

2011

**MASSMART SUPPLIER
ENVIRONMENTAL RESULTS**

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Executive Summary

Massmart recognizes that advocacy to suppliers offers significant opportunity to limit the harmful effects of consumerism on the environment. We therefore continue to focus on intensifying environmental advocacy efforts with our suppliers. This includes surveying the environmental practices of suppliers and supplier engagement workshops.

This year Massmart embarked on a group wide supplier environmental survey that is significantly different to previous years. Notable differences are:

- Execution of survey, which has been entirely online whereas in previous years we had included telephonic and face to face interviews.
- We engaged more than 200 suppliers which resulted in the number of participating suppliers increasing by more than 60%.
- The number of questions increased from 8 to 9 as we included a question on biodiversity and ecosystems.
- The responses have been restricted to 1 response per question as opposed to multiple responses per question.

Research Goal

- To assess the status of environmental initiatives at key suppliers to the Group, enabling Massmart to assess its suppliers' environmental practices.
- To assess suppliers' approach to various environmental dimensions such as eco-friendly product packaging, eco-friendly product design and Green House Gas (GHG) emissions management.

Methodology and Structure

- A nine question online survey was developed and distributed.
- Each organisation identified a person most suited to respond to the online questionnaire.
- The surveyed suppliers comprised of the general merchandise and food categories
- The top 3 suppliers in each category were selected to participate in the survey
- All questions were multiple choices with the option of selecting only one response. An opportunity for comment was included in the questionnaire. All questions were compulsory.
- The average interview time is undeterminable as the survey could be completed at leisure.

Respondent Characteristics

- A total of 250 suppliers were contacted
- 200 confirmed receipt of survey and identified the relevant contact person
- Total of 117 responses were received and analysed.
- Respondents comprise 67 % from General Merchandise and 33% from Food & Groceries categories.

Scoring

All respondents' scores were allocated a consistent scoring system. To score the responses to questions, the data was consolidated into a spreadsheet. Points were allocated as follows:

	Option1	Option2	Option3	Option4	Option5	Option6	Option7	Option8
Question1	0	0	1	2	3	4	5	0
Question2	-5	-4	-3	-2	-1	1	2	0
Question3	0	0	1	2	3	4	5	0
Question4	0	0	1	2	3	4	5	0
Question5	0	0	1	2	3	4	5	0
Question6	0	0	1	2	3	4	5	0
Question7	0	0	1	2	3	4	5	0
Question8	0	0	1	2	3	4	-	-
Question9	0	0	1	2	3	4	-	-

Points to note:

- Scoring has been calculated differently to previous years. This scoring system will be used hence forth to allow for comparisons. However, this has affected our ability to compare previous year's results to the current year.
- Due to the nature of the question and response options, Question 2 scoring is significantly different to all other questions. Barring option 6 and option 7 of Question 2, all other options are unfavourable.
- Question 8 and Question 9 have only 6 options from which a respondent could choose.
- Only Question 1 has an 8th option from which respondents could choose.
- The highest score possible for any supplier is 40 points.
- All questions were compulsory.

Outcomes

The survey measured 9 major environmental aspects that concern Massmart namely:

Market Opportunity, Environmental Sanctions/Censure, Product Packaging, Product Labelling/Disclosure, Manufacture and Distribution, Supply Chain Monitoring, Climate Change, Water Usage and Biodiversity

Overall results highlights as reviewed per category

Market Opportunity

- This category indicates the level at which suppliers understand market opportunity in their area of business.
- While 26% of suppliers have launched products that appeal to environmentally aware consumers only 7% have established a solid reputation among their target market for offering environmentally friendly product options. Conversely, 30% of suppliers have made no measureable progress in this area.

Environmental Sanctions/Censure

- This category assists Massmart in identifying high risk suppliers and also indicates the number of suppliers that are actively involved with third parties who recognize their environmental achievements.
- Of those surveyed 21% of suppliers have indicated that they are recognized by third parties, 75% have no sanctions or censures against them. However, 1 supplier has indicated an environmental sanction/censure and has been flagged as a high risk supplier.

Product Packaging

- A combined total of 29% of suppliers indicated that they have:
 - Defined specific eco-friendly packaging standards or
 - Set a definitive timetable for implementing eco-friendly packaging standards or
 - Introduced / testing priority environmentally friendly packaging standards for standard products.
- 21% of suppliers have standard product packaging that is 70% - 100% environmentally friendly.

Product Labelling

- Whilst 18% of our suppliers have implemented voluntary environmental labelling standards on standard product packaging a combined total of 52% of suppliers have indicated that they have not implemented any initiatives in this area.

