



THE Bidvest GROUP LIMITED

Bidvest Industrial – online sustainability report

Highlights

Revenue rises to 3,6% to R1,5 billion (2010: R1,4 billion) despite tough industry conditions

The new Bidvest World of Yamaha is a world first

New materials handling business was quick to build momentum

Buffalo Executape achieves sales and profit growth

Capital expenditure rises 122% to R22,5 million

Collaborative, executive-led sales drive achieves early success

Material issues

- Challenge of succeeding in difficult economic and political conditions
- Improving our B-BBEE performance across the business
- Reducing our consumption of water, fuel and electricity
- Attracting and retaining the necessary skill-sets at senior levels

Business context

Bidvest Industrial comprises both manufacturing and trading businesses, which means we are sensitive to a wide range of macro-economic and political developments.

Trading conditions and risk

Business conditions were difficult from the outset and worsened through the period. Competition was intense and discounting rife. Some competitors made heavy price cuts to reduce stock. 'Grey market' imports added further pressure. The rand and yen were strong throughout the year, compounding the trading challenge.

However, some pockets of the business saw improvements. Certain segments of the automotive industry showed continued recovery, but general manufacturing remained depressed.

As local representatives of strong global brands, we are exposed to the risk of brand principal loss. We address this through continued infrastructure and training investment in support of our brands and maintain a high profile nationwide.

We face currency risk (both rand and yen), but this exposure has been well managed over many years. We have robust processes to manage credit risk. No significant losses were experienced.

We are exposed to knock-on effects when a downturn in various industry sectors reduces demand among our business-to-business customers. This risk is mitigated by diversification. For example,

Yamaha is a strong retail brand and Buffalo Executape has penetrated the retail market with selected self-adhesive products.

Performance

Divisional revenue increased 3,6% to R1.5 billion (2010: R1.4 billion), a satisfactory performance in adverse industry conditions. Trading profit fell by 11,7% to R118,5 million (2010: R134,2 million). Trading margins narrowed to 7,9% (2010: 9,3%) while ROFE dipped to 23,9%. Inventory management, however, was rigorous across all teams, especially Yamaha.

The Yamaha distribution business put in a steady performance.

It was our first full year in materials handling. The new addition to our division did well to build and maintain early momentum.

Innovation and investment

The Bidvest South Africa restructuring that created our focused industrial division was a highly positive development. Each business within Bidvest Industrial has a well-defined role in a distinct field of operations. Our challenge is to build from this base by leveraging core competencies.

Businesses in our division have not traditionally shared customers. This presented us with fertile ground for new growth. In the second half, senior managers in each business launched a cross-selling drive to secure new contracts by introducing prospective customers to sister companies in our division. By year-end this executive-led referral approach was delivering promising results.

Close collaboration to achieve sustained sales and efficiency gains is ongoing.

Capital investment rose from R20 million to R110 million. The largest commitment was the R65 million invested in the Bidvest World of Yamaha project at the M1 Gateway to Johannesburg. The Marlboro facility was officially opened in mid-May. The concept is a world first. We are the only distributor worldwide (including Japan) to carry all Yamaha's products from musical instruments to jet skis – an indication of the strength of this relationship. The project reportedly represents the largest single investment in South Africa's motorcycle industry.

We invested R12 million on the refurbishment and expansion of Vulcan Catering Equipment's facilities in Cape Town and Johannesburg.

Bidvest Materials Handling bedded in well after being transferred between Bidvest divisions. The business holds the exclusive South African rights for the distribution of the Nissan range of forklift trucks and warehousing equipment.

People, training and skills

Employee numbers increased, from 1 245 to 1 375. Although we had to retrench a small number of people, 30 new jobs were created at the Bidvest World of Yamaha and additional staff were hired by our new Materials Handling business.

We monitor staff turnover and absenteeism as indicators of employee satisfaction. While our absenteeism and sick-leave rates are fairly high, the level is similar across our industry peers. Attempts to reduce absenteeism are ongoing.

In July 2011, Afcom and Vulcan were affected by an industry-wide two-week strike. Deliveries were impacted. A new three-year wage agreement was subsequently reached.

Transformation

Improving our B-BBEE performance is a focus area. All our businesses strive for ratings improvements. Current status ranges from Level 2 to 5. Teams have been challenged to reach Level 3 or higher.

Low turnover at senior management level and a shortage of applicants with the necessary skills and experience make it difficult for us to create positions for historically disadvantaged individuals (HDIs) at higher levels. However, attempts to promote from within are ongoing and growing promotion opportunities are evident in the distribution business.

Internal promotion into senior positions has created knock-on opportunities for people at all levels. A smaller divisional base gives employees the chance to stand out and a strong signal has been given that staff have every opportunity to build a career with Bidvest Industrial.

Training investment rose 211% to R4,98 million (2010: R1,6 million). Skills development scores are rising steadily across all businesses. We focus on adult basic education and training, management development and safety.

