

Review of operations – Bidpaper Plus



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Chief executive

A leading manufacturer, supplier and distributor of commercial office products, printer products, services and stationery and packaging products through a wide network of outlets in southern Africa.

- > Trading profit rose 16,6% to R226,9 million
- > Revenue from continuing operations flat at R1,8 billion
- > Successful consolidation of new structures in first full year
- > Greater balance achieved in organisational structure
- > Strategic positioning as provider of digital and technology solutions to complement print production

Value proposition

Bidpaper Plus is a one-stop, nationally represented solution-finder offering procurement and pricing efficiencies at the consistently high levels of quality and reliability demanded by a blue-chip customer-base.

Introduction

Revenue was in line with management expectations as the previous year's sales were significantly boosted by large election materials contracts at Lithotech.

Major contract gains were achieved by our export projects division with the contract to supply ballots to the Nigerian election while the Lithotech corporate sales team had a number of successes on the national account front.

Continued success was achieved with the strategy to position Bidpaper Plus as a provider of digital and new technology solutions that complement our traditional base in print production. The launch of our digital pen and paper set underlined the e-proposition. The product is supported by locally hosted software, process servers and infrastructure to combine traditional pen-and-paper documentation with digital record keeping.

A further highlight was the implementation at many centres of a new, standardised management information system.

Macro factors

Strong GDP growth and high levels of retail activity were positive for the business, particularly bill presentment and print-to-post and fulfilment services. There are signs that retail activity may slacken as the national strategy puts increasing emphasis on infrastructure-led growth. But this had no material effect. The impact of the new National Credit Act is not yet apparent, but the Act is anticipated to both add to and subtract from client communication activities.

Exchange rate fluctuations and the behaviour of local monopolies and duopolies continue to be significant issues and are cause for growing concern.

Mondi has exited the market for self-copying paper and lightweight uncoated stock, leaving Sappi the sole local supplier of lightweight paper. A 10,0% price rise was the result, ascribed to limited local capacity. The increase puts the price at about the same level as the cost of imported papers.

In a competitive market, the ability to control or influence input costs is critical to business sustainability. Steps are therefore being taken to reduce our vulnerability to unilateral action by dominant suppliers.

Constant – and significant – increases in fuel prices are an abiding concern.

Skills shortages are another critical issue. We are increasing our training investment while looking at new ways of deriving optimum advantage from this growing budget.

Challenges of national growth

Supply bottlenecks created by the pressures of prolonged national growth are not yet a major issue, though there are signs that we may be affected by certain constraints.

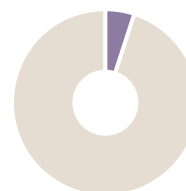
The key restriction is load-shedding and power-sharing caused by rising electricity demand and consequent pressure on national generating capacity. Printing presses and associated equipment are major users of electricity. Reliable power is critical to us; so is our reputation as a dependable, on-time supplier.

Following a series of power outages in centres around South Africa, we have invested in our own power generation equipment to assure continuity of supply on time-sensitive projects. We are still rolling out these installations. Back-up at every operation is not economically viable, but will be available at strategic points.

Limited local capacity in the manufacture and supply of lightweight papers for the scholastic market is the

Contribution to Group trading profit
2006: 5,3%

5,0%



first bottleneck that specifically applies to our industry. Moving to higher weights of paper is suggested as a way around the problem, but the cost implications are significant for the consumer.

Risks

There has been no change in business risks. The major risks are exchange rates, crime and credit risk. Insolvency levels are quite low in our high-growth economy, but criminality has taken off. Non-payment of accounts may not be linked to a customer's commercial difficulties, but deliberate fraud. Quite sophisticated scams have been reported.

We are fair but firm in our approach to credit and the fulfilment of contractual obligations – ours and those of our clients. We also benefit from the fact that we work on major national accounts and for international organisations with reputations to protect.

The consistency of our approach works for us. We deal in Africa with official departments, donors and foreign aid projects, and apply rigorous controls. We do not bend rules or cut corners. We are ethical and transparent. We deliver quality, on time and within budget and will not take on a job if we know it cannot be completed on deadline and within previously agreed quality parameters.

Sensitivity analysis

We are sensitive to rand weakness and inflation beyond 5,0%.