Manufacture and Distribution

- A combined total of 67% of suppliers have indicated that they have:
 - Defined specific manufacturing/procurement standards to improve eco-attributes of products or
 - Set a definitive timetable for implementing defined eco-attributes in products or
 - Introduced/pilot testing environmentally friendly attributes in standard products.
- A further 23% of suppliers indicated that their manufacture and distribution processes are at 70% environmentally friendly.

Supply Chain

- A combined total of 18% of supplier responses indicated implementation of an externally assured supply chain environmental monitoring system that involves actively monitoring environmental performance of suppliers and active collaboration with suppliers to implement voluntary environmental standards that exceed regulatory or legislative requirements.
- Of concern is that a large percentage of suppliers (66%) have indicated that they do not have any initiatives in place.

Climate Change

- A total of 38% suppliers have either calculated direct, indirect Greenhouse Gas Emissions or have set targets to reduce GHG emissions. Also included in the total are 9% of suppliers that report GHG emissions and 10% who have achieved reductions in GHG emissions.
- Alarmingly, the majority of the suppliers surveyed (64%) have made no progress in this area.

Water Usage

- 22% of suppliers have implemented water conservation programs in their operations with 18% indicating they have achieved reductions in water consumption.
- 17% of suppliers have calculated water consumption in their businesses, whilst a further 11% have set targets to reduce water consumption during product manufacture.

Biodiversity

- This is a new measure that has been included in this year's survey.
- Results indicate 20% of suppliers have consulted with external experts to identify the impact of their operations on biodiversity/eco-systems with a further 9% of suppliers having implemented an externally assured impact mitigation plan.
- However, 52% of suppliers have not taken any action in this area.

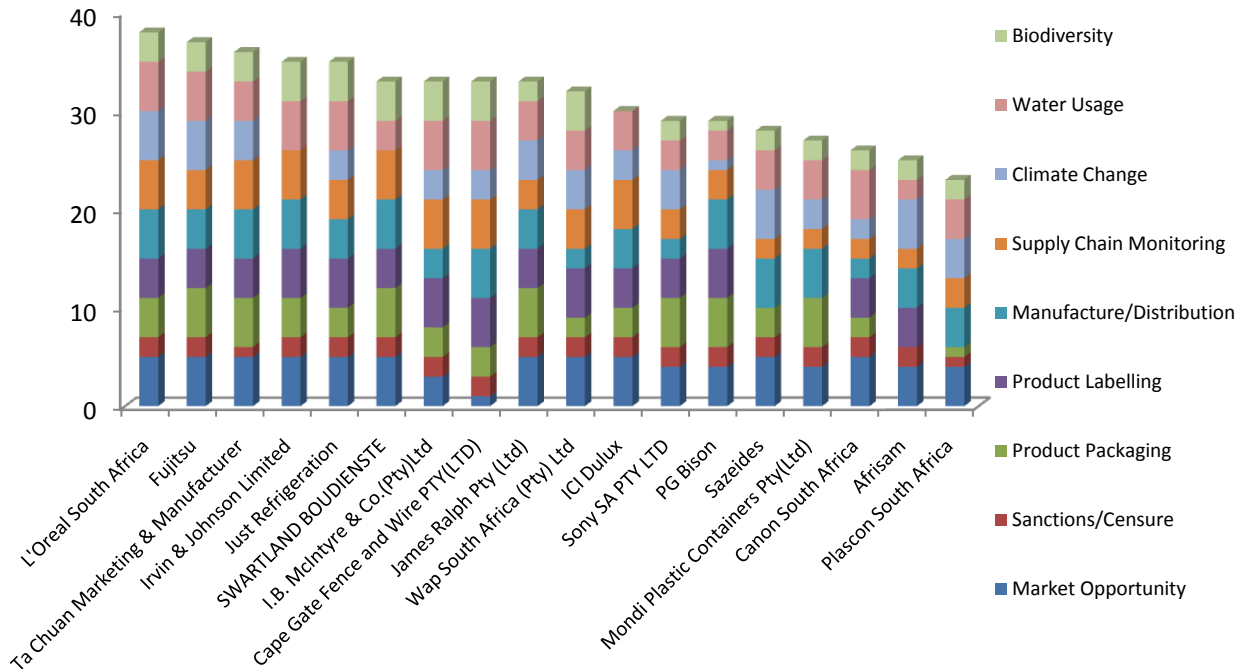
Category Analysis

The objective of the category analysis is to examine the performance of suppliers.

The sample sizes vary and have been divided on the basis of score. The general merchandise category is larger than the food and groceries category and has been divided into four groups from highest performer (Category A) to lowest performer (Category D).

General Merchandise

Figure 1: Summary Scores of Category A General Merchandise respondents: Below is the summary of top performing general merchandise respondents. The highest scoring company is L’Oreal South Africa with 95%, followed by Fujitsu with 92% and Ta Chuan Marketing & Manufacturer in third place with 90%. The lowest scoring company in this category is Plascon South Africa with 58%.



