

Review of operations

Bidfood

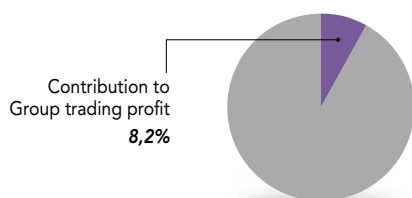


Bidfood serves the hospitality, leisure and catering markets with a comprehensive range of food products and consumables. The division also manufactures and distributes pre-mixes, food ingredients, spices, seasonings and other products to the bakery, poultry, meat and food-processing industries and is represented in all important urban areas and tourist centres across southern Africa.

- ▶ Revenue reaches R3,7 billion, up 12,7%
- ▶ Operating profit of R299,8 million
- ▶ Caterplus and Combined Foods division consolidated to form Bidfood
- ▶ Bidbake and Crown National relocate to world-class, purpose-built premises
- ▶ Significant inroads into independent foodservice market
- ▶ BidBro's Cash and Carry concept launched; national roll-out imminent



Colin Kretzmann
Chief executive



Introduction

Bidfood entrenched its position as an industry leader differentiated by high quality and market innovation. The relocation of Crown National and Bidbake to state-of-the-art manufacturing and distribution facilities at Longmeadow east of Johannesburg has underlined the division's quality profile.

Bidbake's new Longmeadow manufacturing plant is very close to being HACCP compliant. An increasing number of major accounts insist on HACCP standards. Our adherence to strict quality standards is a key factor as we strive to expand our customer-base and improve our share of the market.

Strong demand for high-quality local and imported brands in the speciality foods sector created marketing opportunities for Patleys, which registered pleasing growth. Significant inroads were also made into the independent segment of the foodservice market.

Revenue increased by 12,7% to R3,7 billion. Improvements were largely the result of organic growth.

Trading conditions were challenging and judicious margin management was demanded in a largely low-inflation climate. However, no jobs were shed and modest jobs growth was achieved in some business units. Bidfood has a workforce of 4 060.

Trading profit declined 5,2% to R299,8 million.

Macro-economic factors

The trading environment was characterised by positive business sentiment, continued economic growth, stable interest rates and buoyant consumer confidence. The stronger rand showed great resilience, undermining the perception that South Africa remained a "cheap" tourist destination and reducing the international visitor's spending power after converting to rand. Exchange rate factors ensured continued competition from other foreign tourist destinations.



Crown National and Bidbake
the new premises for Crown National and Bidbake's distribution and marketing services



D & R Lowe
supplies the catering industry



BidBro's
new cash and carry concept



M&M Quality Choice
is a leading supplier of groceries and allied products to the catering, hospitality and foodservice industry in Gauteng

General expense inflation remained well controlled; with food inflation at historically low levels, offset by exceptionally high distribution costs.

Industry-related issues

Relatively high wage settlement, low food inflation and high fuel costs have had a negative impact on the foodservice wholesaling industry. The impact of the fuel price increase is material for a distribution-based business. Wages, rentals and transport costs significantly outstrip the general level of food inflation while the low inflationary environment strengthens resistance to price rises across Bidfood's customer-base. Internal inflation has to be absorbed rather than passed on, creating constant pressure on margins. Prices have been driven lower on many product lines.

Rising house prices, low interest rates and increased access to credit have added to the "feel-good factor" at consumer level, but the knock-on effect is not as positive in the restaurant sector as one might imagine. No significant increase in out-of-home eating has taken place. Fear of street crime may be a factor.

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In contrast, we see a strong trend towards in-home eating and home entertainment. As a consequence, strong growth is evident in convenience foods. Stronger sales of “special occasion” food items and paper products are also apparent. Prolonged rand strength and stable pricing of imported foods have fostered the appetite for some international products, a positive factor that helped to drive Patleys’ strong performance.

In the baking industry, the large plant bakeries have established qualitative superiority over small in-store bakeries, which now focus increasingly on confectionery items.

Bidfood has strengthened its relationship with major bakeries by developing an advanced range of cream yeast dispensers and batch control procedures. This initiative was undertaken in collaboration with the product providers and yields considerable operational efficiencies. Unfortunately, the yeast industry has been forced to reduce margins to combat the threat of yeast imports.

Business risks

Public health issues and other health risks can affect food consumption patterns. An outbreak of Newcastle poultry disease caused a drop in chicken sales. The prospect of widespread outbreaks of avian flu caused disquiet internationally, but has had no effect in the South African market. These risks are managed through diversification. Bidfood has a strong position across all food groups.

