



THE Bidvest GROUP LIMITED

Bidvest Services

Material issues

- Challenges of operating successfully in difficult economic conditions
- Increasing competition in our sector
- Skills development
- Succession planning at senior level
- Continuing to improve our health and safety performance

Highlights

- Revenue rose to R2.9 billion despite tough trading conditions
- Prestige and Magnum performed exceptionally well in a challenging environment
- Businesses achieved B-BBEE scorecard success in anticipation of strategic growth opportunities in public sector.
- Multiple awards were received from clients in addition to accreditation by the Green Building Council

Business context

In the process of the past year's group-wide restructuring, the old BidServ was unbundled and the new Bidvest Services division formed to focus on our labour-intensive companies. These companies form part of a 'soft service' package for the outsource market, focused on the range of services offered by the four companies that Bidvest Services incorporates: Bidvest TMS, Bidvest Magnum Security, Bidvest Prestige and Bidvest Top Turf. Restructuring coincided with a rebranding exercise making 'Bidvest' more prominent throughout the division.

Bidvest Services is the dominant player in some of the industries in which we operate, and we intend to maintain and grow our market share. In addition, we plan to widen the service package we already offer: to both enhance our services and entrench customer retention. One aspect of this strategy involves working to make our outsourced services as integral to clients' businesses as possible, and therefore indispensable.

Because we are a dominant market player, we ensure we can guide new developments in our industry by securing representation at management level in most relevant national industry associations.

Trading conditions

The business traded in a no-growth environment across all areas of activity: cleaning, security, industrial cleaning and greens services. Any growth was a function of hard-won market share gains, as trading became increasingly competitive.

Compensating for lost World Cup volumes created another challenge. The short-term upsurge turned out to be a false dawn rather than a catalyst for sustained growth. In many sectors, the temporary benefit was soon cancelled out, some client businesses then cutting back even further.

Lower income groups are disproportionately affected by food inflation. Rising food prices therefore put increased pressure on our workers and sharpened the industry's challenge of paying wages acceptable to both parties.

Performance

Revenue increased by 2,2% to R2,9 billion while trading profit rose 2,4% to R187,6 million (2010: R183,2 million). Overall performance was impacted by the difficult trading environment faced by Top Turf, and continued challenges at TMS, where revenue and profit were well below expectation. Prestige exceeded targets and our security businesses performed well.

Divisional ROFE was 40,5%. Trading margins narrowed to 6,47% (2010: 6,45%).

Quality standards were maintained by all teams. Businesses received several accreditations and numerous client and industry awards. Prestige became the first cleaning company to join the Green Building Council while Top Turf received the South African Landscaping Industry (Sali) award as best specialised landscape Construction Company for the 2010 FIFA World Cup Hospitality Project. Top Turf received Sali awards for excellence in landscape and turf maintenance in six categories, with two category awards for environmental landscapes.

Operational structures were rationalised at TMS Group, and a new management team was in place by the fourth quarter. Unfortunately some retrenchments occurred at TMS. Changes were slow to show as most volumes are driven by long-term contracts, but efficiencies were visible by the year-end. TMS renegotiated some tenders and certain contracts were re-awarded at rates acceptable to both parties. Chevron received recognition for its safety performance, achieving 1.5 million incident- and injury-free man hours.

Innovation and investment

In response to improved fund management, the division's capital expenditure increased to R152,6 million (2010: R142,9 million).

The installation of new technologies has enabled businesses in our division to measure productivity and suggest optimum value-added solutions to clients. This improved ability to measure has contributed to high customer retention and new contract successes.

Bidtrack, the vehicle tracking and fleet management company acquired late in the prior period, was smoothly integrated into Magnum Group and contributed to its strategy of offering integrated, technology-supported solutions.

Innovation at TMS and Top Turf led to fundamental changes to their business models. TMS, which previously depended heavily on long-term contracts from major petro-chemical companies, is looking to widen its customer-base. The company is investigating broadening its deployment of its industrial cleaning skills and specialised equipment to service the food, manufacturing, and bulk handling and storage industries.

Top Turf, which has historically depended on large projects, now plans to complement work on major developments with recurring income from maintenance contracts.

People, training and skills

Our people are central to our business. We therefore provide the best possible infrastructure to support our staff, both to fuel our business's growth and to enhance employees' careers. This involves extensive investment in training, health and safety, and the provision of new opportunities. In addition, we adhere to all legislation that affects our employees.

The new Bidvest Services division has over 48 620 employees, of whom 31 109 work at Prestige, 8 262 at Magnum, 4 615 at TMS and 4 200 at Top Turf. Our employees are highly unionized, and we engage with the unions in positive working relationships.

Numerous labour audits were conducted in this reporting period, looking at employee numbers, employment equity and engagement policies, and examining the extent to which employees are consulted in decisions. The results were encouraging, finding no negative trends. It is also pleasing to note that the number of lost days due to strike action decreased by 59.1% to 615 days (2010: 1 505 days).