Note: A consistently high level of performance was achieved across all categories.

Each colour in a bar represents the score of that respondent to the corresponding question.

Figure 2: Summary Scores of Category B General Merchandise respondents: Below is the summary of general merchandise respondents scored in the range. The scores in this category range from 58% to 38%.

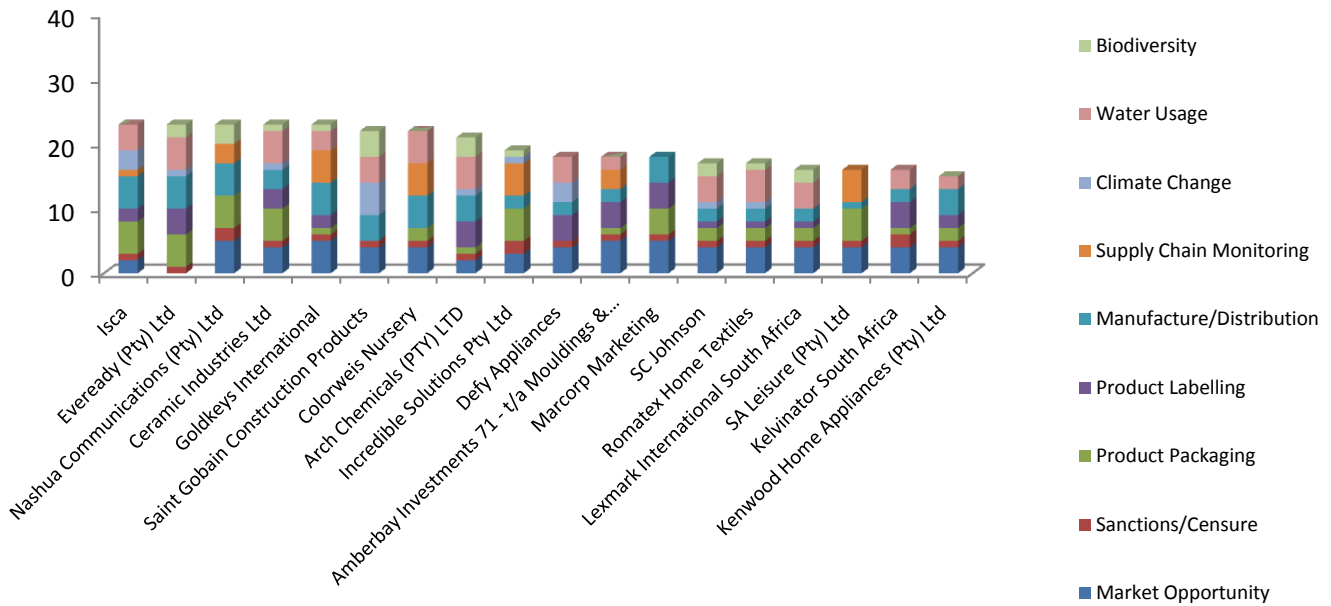
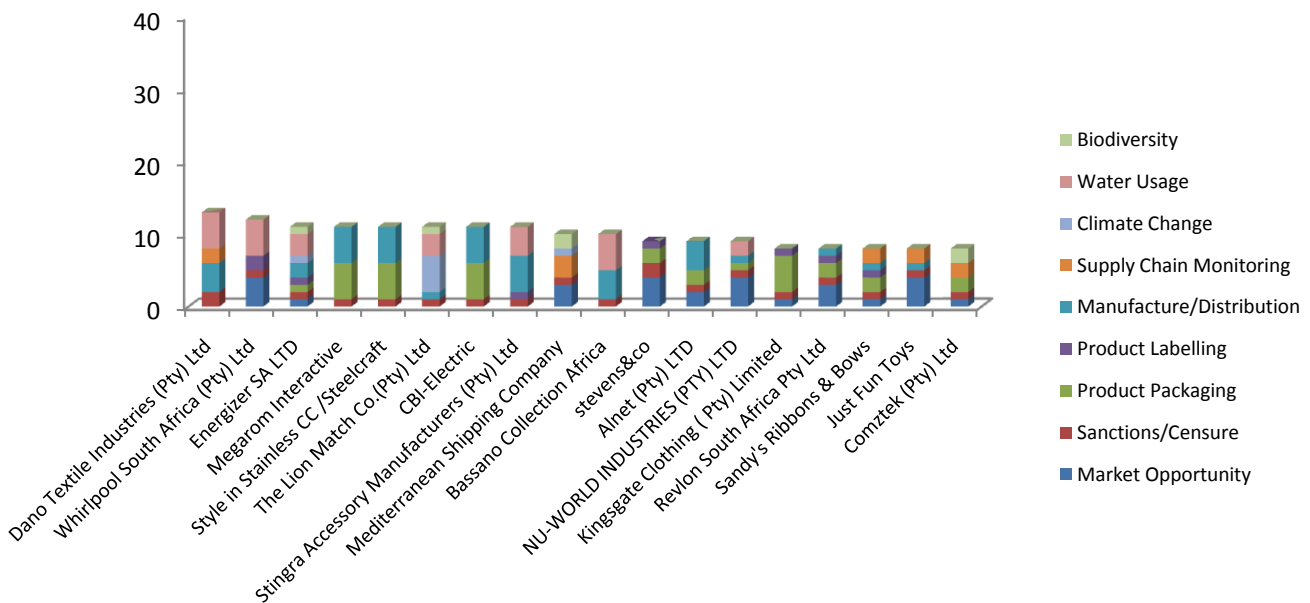
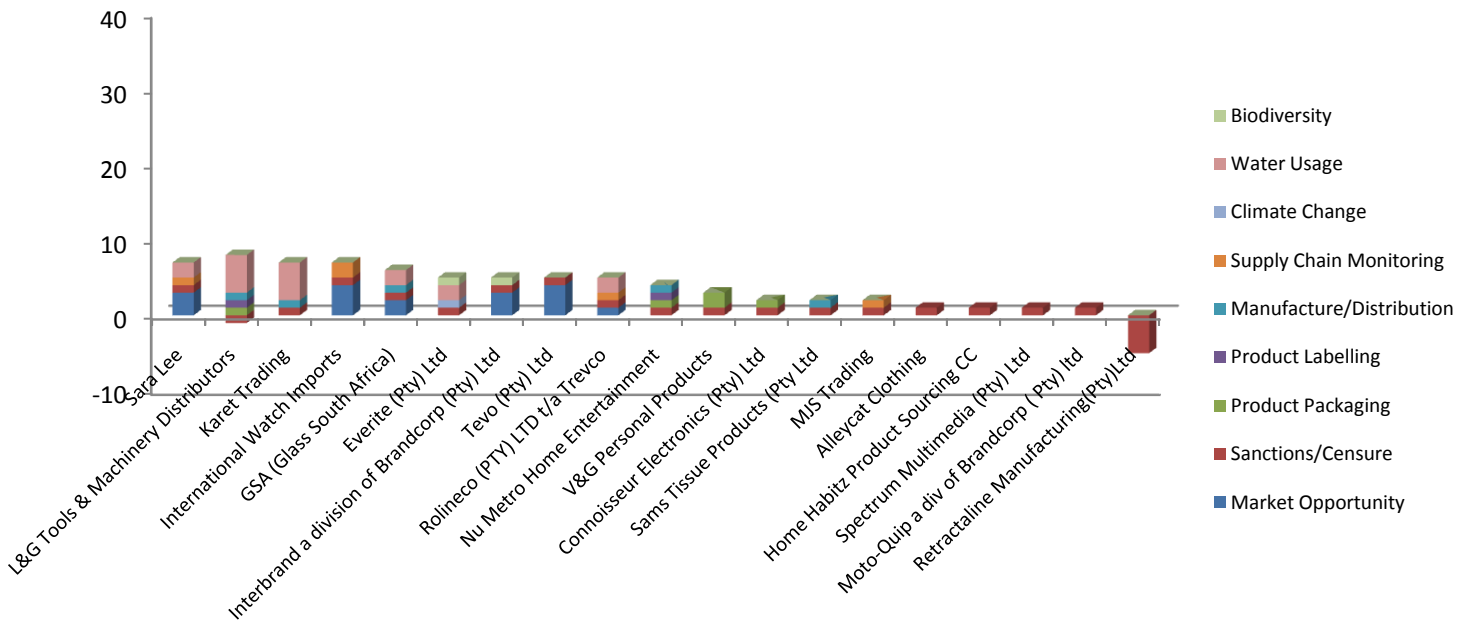