Health and safety

Responsibility for maintaining high safety standards is decentralised, though the work of on-site health and safety officers is supported by inspectors from divisional head office. Lost-time injury frequency rate (LTIFR) remained stable. There were no fatalities.

Product responsibility

The new Consumer Protection Act has wide-ranging repercussions. Retailers and suppliers can be held responsible by end-users of products. It appears that major chain stores are attempting to offload responsibilities onto manufacturers and distributors, with significant impacts for our industry. However, we are confident of our well-established reputation and the quality of our products and we are well prepared for the CPA.

Human rights

Human rights issues such as freedom of association and the proscription of child labour or forced or compulsory labour are enshrined in South Africa's constitution and well legislated under various acts. Incidents of discrimination are monitored in accordance with legislation. There were no significant incidents.

Outside of South Africa we deal with well-known, reputable brands. Our CEO visits manufacturers' factories in China and we have a permanent representative in the Far East who inspects factory conditions.

Business ethics

Fraud, theft and anti-competitive behaviour

Our internal audit departments track any instances of fraud, which are escalated within the Bidvest Group. There were no significant incidents.

The risk of anti-competitive behaviour is raised at every management meeting. In the coming year we will run an educational campaign on the issue for our sales people.

Theft of stock is an ongoing challenge. Stock is counted quarterly and cycle counts are conducted every day. There has been no increase in the problem. Losses account for less than one percent of turnover. Where theft can be traced, we have a policy of laying charges to the full extent of the law.

Environment

While energy supply has been stable, the high cost is a continuing concern. Electricity use increased by 11,1% and diesel consumption increased by 39%. All businesses intensified their efforts to improve energy and fuel efficiency. At our manufacturing plants, we have switched to low-voltage lighting systems and reduced load pressure by starting machines gradually, one by one. However, machines for manufacturing remain heavy users of power. Efforts to improve the efficiency of these and other processes are ongoing.

Wherever possible, we recycle water and waste materials. Most scrap plastic (mostly polypropylene and PET) is chipped and reprocessed.

Future

Sluggish conditions may persist for some time in general manufacturing. However, we see potential for increased gains as a result of our restructuring and the opportunity created by our more focused approach.

Continued national roll-out and bulking-up of Bidvest Materials Handling will help us maintain growth in this sector. The hospitality industry may see a measure of recovery after several years at a low ebb while a gradual improvement in consumer sentiment should prove positive for Yamaha and some segments of our adhesive tape business.

We have targeted revenue growth of 11%, with a 25% increase in trading profit. Further improvements in ROFE and trading margins will also be sought.

Company summaries

Yamaha: From the previous year's low base, the business staged a pleasing recovery. Results were above expectation, with growth across all product ranges except quad bikes. This turnaround was driven by high-quality service. Training (particularly of dealers) was stepped up locally and in Japan, and trainers from Japan delivered Yamaha academy training in South Africa. Continued gains are projected next year. Export efforts will be maintained across Africa.

Bidvest Materials Handling: Pleasing gains were made ahead of budget. By February, representation had been achieved in Johannesburg, Cape Town and Durban, creating 20 new jobs. Other metropolitan centres are targeted for the coming year. Sustained growth from a zero base reflects the strength of the Nissan brand and the spirit of a committed team. The need among customers for more efficient utilisation of existing warehouse space underpins demand. Growth potential is evident in the retail sector. Prospects have also been identified in the rental market.

Afcom/Buffalo Executape: Afcom had a difficult year. Expense management was good in the face of rising input costs. No jobs were lost. Revenue fell as local demand remained sluggish, exports dipped and the strong rand had a negative effect. R7 million was invested in a new computer system. Buffalo Executape achieved sales and profit growth and brand extension into the retail environment delivered continued gains. Adhesive product demand ticked higher in the automotive sector while continued plant modernisation drove productivity gains. The Buffalo Executape team moved to revamped premises in Spartan, which includes a state-of-the-art training centre. Further growth is projected in 2012 and export gains will be sought.

Vulcan Catering Equipment: Orders were low in a challenging year. Many industry players dumped equipment brought in for the World Cup, impacting demand for new product. A slight overhang from this surplus equipment is expected to persist into the first half of 2012. The restaurant sector remained under pressure and few new hotel developments took place. Export business into Africa became highly competitive. Vulcan invested in upgraded facilities in Cape Town and installed a new production line to drive growth into the market for refrigeration equipment. After a prolonged period of stagnant demand, buying activity is expected to revive, supporting recovery from the low 2011 base.

Berzack Brothers: Performance improved, partly as a result of knock-on effects across customer groups in response to a Department of Trade and Industry programme to help manufacturing businesses invest in new machinery. This helped to support increased demand for industrial sewing machines and other equipment. An expanded houseware range underpinned stronger retail market sales.