or as we just discussed, distribution or damaged goods.

Thirdly then there would be negotiated discounts or contributions which for either additional marketing activity or in respect of receipt of customer insight. But those are optional on the supplier depending on whether they want to want to receive those.

20 I think what you were then, could you just rehearse that just that I am sure that I got the second half of your question, or that I answer the second half of your question.

MS GRIMBEEK: The second part of the question was just how does front end and back end margins translate to the final prize that is charged to consumers?

MR NORTH: Ja, well the final prize that is charged to consumers will reflect the prize that, let me explain it but you will have to indulge me for thirty seconds or so.

I think what essentially you are looking for there is to understand
30 that if that the prize that is agreed with a supplier subsequently relates to the prize that is then charged to the consumer and that

this is a fair process and I heard and I listened when that same question was put to our competitors in the course of this week and I think the best way of answering it is like this In our annual accounts we publish the total turnover of our business. I know that I anticipate Chairperson you are going to ask me to relate this to a certain product, so I will do that if you give me the time But the, our accounts show the total turnover of our business, in other words essentially everything that we sell and the value of what we sell.

10 We then also have a line which is the cost of goods sold and that is made up of, that is an aggregate and I think this answer your questions now. Is how much we pay suppliers for their products including rebates, cost of warehousing, distribution, advertising, waste and shrinkage. All of the things that we have been talking about this morning. If you deduct one from the other what you get is the gross profit that the business makes and probably of more use the gross profit margin.

That is published annually in our business and is published by other businesses and as a percentage of total sales our gross
20 profit margin is 18% and I think that answers your point about front and back and all of those things. Now to go on from that, what you then need to take into account. And I say with respect to some competitors, I am not sure this was made clear in questioning earlier this week.

You do need to take into account trading expenses which the Chairperson asked to our competitors earlier in this week. That is made up of the people we employ in our stores and in our head office and in total around 80000 people in our business in this country and then a serious of associate costs. Electricity, rates,
30 rents that we talked a little bit about this morning. Depreciation on capital, on the trillions that I said we were spending.

Where that gets you to then is a net profit margin and I think that if I can. That answers your question that leaves us with a net profit margin we publish at 2.3% in our last annual accounts. That is before tax, causes a responsible and a formal business we pay tax and therefore we have an after profit, after tax margin which is lower than that of 1.6%. What that then means is that for every rand or product we sell we make as it were for shareholders and for the company 1.6% after tax.

10 Now if you, if I then, if I were given another 15 seconds. Now tell me about an individual product, without going into a closed session an average to cross all of our supply. Let's say a product cost R20, what this would mean, sorry it is sold to the consumer at R20, what it would mean on an average basis given our gross profit margin is that we bought it for R16.40.

What it would then mean is that the gross profit margin there would be R3.60 but once you deduct our operating costs as a company, our trading expenses we would make on that R20 product that we purchased for R16.40 we are making 46 cents before tax and 32 cents after tax.

20 So I hope that gives you an insurance that whatever efficiencies we agree with suppliers are passed on to consumers subject to obviously the qualification that we do need to run a viable business.

MS GRIMBEEK: I see that we are running out of time. I think I just wanted to note that we may have some follow up questions for you on some of the data presentations that you have made, specifically on slide 6 and I think 17.

30 So we will I think follow up with you through Mr Norton after the course of this public hearing. I do not want to spend any time on those now. I think that is it from my side then.

CHAIRPERSON: Just one last question from me. In your slide 19

where you mentioned when Pick 'n Pay introduce SASSA payments into its stores, ja slide 19.

MR NORTH: Yes, it is on slide 19.

CHAIRPERSON: Can you just explain to us. We have a lot of complaints from smaller retailers, especially those from the rural areas and townships who lost business when that happened when SASSA payments were centralised or moved away to the cities or to the towns, why is that happened.

10 Did Pick 'n Pay pick up any gain in terms of market share as a result of this SASSA payments being made out of your stores, did you observe any difference in shares?

MR NORTH: Chairperson, if I will to take your request for brevity and answer it into two, my answer would be if only. The, we see the provision of SASSA payments in our stores as a service that we provide for our customers and indeed one that we would be concerned, we would be concerned. Would affect the viability of the SASSA system if we were to seek to withdraw that.

20 And I say we on behalf of us and I think other major retailers. It imposes a significant cost on the business, not least in the terms of security and we have a, and I am very happy to air this issue because we have a longstanding ongoing dialogue with the Government in which we are, which we are asking Government to spread SASSA payments over the month in order that it did not attract criminals on the date which SASSA payments were being made.

30 It does disrupt the operation of our stores significantly because anybody who has experienced it will see that SASSA payment day leads to huge queues of recipients in the stores that are principle affected and the honest truth is that SASSA payments will go in particular to people who are in need of those payments.

It is very often the case that that they will receive, they will use

Pick 'n Pay to receive their payments and then leave the store. Now because someone will purchase products in our stores because we seek to be a competitive business but if the Government were to say we have found a better way of doing this, it does not lead to your stores being subject to crime on a regular and I think entirely unjustifiable basis. We will be very happy to have that discussion.

CHAIRPERSON: It is also a service that you will be happy to share with other retailers, especially those were smaller retailers
10 that have raised this concern for them.

MR NORTH: I think my answer to that is if that burden, if others were happy to share that burden we would be delighted.

CHAIRPERSON: Delighted, okay. Okay I think we are going to proceed to the closed session.

At this point can we request that all the people who are not part of the Pick 'n Pay delegation or the Competition commission team be excused until the next session and that the live media streaming be switched of, only the transcription will remain on. Thank you.

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HEARING ADJOURNS