Figure 3: Summary Scores of Category C General Merchandise respondents: Below is the summary of general merchandise respondents who scored between 38% and 21%.



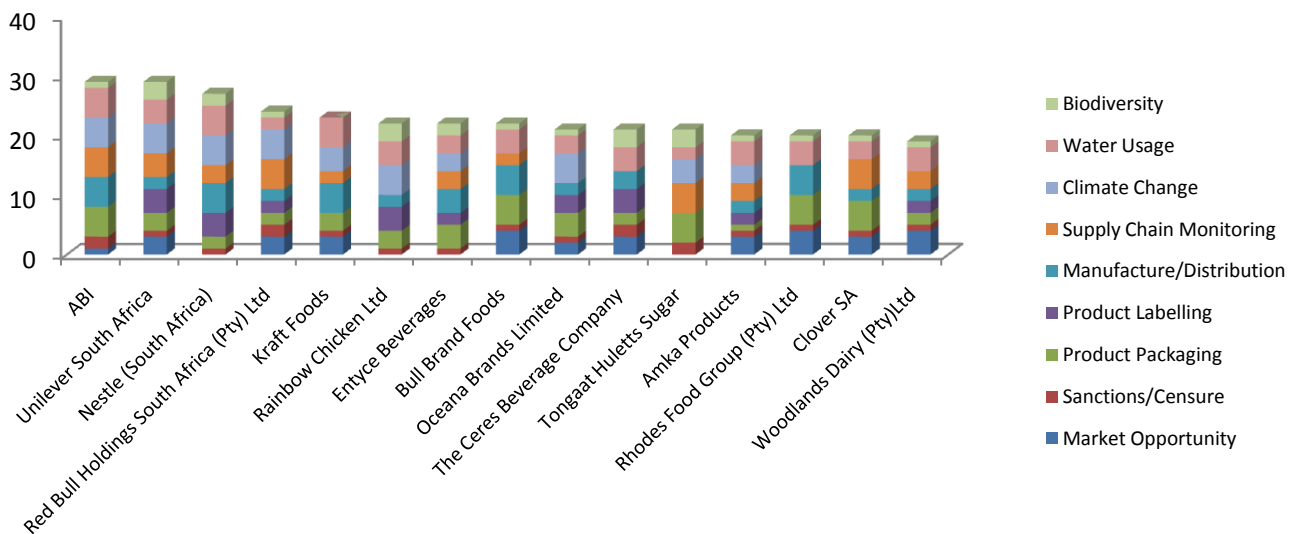
Each colour in a bar represents the score of that respondent to the corresponding question.

Figure 4: Summary Scores of Category D General Merchandise respondents: Below is the summary of general merchandise respondents who scored below 20%. These suppliers are considered high risk suppliers.



Food and Groceries

Figure 5: Summary Scores of Category A. Food & Grocery respondents: Below is the summary of top performing food and grocery respondents who scored 50% and above. The highest scoring companies were ABI and Unilever with 73%, with Nestle scoring 68%.



60% of international suppliers are top performers in this category. Interestingly scores on Biodiversity were higher in comparison to general merchandise.

Each colour in a bar represents the score of that respondent to the corresponding question.

Figure 6: Summary Scores of Category B. Food & Grocery respondents: Below is the summary of the food and grocery respondents who achieved scores between 50% and 25%.

