“Massmart is extremely proud of the success that we have managed to achieve as far as developing our local suppliers is concerned. Our approach is to allow suppliers to grow gradually based on their capability and ability to cope with the complexity of our supply chain.”

Mncane Mthunzi
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We are pleased to present our first report of the Supplier Development Fund (SDF) to the Competition Commission. Massmart Holdings Ltd (Massmart) is proud of its success to date in developing local suppliers, which reflects a group-wide commitment to helping small and medium enterprises, or SMEs, to overcome challenges in doing business with us, and to be competitive in dealing with our complex supply chain.

Massmart Holdings Limited has established the R200 million SDF to assist South African SMEs, particularly SMEs that are either black-owned, black-empowered or local manufacturers of products. The purpose of the fund is to assist our suppliers to enhance the quality of their products or improve their production capacity, thereby improving our procurement and supply chain regime.

The fund is invested in farming, manufacturing and services which will assist suppliers as well as administration of the fund itself. Ezemvelo, our direct farm initiative, has successfully linked 164 farmers to our fresh supply chain. Our goal is to help smallholder farmers become commercial farmers by supporting them with training, access to inputs and technical mentorship to be more competitive so that they can sustainably access markets.

We are making good progress in the manufacturing segment as well with some suppliers expanding from providing goods to a few stores to regional, provincial and national distribution. Our approach is to allow suppliers to grow gradually based on their capability and ability to cope with our complex supply chain.
In addition to successfully listing suppliers to our domestic market, we have also helped suppliers export their products to other Walmart markets. For example, two wine brands that participate in our Developing Wine Brands Programme, have accessed Walmart US and Walmart China. We are working in support of other brands in the programme to gain similar access to Walmart International.

Our governance structures have been carefully developed and have assisted a great deal in selecting suppliers that qualify for assistance. Equally, the knowledge and strategic advice of the fund committee and advisory board have proved most valuable. Both of these structures are characterised by robust debates and discussions, examining decisions on which suppliers to support, how much we spend on them and the positive impact we are likely to achieve. We extend our appreciation to all who participate in these governance structures, within Massmart and externally.

Ultimately we want supplier development to be an embedded feature of how Massmart does business. This builds on a Walmart commitment to supplier diversity. For example, in the US market Walmart is known as a leader in facilitating inclusive supply chain access for companies operated by minorities, women, veterans and people with disabilities to place them on an equal footing while helping to grow their businesses. Walmart has a network of more than 3,000 diverse suppliers. In South Africa, while all local SMEs and local manufacturers qualify to apply for support through the fund, the emphasis is on black enterprises and on identifying more women-owned enterprises that can supply us to further enhance inclusiveness of our supply chain.

Finally, we are indebted to our dedicated staff who have a unique passion for developing others and a desire to change the lives of ordinary people. Our Supplier Development Fund associates are a handful of ordinary people who have achieved extraordinary things. We have learned a great deal by implementing the supplier development programme and we are both humbled by our successes to date and excited about the journey ahead.
BEST

Performing farmer in 2012

⇒ Jamela was recognised as best-performing farmer of the year in 2012
⇒ Rewarded with funding for clearing two additional hectares and installing drip irrigation on her farm.

JAMELA MOGODI is a 71-year-old retired nurse from Julesburg, Limpopo, with access to 28 hectares of land. She started farming on less than half a hectare in 2003 and knew very little about crop management. Irrigation was also a challenge. In time, she received government support to irrigate 7 hectares of her land. She is now growing green beans, butternut, tomatoes, dry beans and green peppers. Until recently, she primarily sold her produce to the local market. Linkages beyond the immediate local market were not possible due to high transport costs and the cost of packaging materials and agent fees.

One of Jamela’s greatest challenges is infrastructure, specifically fencing to keep animals and trespassers at bay. In addition, the roads to her farm do not accommodate large vehicles bringing in supplies or taking produce away.

Massmart’s intervention

Massmart has assisted Ma Jamela with an interest-free loan which was used to buy farming inputs such as seedlings, fertilisers, pesticides and other chemicals. Further assistance included mentorship and on-farm technical support provided by TechnoServe but funded through the Supplier Development Fund as well as other trainings facilitated by the fund.
“The support of Massmart and their technical partner TechnoServe has been critical for crop production support. It has also given me the confidence to produce more. I am hopeful that with a further year of support I will be able to stand fully on my own.”

Jamela Mogodi
FUND GOVERNANCE REPORT

Who we are
Massmart Holdings Limited has established a R200 million Supplier Development Fund to assist in developing South African suppliers, particularly any Small Medium Enterprise (SME) who is either Black Owned; or Black Empowered or a Local Manufacturer of products. The mandate of the Supplier Development Fund is carried out in two areas: the Supplier Development Programme and Ezemvelo Direct Farm Programme.

The purpose of the Supplier Development Fund is to assist Massmart’s existing and new suppliers to enhance the quality of their products, thereby improving their procurement and supply chain.

Objectives
The following are the key objectives of the Supplier Development Programme:
➾ Improve quality of products;
➾ Assist local suppliers to expand production capacity (existing and potential);
➾ Assist suppliers to reduce input costs;
➾ Enable Massmart to increase and diversify its local sourcing capacity;
➾ Provide a route to market to deserving products (locally and internationally); and
➾ Establish and build long-term effective supplier partnerships.