If industry inflation (driven principally by wage settlements and paper prices) rises above this level, the result is margin pressure. The same applies when rand weakness moves out of the 5,0% band. The reason is that customer attitudes have been shaped by several years of low inflation. Customers now regard any increase above 5,0% as unacceptable. We offer quality solutions in support of long-standing relationships. Cost-cutting that compromises quality also compromises this marketplace positioning. High inflation and pronounced rand weakness could leave

us vulnerable to attack by price-cutters who do not have these reputational concerns.

We are also sensitive to the abuse of monopoly or duopoly power. For example, the post office is both a "partner" (as we use its services) and a competitor (as it strives to enter the laser print market and become a direct participant in the market for mail services). In either capacity, we are vulnerable to increased postal charges or unilateral actions.

We are also impacted by the behaviour and pricing practices of dominant local paper manufacturers and suppliers.

Proudly Bidvest

We donated R1 million in educational materials to under-privileged schools as part of a Gauteng regional initiative under the Croxley brand and the Proudly Bidvest banner. The media was quick to associate this donation with the "Hear for Life" initiative in conjunction with Radio 94.7. This Proudly Bidvest donation aligned us with the rest of the Group at a time when corporate advertising and sports sponsorship had increased the public's awareness of the overall brand.

Differentiation

Our national footprint makes us the natural partner of large corporates that expect consistently high standards of national service as well as potential savings through efficiencies of scale.

We store product on behalf of large customers in major metropolitan centres and produce their standardised documents in volume.

Cost efficiency is not the only customer benefit. Many large companies increasingly support brand equity through a rigorously applied corporate image. The required "look" is being extended to a wider and wider range of printed material in all regions – a trend that benefits a national player such as ourselves.

Our value proposition is underscored by a growing reputation for innovation and the proactive introduction of digital solutions. We constantly scan the technology horizon and introduce products that we know will deliver a benefit to our customers. The digital pen is the latest example.

Convenience is another key customer benefit. We house a multitude of solutions in one environment and have the capacity to customise any solution to the needs of specific clients. This has growing appeal in a corporate environment where procurement efficiencies are aggressively pursued.

Disintermediation is no longer a strong trend and the e-auction approach to procurement is in retreat. Value-add is the key requirement. The preference for one point of supply that offers efficient solutions at predictable quality levels is good for us.

International opportunities

We printed ballot papers for the Nigerian polls, but the scope of this contract was quite limited in comparison with the substantial projects in support of the Democratic Republic of Congo elections a year earlier.

We have now established our credentials and a track record for quality in this area and in future we aim to secure at least one major African election project a year.

Training

Skills shortages continue to plague the industry. Training issues were characterised by dislocation and controversy at industry level and by successful innovation and new investment within the company.

Conflict arose between the industry training authority (MAPPP seta) and training initiatives driven by the Printing Industries Federation. Funding for the Printing College was affected. Personal antagonism and allegations in the Press were not helpful at a time when skills transfer is a national priority.

Lithotech is committed to increasing its investment in industry-related learnerships and 39 new learnerships have been registered with the MAPPP seta since 2005.

Our internal training investment increased to R3,1 million (about 1% of payroll). More than 33 000 facilitated training hours were recorded involving over 1 200 employees.

The training strategy has been modified to meet our changing needs. Competitive pressures make the sales function critical. The quality of our representation and the knowledge of our people have become key differentiators in an industry in which we often act as consultants and solution finders. The challenge is spotlighted by the growth of electronic solutions. In this field, we are selling new technology and its ability to deliver quality gains and cost efficiencies.

We are therefore giving greater emphasis to sales training without compromising our long-standing commitment to technical and artisan training. The process entails skills training, detailed product knowledge and individual coaching to ensure sales teams are thoroughly prepared.

New sales training programmes were launched in October last year. There are twin goals: high levels of professionalism and cost efficiency. The cost of servicing a broad customer-base continues to increase.



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Greater revenue per representative per call is the aim while customers will benefit from quality support from quality staff. Taking our products to market through a better prepared, knowledge-led sales force will cement long-term relationships while growing market share.

New structures

Lufil, a manufacturer of paper products and packaging, has been integrated into the new packaging and label products division. This KwaZulu-Natal business was acquired more than a year ago by Bidfood as the Lufil range includes items in strong demand in the catering and restaurant sectors. The unit's transfer to Bidpaper Plus has created an opportunity to strengthen the packaging component of the business.