Employment legislation is closely scrutinized by society and often changed. Bidvest Services is a major employer and such changes pose a potential business risk. The extent to which we are at risk is reduced by the fact that we are an industry leader in employment practices and we work with unions and official departments to raise standards and improve working conditions. We are aware of our responsibility to our people and welcome legislation that protects workers.

In the near future, we expect new outsourcing controls to be introduced by the Department of Labour. We are participating in the consultative process and will monitor draft legislation closely. One objective is to promote good employment practice by outlawing dismissal without notice by service companies.

Training and development

We are constantly seeking to improve employee competencies and career potential through training programmes. Training investment rose by 11,5% to R26,6 million (2010: R23,9 million) during this reporting period. Skills development remains a priority, and we collaborate with customers to ensure training focuses on areas where skills shortages are most acute. Some of our training is also linked to community initiatives (for example, see HIV/Aids section below).

Our experiential learning scheme enables skilled workers in key areas to mentor promising trainees, and whenever possible, the division offers employment to successful trainees. Managers work with training authorities to develop training manuals and standards, and we also collaborate with the University of Johannesburg to create awareness among students regarding the demands of the working environment.

The majority of the division's training is aimed at the labourer level, but a large proportion also goes to management development. We focus on 'training for impact': career-oriented training that concentrates on developing the right skills to maximize employees' upward mobility. Facilitating this mobility contributes to our succession planning at the senior level, which is now our area of focus.

Turnover rates are low at the junior and mid-management levels, where we are pleased with our progress in succession planning.

Transformation

Last year's strong B-BBEE performance was maintained. Prestige retained its Level 2 B-BBEE contributor status for a second consecutive year, while Magnum Group Shield and Top Turf are at Level 3. TMS remains at Level 4. All businesses are classified as value-adding suppliers, further enhancing their B-BBEE status. Scores improved for all four divisions compared to last year.

Businesses scored highly for preferential procurement, skills development and socio-economic development. Senior managers work as transformation drivers at every business, and each managing director in the division is personally accountable for transformation progress.

The importance of making B-BBEE a key performance area has been underlined by government plans to align the Preferential Procurement Policy Framework Act (PPPFA) with B-BBEE codes of Good Practice. This will encourage official departments to procure services from companies with strong broad-based credentials across the scorecard. Exclusive focus on black ownership will no longer apply, and Bidvest Services will be well placed to seek public sector contracts.

Our employment policy ensures the majority of our staff come from local communities, with the result that we have a positive impact on local upliftment and skills development.

Health and safety

Health and safety compliance remains a key focal area, and businesses have plans in place to ensure adequate risk management. The number of lost time injuries decreased by 11.1% to 375 (2010: 422) and the related number of lost days due to injury decreased by 34.1% to 1 925 days (2010: 2 922 days).

We deeply regret that there were six fatalities at Bidvest Services. Not only have we lost valued team members but their passing away is a tragic loss to their families, to whom we offer our sincere condolences. Full investigations have been carried out in each case, and we continue with rigorous safety training to maintain adherence to safe practices.

HIV/Aids

We are involved in constant awareness campaigns regarding HIV, which have a substantial social impact for our employees. One of our staff training courses focuses on condom distribution, and springs from work on Project Promote, in which Bidvest Services works with the SA Business Coalition on HIV/Aids (SABCOHA) and the Department of Health. In this collaboration, businesses act as regional centres for condom distribution while staff supply Condocans in toilet areas. Prestige has distributed more than 23 000 000 condoms, preventing an estimated 46 000 HIV infections. To support this work, SABCOHA and Prestige developed a staff training course so far completed by more than 5 000 employees.

Environment

Business units monitor resource use by measuring water and electricity consumption, and collaborate to achieve savings. Recycling initiatives, waste removal, and responsible disposal are also monitored.

The quantity of paper recycled increased by 347,1% to 21 202 kg (2010: 4 741 kg), and the number of batteries recycled increased by 243,7% to 220 batteries (2010: 64 batteries).

Bidvest Services views the need to save energy and reduce carbon footprints as an opportunity for differentiation, because we are well resourced to function as eco-friendly partners of our customers.

Communities

As a large employer with some 48 620 staff, Bidvest Services has a large impact on communities. We have a number of social investment and enterprise development programmes, and total expenditure on these various projects came to R8.7 million this reporting period.

Various initiatives have been supported, such as contributions made towards the construction of a Youth Development Sports Centre for the Zandspruit and surrounding informal settlements, financial assistance for tuition fees for orphaned children, soccer field ground levelling and layout for schools in informal areas, and so on.

Preventing fraud, and corruption and unethical conduct

Following from last year's fraud and corruption awareness campaign at the company level, ethical conduct issues continue to be discussed in various forums at different levels. Our largest area of risk is pilfering in the hospitality industry where, in addition to our own campaign, we work closely with clients to put preventative mechanisms in place before our staff arrive on site. There were no significant incidents of fraud.