Relatively low barriers to entry permit opportunistic competition from non-traditional quarters. A new direct importer may achieve short-term price advantage in a specific line. An energetic response is necessary and has been implemented. Strong relationships with international suppliers are also helpful when pricing flexibility is necessary.

The business is affected by exchange rate risk, but an extensive range of local and international products provides a measure of balance. A strong rand can also affect tourist patterns as it turns South Africa into a relatively expensive long-haul destination for high-spending visitors from North America and Europe. Overall tourist numbers may

appear to be unaffected, but recent tourist growth tends to come from visitors from Africa on shopping trips. Their spending is not usually focused on hotels and restaurants and consequently is not beneficial for our market.

This risk is managed to some extent at national policy level as tourism industry planners focus increasingly on leveraging the spend per visitor. The growth of sports tourism is materialising and some success is being achieved in putting South Africa on the map as an international convention destination.

As a major industry player, we experience the general business risk of intense competition from smaller, niche-focused operators. However, our national distribution capability and broad footprint make us the natural partner of major international and national brands. We increasingly operate as the strategic partner of our customers – further defence against competitive attack.

Sensitivity analysis

The critical risk factor affecting all aspects of the business is food safety, particularly in the context of food tampering. Public concerns about the safety of food would affect consumption patterns and have material impact on Bidfood activities. In general terms, public confidence can be maintained by stringent quality controls and appropriate packaging solutions, but criminal acts of sabotage to deliberately contaminate the food supply can be extremely difficult to combat.

Structures and growth

Caterplus and Combined Foods have been consolidated into a single division, Bidfood. The change of name and formal integration recognised the operational reality as close co-operation across business units has been a factor for some time. The new structure involved no disruption.

Revenue gains are largely a function of organic growth. A small acquisition was concluded involving a Johannesburg-based manufacturer of toothpicks, Steri Pic.



Crown National
new distribution facility in Longmeadow, Johannesburg

Black economic empowerment

Bidvest's commitment to BEE has helped to further strengthen our position with major clients who increasingly demand that their suppliers have a credible BEE profile.

Operational units within Bidfood are in the process of obtaining individual BEE ratings. Progress is being made across the broad-based BEE scorecard. Our BEE targets are consistently being measured.

New investments

The pace of new capital investment slackened following the commissioning of the Crown National production facilities in Cape Town and the construction of the Longmeadow premises for Bidbake and the Crown Foods Group.

A recapitalisation programme was launched at Lufil Packaging to enhance manufacturing capacity in response to strong demand for its range of paper products.

This will lead to some growth in jobs at this KwaZulu-Natal operation.

Innovations

Crown Foods and Bidbake have collaborated to launch BidBro's, an innovative cash-and-carry concept. The first outlet has opened at Longmeadow, Johannesburg. BidBros carries a range of bakery ingredients, spices, herbs and pre-mixes. Initial market response has been positive, setting the scene for national roll-out of a BidBro's cash-and-carry chain.

The purchase of Steri Pic creates a platform for further penetration of the fast-food sector. Its flow-wrap technology can be used to supply fast-food outlets with a single package containing individually wrapped toothpicks, condiments, vinegar and serviettes. The handy wrap solution will enable franchises to keep better control of the consumption of these items.

To widen the offering of Hotel Amenities Suppliers, new opportunities are being explored to bring a broader range of accessories to the hospitality market.

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Vulcan, our catering equipment manufacturing business, closed the only significant gap in its product offering by forming an alliance with Desmon, one of Italy's leading suppliers of refrigeration technology. This will enable Vulcan to enter the market for up-market refrigeration equipment.

Bidfood responded rapidly to public concerns around butchery hygiene and official investigations into the cleanliness of some butchery equipment. The division is investigating an opportunity to create an equipment cleaning solution targeted specifically at the equipment items mentioned in official reports.

Challenges

Bidfood has a decentralised structure. We are, therefore, challenged to deliver a consistently high standard of service across the organisation. Sustained investment in the training of our people is essential in all operations.

In 2006, the training investment topped R4,7 million; 4 340 training days were logged.

The in-house First for Service Quality Management Programme is proving highly effective at sustaining service quality and motivating higher levels of performance. Quality people have become a source of competitive advantage for Bidfood.

Retaining skilled people is an on-going challenge. It has always been Bidfood policy to develop people from within. We have now embarked on a programme to identify and fast-track staff members with high potential.