Our organisational structure has traditionally been dominated by Lithotech business units (now housed in the printing and related activities division). Greater balance is being achieved by removing packaging and label-manufacturing units from the old family of Lithotech businesses and housing them in packaging and label products. Further expansion of this division is envisaged.

Black economic empowerment

Progress has been achieved on all aspects of the BEE scorecard. Lithotech has been awarded an "A" empowerment rating (previously "BBB"), a process supported by the Group's strong empowerment credentials. Other individual business units – notably Silveray and Lufil – will now seek their own ratings.

Scorecard improvements are the responsibility of individual business units and will continue to receive focused attention as we strive to improve overall compliance with group targets.

It should be acknowledged, however, that the appointment of senior black managers at operational level is a continuing challenge. Unfortunately, lack of in-depth industry experience cannot be made good

by investments in early talent identification, skills transfer and fast-tracking. Sincere commitment over the long haul is the only way this industry legacy can be addressed.

Procurement from black business continues to grow at pace and now tops half a billion rand – almost 40% of total procurement – up from 31% in the previous year.

Corporate social investment

A new CSI strategy was agreed in 2006 to build commitment by local teams to local communities and issues. This more focused approach is now adopted by all businesses. Each unit now has a CSI budget and is accountable for achieving maximum impact and full staff buy-in for the community-based mission. Staff identify projects where there is a demonstrable need and where even a relatively small commitment will make a big difference.

"Sweat equity" from staff members adds a multiplier to the financial donation. One example involved an old-age home on the East Rand where our staff worked to refurbish the facilities while financial assistance resulted in the provision of new beds in the frail-care centre. In the Eastern Cape, our people provided building materials and helped to repair broken-down schoolrooms in an under-resourced area where schooling threatened to come to a standstill.

Innovation

Printing and traditional label manufacture is a mature industry, but Bidpaper Plus focuses increasingly on mailing and personalisation, e-mail and IT solutions and other areas with high technology content. In this environment, innovation is constant.

We are working on electronic bill presentment platforms that offer an alternative to (or complement) the bank debit order. Net tools and mobile technology alert the consumer to the "e-bill". Remote electronic payment is actioned by personal authorisation.

The project highlights Group synergies as the banking licence held by Bidvest Bank is a prerequisite for development of such tools.

Online business card ordering systems developed by Bidpaper Plus enjoy growing acceptance at many major companies. The system relies on standardised templates with pre-proofed wording and signed-off corporate identity and corporate colours.

Email Connection is the first South African company to offer an e-bill with embedded speech capabilities to assist the visually impaired. The technology employs descriptive language that is understood by the most commonly used screen-reading applications, enabling logical document navigation.

The initiative, in association with the National Council for the Blind, held an important lesson – that innovators with a social responsibility commitment should not wait to be approached by those with some form of impairment, but should be proactive. The council indicates that currently about 5 000 visually impaired people have access to computers. Companies trying to reach these users can now do so via the platform developed by Email Connection.

New investment

Approximately R100 million was invested or committed to systems and new or upgraded plant.

National roll-out of the new MIS will not be completed until the second half of 2007, but significant improvements were rapidly evident in operations that benefited from early installation of the system.

The previous, highly decentralised IT system inhibited the interchange of information across regions and sister companies. Standardised architecture now enables more information to be called up and compared, permitting the analysis of sales and performance across regions. We can assess the penetration of national accounts, identify opportunities and improve our service to customers.

The full benefit of timely reporting and prompt response to market changes will only be apparent in 2008.

An investment of R60,0 million has been made in new and refurbished plant at Silveray Manufacturing. Better product quality, higher productivity and improved capacity will give us the platform from which to regain market share in the stationery sector, especially the scholastic market.

In addition, Ozalid (a coater of pressure sensitive materials and converter of materials into finished labels) has invested in an ultraviolet silicone coater and has imported a hot-melt coater from the United Kingdom.

Challenges

HIV/Aids remains a focus area. Voluntary testing has long been available, as has awareness training. After so many years of education and awareness-raising, the principal challenge is audience apathy as the impact of even the starkest message can wear off. The educational battle will continue.

Environmental protection is a matter of good business practice. Paper waste is collected for recycling whenever possible. We scan technology sets for new solutions that use fewer virgin materials and less electricity.