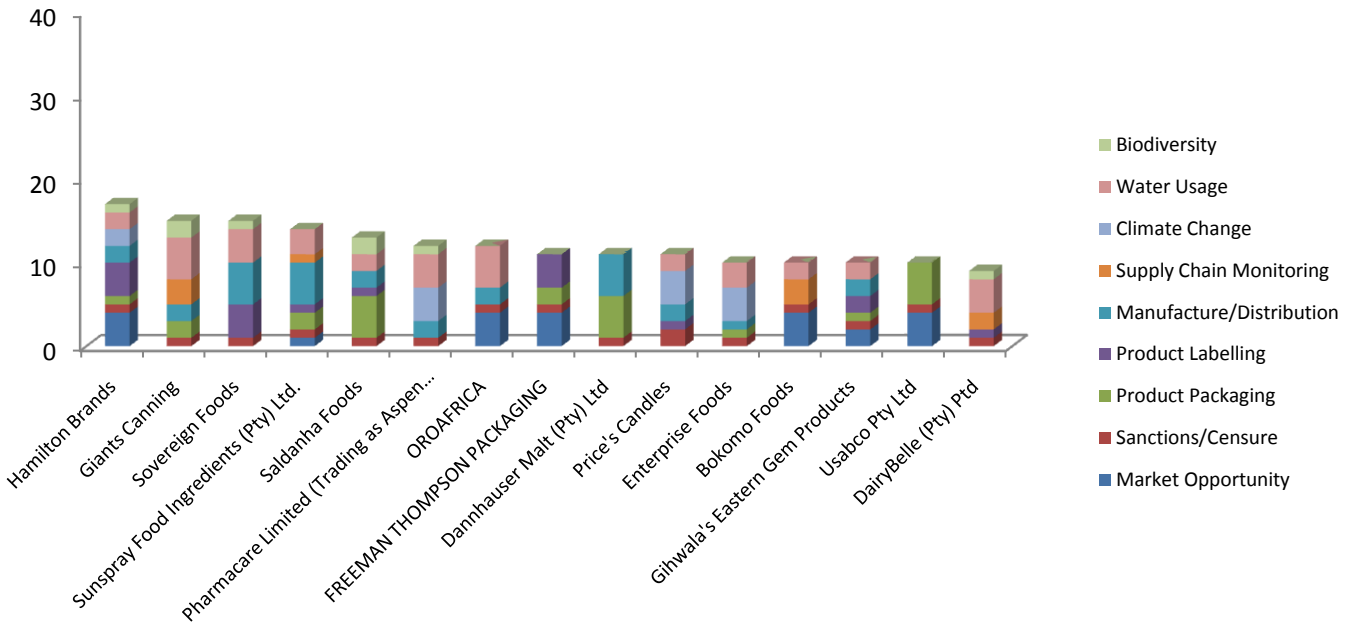
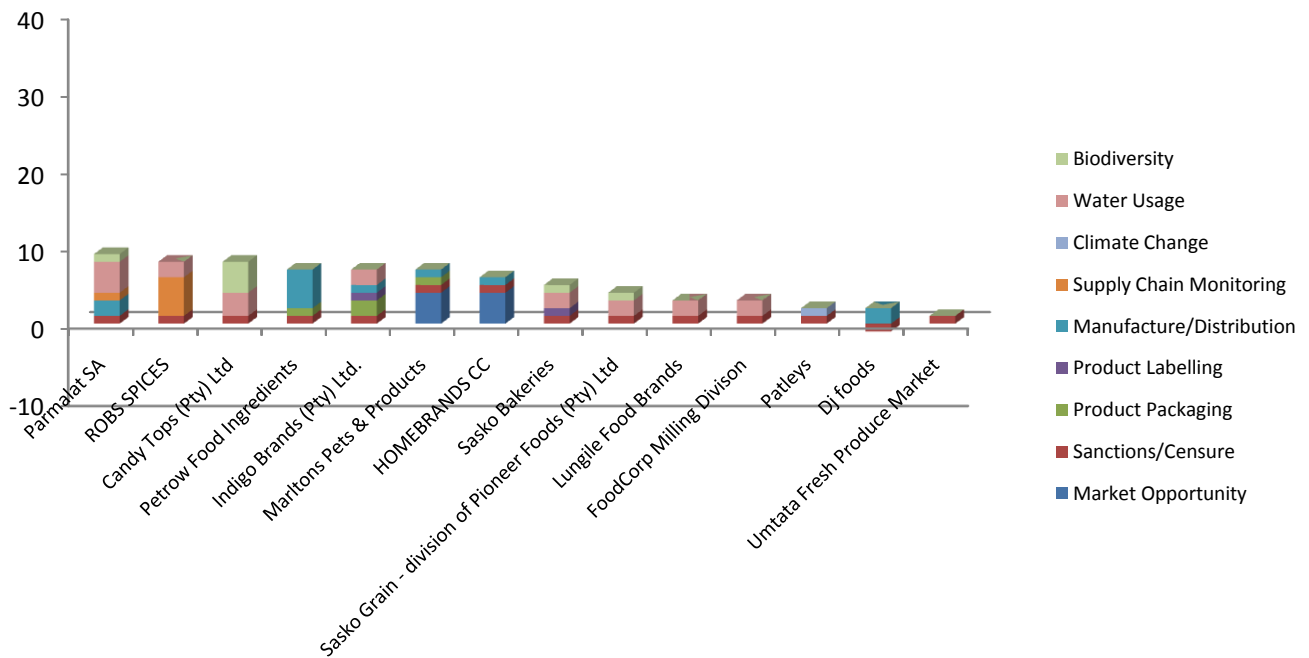


Figure 7: Summary Scores of Category C. Food & Grocery respondents: Below is the summary of the high risk food and grocery respondents who scored below 25%.



Each colour in a bar represents the score of that respondent to the corresponding question.

Category Analysis Deductions

From the above category analysis we can deduce the following :