Social investment is an opportunity to strengthen the bond with the communities and industries we serve. Contributions to the Bidvest community upliftment effort at Group level are increasingly complemented by local initiatives, notably the pilot programme in Cape Town to contribute to the training of chefs from disadvantaged communities. Bidfood sponsors a trainee at a chef training school. Further investment in this project is envisaged.

The environmental challenge is focused mainly on waste discharge from Bidfood's yeast-making operations. Our Johannesburg-based yeast-manufacturing joint venture,

YeastPro makes use of state-of-the-art effluent disposal systems. At the NCP yeast factory in Durban, waste management is accorded high priority. Close liaison is maintained with city authorities whose recent reports confirm that initiatives to dilute toxicity levels are proving successful. Our current control is acceptable to local authorities, but work will be continued to achieve improved standards of waste management.

There has been no slackening in the effort to provide HIV/Aids support to our people. Education and awareness training is on-going. Free condoms are distributed and voluntary counselling provided.

The future

Some weakening of the rand has become evident while there is a general expectation that interest rates may move higher in the coming months. At the same time, the impact of several fuel price rises will add to inflationary pressures. The core challenge for management is to embrace the discipline of trading in a largely low-inflation environment.

Crown National (at Montague Gardens, Cape Town) and Bidbake (at Longmeadow, Johannesburg) have world-class production facilities that are the envy of their industries. Modern manufacturing capabilities create continuing opportunities for new efficiency gains. These will be vigorously pursued.

The marketing landscape is being changed by the rapid emergence of a new middle class. These upwardly progressive families have an appetite for new experiences. Demand can be expected to grow for a wider range of foods. As the distributor and marketer of one of the widest food ranges in South Africa we are well positioned to draw benefit from these trends. The continued emergence of South Africa as a major events and sporting destination is evidenced by the fact that the 2010 World Cup Soccer Tournament will be coming to our country. These developments are positive for Caterplus.

Margin pressures will continue, but all opportunities for further growth will be exploited to the full.



Bidbake
manufactures and distributes
a wide range of pre-mixed,
convenience products and
ingredients and bakery
consumables

CATERPLUS CATERING SUPPLIES

Performance was disappointing in a challenging year. However, the strategy of seeking new opportunities in the independent catering sector has begun to gather momentum. Caterplus will seek wider penetration of this segment of the market.

CATERPLUS FROZEN FOODS

Frozen Foods' operations achieved profit growth with a pleasing growth in the second half. The business unit has entered into strategic product development and marketing alliances with certain suppliers. The full benefit of these arrangements will soon become more evident. Most significant was the improved market share as evidenced by top-line growth.

SPECIALITY FOODS

The speciality foods business had a successful year. It is well positioned to derive advantage from a growing consumer appetite for imported lines and quality food brands and the growth of home entertainment.

CATERING EQUIPMENT

Volumes and trading profit fell in a challenging year for equipment manufacturing operations as a result of the conclusion of a major contract to supply feeding schemes in Botswana. Expansion of the range to include refrigeration equipment will strengthen Vulcan's product offering.

PAPER PRODUCTS

Sales declined year-on-year as a distribution contract for a major fast food chain came to an end. These activities were non-core and had been entered into to derive opportunistic advantage from Lufil's distribution capabilities. Conclusion of the contract enables Lufil to focus on core competence. Strong demand for Lufil's paper products sets the scene for further growth. Growth in paper products is strong and the entry into serviettes is proving very profitable.

HOSPITALITY ACCESSORIES

Good growth in revenue was achieved. At year-end, Hotel Amenities Supplies won a major contract to supply a leading hotel group. Opportunities are being explored to expand its product offering to the independent hotel sector. Steri Pic's acquisition creates new marketing opportunities in the fast-food sector. A good level of profit growth was recorded.

BIDBAKE

The business experienced a disappointing year, though pre-mix volumes are showing encouraging growth. Import competition in the dry-yeast field drove prices down. A major brewing industry customer was unfortunately lost to an imported product. The yeast business is now very price-competitive and margins remain under extreme pressure. Bidbake aims to improve its share of the bakery ingredient market in the short term.

CROWN FOODS GROUP

The group experienced several setbacks. The move to the new Longmeadow offices and distribution facility proved disruptive at operational level. In addition, severe margin pressure was experienced on some lines. The import of soya products by some competitors at very advantageous prices disrupted the market. This issue was addressed by our foreign suppliers of soya products and the business is once again competitive in this area.

An outbreak of poultry disease caused additional difficulties.

The net effect was a marginal decline in profits.