Business is on notice from Eskom, South Africa's national electricity supplier, that the cheap energy era is coming to a close. Increasing attention is therefore being paid to energy efficiency as both an environmental and business imperative.

Reduction of waste is another focus area. We were early adopters of computer-to-plate technology in sheet-fed printing. We are now applying this technology to forms production. Computer-to-plate printing means there is no need for positives and negatives (saving on materials, chemicals and time). In addition, print quality is greatly enhanced.

All legislative requirements relating to the use and removal of chemicals, inks and hazardous substances are strictly observed. The company has a reputation for providing a safe and healthy working environment.

The future

After a year of consolidation, Bidpaper Plus will exploit synergies and seek expansion through both acquisition and growth in market share.

The search for new partners is an opportunity for enterprise development and the creation of joint ventures. Our employee trust is a ready-made vehicle for joint venture formation to further improve our black economic empowerment credentials – a key focus area in 2008.

Ozalid has already expanded into hot-melt adhesive production and will pursue opportunities in the growing market for self-adhesive labels.

The investment in new plant at Silveray Manufacturing paves the way for further expansion into the market for scholastic stationery, both domestically and into Africa.

The African market for educational materials creates opportunities for synergy. Our track record in the supply of election kits across Africa has given us exposure to the needs of customers across the continent. We have simultaneously established our

credentials with several international agencies. These bodies not only encourage democratic transformation, but engage in numerous upliftment projects, including educational work. This base gives us the chance to extend the scope of our cross-border activities.

A key point of focus will be to secure ongoing contracts to supply election materials to African and international jurisdictions. We recently won the contract to supply kits for elections in the Comores.

Increased international sales will enable us to draw some tactical advantage from periods of rand weakness, though we will continue to be at net risk when the currency softens.

Improved efficiency and the reduction of business risk remain a strategic priority. Our level of dependence on South Africa's entrenched paper-manufacturing duopoly will be under constant scrutiny.

We intend to review the price competitiveness and sample all grades of imported paper. Our new structure facilitates the consolidation of paper purchasing. Significant annual tonnages are involved, enabling us to exploit efficiencies of scale. We may become permanent importers of certain grades.

Most observers predict continued expansion of the national economy despite higher interest rates. After a year of consolidation, this should prove to be a favourable climate in which to pursue gains in market share and growth in both revenue and profit.

PRINTING AND RELATED

Personalisation and mail

The division has established its three linked points of presence across the country, providing customers with distribution of mail into the postal system in Cape Town, Johannesburg and Durban. The benefits are speed to post and backup from added services. A number of large outsource initiatives among leading South African businesses are the focus of the division's growth strategy.

Printing and conversion

The diverse print offering of Bidpaper Plus is underpinned by the substantial print capability required by many of our customers. These businesses continue to benefit from the demand for export projects, base printing utilised in laser and mail campaigns and general print fulfilment services.

Sales and distribution

Most sales of Lithotech products are through the national sales force which offers an ever-increasing range to a diverse customer-base. The new sales training strategy will accelerate in 2008, delivering tangible efficiencies and allowing further penetration of the markets for new and traditional products. Where necessary, specialist sales teams will be created to enable more rapid market penetration.

STATIONERY DISTRIBUTION

Following a year of consolidation at the stationery distribution business of Silveray Statmark, the systems and infrastructure are in place to meet the quality requirements of all customers. The rejuvenation of the Croxley brand is under way. Initial results are pleasing. The focus in the coming year will be on establishing correct inventory levels and marketing the new capabilities of the re-equipped stationery factory.

ALTERNATIVE PRODUCTS

The division's "Plus products" address the requirement for paper-replacement solutions. E-mail is now accepted as a convenient and efficient alternative to conventional mail, as reflected in the substantial growth of the Email Connection business. The design and processing infrastructure for the digital pen and paper solution is largely in place. The subdivision will now concentrate on converting the high level of interest in this product into sales.

PACKAGING AND LABEL PRODUCTS

The establishment of the label business as a major supplier to this sector has been slower than anticipated. The product offering has been refined and we are confident that inroads will be made. Focused efforts by a more dedicated sales team are also expected to yield improved results. The inclusion of Lufil Packaging into this new subdivision will allow us to offer complementary products to markets already served by other Bidpaper Plus business units. The technical synergies within the broader division should result in production efficiencies at Lufil, while further benefits will accrue from the new focus on strategic procurement of paper and other common materials.