- It is worth noting that of the top environmental performers in general merchandise and food categories, the majority are international companies. This may reflect that: as international companies they are more aware of the reputational risks associated with irresponsible environmental practices; that they are experiencing additional pressure from foreign markets to achieve strict environmental standards; or that as a consequence of their size they are better able to offset the operating costs commonly associated with more environmentally responsible practices. The high scores achieved by these companies do provide a clear indication however, that high levels of environmental performance are achievable even in large scale operations. In contrast, smaller suppliers indicated through commentary that, whilst in many cases they recognised the importance of adopting responsible environmental practices in their businesses, they found it difficult to reconcile the added costs associated with these practices.
- Interestingly, whilst the majority of suppliers have identified the market opportunities associated with responsible environmental practices few have been able to effectively implement initiatives in the categories covered.
- As noted in Figures 1 and 5, top performers in both food and general merchandise achieved consistently high scores across all categories, whilst suppliers in performance categories B, C and D exhibited great variability in the scores that they achieved in different areas. This may indicate that as a result of the costs associated with implementing environmental initiatives throughout their businesses, they have focused on improving their environmental performance in key areas. This presents an opportunity to share environmental best practices between similarly sized and orientated suppliers.
- Given their relative size, it is of concern that Parmalat South Africa and Sasko and its subsidiaries are among the high risk suppliers identified by the survey (Figure 7).
- The fact that the majority of suppliers surveyed (64%) have not engaged in climate change reducing practices indicates that suppliers have, for the most part, failed to take action in addressing the environmental threat posed by climate change. This presents a sharp contrast with the results of a recent supplier survey conducted by Coca-Cola in Europe in which climate change was considered to be the most significant environmental threat faced by business.
- A comparison between general merchandise and food and groceries category A results, indicates that biodiversity scores in food and groceries are significantly higher than in general merchandise. Outstanding supplier results are: Unilever, Rainbow Chicken, Ceres and Tongaat Hulets.

Overall Results

Table 1: 10 Top Performers scores of suppliers in all categories:

10 Top Performing Suppliers	Results
L'Oreal South Africa	95%
Fujitsu	92.5%
Ta Chuan Marketing & Manufacture	90%
Irvin & Johnson Limited	87.5%
Just Refrigeration	87.5%
Swartland Boudienste	82.5%
I.B McIntyre & Co. (Pty) Ltd	82.5%

Cape Gate Fence & Wire (Pty) Ltd	82.5%
James Ralph (Pty) Ltd	82.5%
Wap South Africa (Pty) Ltd	80%

Table 2: 10 High Risk scores of suppliers in all categories:

10 High Risk Suppliers	Results
Patleys	4%
Sam's Tissue Products (Pty) Ltd	4%
MJS Trading	4%
DJ Foods	2%
Alleycat Clothing	2%
Home Habitz Product Sourcing cc	2%
Spectrum Multimedia (Pty) Ltd	2%
Moto-Quip a division of Brandcorp (Pty) Ltd	2%
Umtata Fresh Produce Market	2%
Retractaline	-11%

Conclusion

While overall results indicate that suppliers are generally aware of the need for better environmental practices, there is extensive opportunity for Massmart to increase advocacy efforts. A clear need has been identified for more frequent assessments of supplier practices and the provision of assistance to high-risk suppliers. As an initial step, environmental impact assessments should be undertaken with high-risk suppliers to assist in implementing such corrective measures.

The size and international presence of the majority of the top-performing suppliers appears to be linked to having greater leverage, access to funding and managing reputational risk. Massmart will therefore have to consider the challenges faced by smaller suppliers, who do not have access to such benefits, and manage these accordingly. Massmart is well-placed to facilitate possible discussions between these suppliers to introduce sharing of best practices.

Advocacy efforts also include educational programmes to increase awareness and understanding of the impact of supplier environmental practices. These would be particularly worthwhile in assisting suppliers to convert identification of market opportunities into active, measurable environmental initiatives.

There also exists significant opportunity for Massmart to leverage Walmart's presence in this area. This could be via increased pressure on shared multi-national suppliers that may not have performed well in the survey however the greatest opportunity is leveraging off Walmart's extensive expertise in this space. Walmart is certainly able to share knowledge and learnings in all aspects covered in the survey.

Appendix 1: Supplier Environmental Questionnaire – 2011

MASSMART ENVIRONMENTAL PROFILING QUESTIONNAIRE

Dear Respondent,

You have been selected as one of Massmart's top suppliers. Massmart would like to identify with your company's stance on Climate Change and related environmental issues. Please read the survey below to assist us in understanding your position on the issue.

This questionnaire contains nine multiple choice questions that have been designed to enable Massmart to formulate a profile of your organization's approach to environmental issues.

The questionnaire is very basic and should take no more than 10 minutes to complete the outstanding information.

Read each question and select the response or responses that best describes your organization's environmental approach, by ticking the box next to it. You are limited to one response per question and selected responses should appropriately describe your organization's environmental approach.

If you have any queries about this survey then please direct these to;

Nqobile Kubheka at nkubhek@massmart.co.za or call 011 797 0133

Thank you for your participation.

Regards,

Nqobile Kubheka

SUPPLIER ENVIRONMENTAL SURVEY 2011

1. Indicate the progress that your organization has made toward understanding the market opportunity (if any) associated with environmental consumerism in your product category:

- No progress
- Actively considering our position on the issue
- Researched and quantified environmental consumerism opportunities in your markets
- Identified potential market opportunities related to environmental consumerism in your markets
- Actively developing products/programs to leverage identified environmental market opportunities
- Launched products that appeal to environmentally aware consumers
- Established a solid reputation amongst target market for offering environmentally responsible product options
- And/ Or Don't see any market opportunity associated with environmental consumerism

Comment:

2. Indicate the extent to which your organization's practices/products have, during the past 12 months, been subject to any form of environmental sanction/censure:

- Legal sanction imposed or pending by regulatory/legislative bodies
- Targeted by environmental NGO's/activists
- Received negative media publicity
- Received end consumer eco-complaints about your products
- Internal concern expressed by production/quality control staff
- No sanction/censure whatever
- Recognized by credible third parties for our environmental achievements

Comment:

3. Indicate the progress that your organization has made in improving the environmental attributes of its **standard product** packaging:

- No progress
- Actively considering our position on this issue
- Identified potential savings and resource efficiency improvements that can be made through eco-friendly packaging
- Defined specific eco-friendly packaging standards (e.g. recyclable, biodegradable, reduced packaging, soy based inks)
- Set definitive timetable for implementing eco-friendly packaging standards

- Introduced/pilot testing priority environmentally friendly packaging standards for standard products
- Standard product packaging is 70% to 100% environmentally friendly

Comment:

4. Indicate the progress that your organization has made in improving environmental disclosure on **standard product** packs:

- No progress
- Actively considering our position on this issue
- Identified voluntary environmental warning and/or awareness labeling opportunities that could be incorporated onto product packaging
- Defined specific voluntary environmental labeling standards that go beyond legal compliance
- Set definitive timetable for implementing defined voluntary environmental labeling standards Implemented voluntary environmental labeling standards on standard product packs
- Qualify to include independent third party (e.g. WWF) environmental endorsement on standard product packs

Comment:

5. Indicate the progress that your organization has made in improving the environmental attributes of the **standard products** you manufacture/distribute to Massmart:

- No progress
- Actively considering our position on this issue
- Identified opportunities for improving eco-attributes of products
- Defined specific manufacturing/procurement standards to improve eco-attributes of products (e.g. component recyclability/reduced toxicity/energy efficiency/water efficiency)
- Set definitive timetable for implementing defined eco-attributes in products
- Introduced/pilot testing environmentally friendly attributes in standard products
- Standard products are 70% to 100% environmentally friendly

Comment:

6. Indicate the progress that your organization has made toward monitoring environmental issues in your supply chain:

- No progress
- Actively considering our position on this issue
- Suppliers provide written undertaking to comply with environmental legislation
- Require suppliers to comply with voluntary third party environmental standards/codes (e.g. ISO environmental standards)
- Implemented a formal **in-house** supply chain environmental monitoring system that involves actively
- Implemented an **externally assured** supply chain environmental monitoring system that involves actively monitoring environmental performance of suppliers
- Actively collaborating with suppliers to implement voluntary environmental standards that exceed regulatory/legislative requirements

Comment:

7. Indicate the progress that your organization has made towards understanding and combating climate change:

- No progress
- Actively considering our position on this issue Calculated **direct**¹ Greenhouse Gas (GHG) emissions
- Calculated **indirect**² GHG emissions
- Set targets to reduce GHG emissions
- Publically report GHG emissions and emissions targets
- Achieved reductions in GHG emissions

Comment:

8. Indicate the progress that your organization has made towards understanding and combating water scarcity:

- No progress
- Actively considering our position on this issue
- Calculated water consumed during product manufacture/distribution
- Set targets to reduce water consumption during product manufacture
- Implemented water conservation programs in own operations (e.g.: rain water harvesting, grey water re-use)
- Achieved reductions in water consumption

Comment:

9. Indicate the progress that your organization has made toward understanding the environmental impact (if any) that your operations/products have on biodiversity/ecosystem functions:

- No Progress
- Actively considering our position on this issue
- Consulted with external environmental experts to identify the impact that our operations/products have on biodiversity/ecosystem functions
- Implemented a formal in-house impact mitigation plan which involves active monitoring the impact that our operations/products have on biodiversity/ecosystem functions
- Implemented an externally assured impact mitigation plan which involves active monitoring the impact that our operations/products have on biodiversity/ecosystems functions
- In possession of externally assured data which indicates that the impact that our operations/products have on biodiversity/ecosystem functions has been reduced through the implementation of an impact mitigation plan

Comment:

DEFINITIONS

1

As per the Carbon Disclosure Project Definition of a **Direct** Greenhouse Gas, this measurement refers to emissions resulting from manufacturing processes or any direct logistics to get your product or service to the end consumer.

2

As per the Carbon Disclosure Project Definition of an **Indirect** Greenhouse Gas, this measurement refers to those emissions resulting from the consumption of electricity usage ought from the national energy provider and any emissions resulting from indirect logistics, air travel and fleet emissions or other indirect means.