Supplier eligibility
Eligibility for Fund support will vary among programmes. Basic supplier eligibility includes:
➾ South African domiciled companies;
➾ Small, medium or micro enterprise;
➾ Agreement of programme terms and conditions, including under certain programmes periodic audit of company operations;
➾ Can be manufacturer or service provider;
➾ If a funding programme is requested, the applicant must have a reasonable likelihood of success as determined by Fund management;
➾ Priority and preference shall be given to manufacturers of products that are environmentally and socially sustainable;
➾ Supplier operations that have no negative impact on the South African economy;
➾ Encourage positive South African development effects;
➾ Creates or maintains employment; and
➾ Women owned, black-owned and black-empowered companies encouraged to apply.
**Ezemvelo direct farm programme**

The programme aims to help small to medium-sized farmers in supplying Massfresh/Fruitspot (divisions within Massmart) with fresh produce by providing the necessary support. These are new suppliers to Massmart and would not ordinarily have been suppliers due to their size, location and trading history. The programme is almost exclusively targeted at historically disadvantaged South Africans entering the formal fresh produce supply chain. These entities require support and upskilling to be developed as sustainable and long-term fresh produce suppliers to Massmart. Ezemvelo’s support includes input loans for farming vegetables, technical support such as mentorship on successfully running a farm, basic financial management skills such as generating invoices and recording transactions, help with packaging and transporting vegetables from farms, and food safety training. The programme’s main goal is promoting sustainable quality farming activities throughout South Africa, although it is currently only active in four provinces (Limpopo, KwaZulu-Natal, Gauteng and Mpumalanga). There are plans to have the programme rolled out across South Africa within the five-year fund period.

**Manufacturing SMEs**

The manufacturing SMEs programme includes projects with suppliers producing and processing goods – general merchandise and processed food – for sale to Massmart. These suppliers could be new to Massmart; have revenues below R50 million per annum; existing suppliers but with a small procurement base with Massmart; local manufacturers; or significant assemblers of products in the local market, with a product or service that can be sustainably procured by Massmart.

Support to these SME suppliers can include grants for production materials and equipment, facility improvements, working capital, etc. Identified key categories for funding include bricks, clothing, paint and milling manufacturers. The programme intends to develop sector clusters around these four priority categories (e.g. rolled out in two to three provinces and supplying at least a regional market, and at best full distribution to the Massmart national market).

The programme has also identified additional priority categories with strong growth potential for local manufacturers. These include eggs, processed foods, household detergents, building materials, snacks and beverages, and home and garden products.

**Services projects**

Services projects include limited support to enable SMEs to trade with Massmart or the open market. These include projects that can be classified as social development support for micro-enterprises which need to be incubated and developed before they can formally supply directly to Massmart. They also cover inclusive business model support such as assisting smaller traders around Massmart stores to avoid displacement or loss of market access.

To date, the fund has supported an infrastructure trading stand for hawkers selling alongside Cambridge Foods in Mabopane, Pretoria. The fund is also investigating a retail incubation support project to enable micro-enterprises to be capacitated to enter formal markets. This could include developing clusters around micro-enterprises in townships manufacturing quality products, but on a very small scale, and which could benefit from targeted mentoring and support to upscale their facilities and production.

**Services to suppliers**

These include services procured by the fund on behalf of its beneficiaries to support retail readiness. This ranges from technical assistance for facility and product audits, training suppliers, service providers that conduct due diligence of factories and businesses, transportation and distribution support to marketing and merchandising services. This mainly applies to manufacturing projects, given that direct farm projects provide end-to-end value chain support in most instances.

Service to a supplier also includes financial facilities such as recoverable fund-issued lending guarantees. These lower the cost of credit for suppliers and help them become fundable by reducing the lender’s risk exposure via surety to a defined threshold. This service encourages lenders to increase advances to SMEs needing access to working capital or debt to expand or acquire their SME businesses.
FUND GOVERNANCE REPORT

Fund application process overview

**Step 1**
Supplier identification and application

**PUSH**
Supplier contacts via website/road shows/industry associations, etc.

**PULL**
Buyer referrals/SMEs in need of development/SMEs deliver on orders and produce items that are fast moving/sourced locally

➾ Agreed governance and procedures
➾ Agreed selection filter
Advisory board

- Input and recommendations to fund committee approvals
- Quarterly review and feedback on overall implementation progress

Step 3
Shortlist

Step 2
Applications filter against fund investment areas

Step 4
Committee review and feedback/approval

Step 7
Measuring and reporting

Step 5
Final intervention structure/approval projects added

Step 6
Implementation
**FUND GOVERNANCE REPORT** continued

**Investment focus**

The fund intends to spend no less than 80% of its resources with third-party beneficiaries that are direct suppliers, indirect supply chain facilitators, or service providers to suppliers over the fund term. The proposed breakdown of priority areas for investment is shown below.

**Fund investment spend forecast (R193.6 million or 80% of total fund)**

- **Direct farm** 35% R67,760,000
- **Manufacturing SMEs** 50% R96,800,000
- **Services projects** 10% R9,680,000
- **Services to suppliers** 5% R19,360,000

**Available to commit as of end September 2013 per investment area**

- **Direct farm** 78% R18,332,440
- **Manufacturing SMEs** 15% R92,876,311
- **Services projects** 7% R8,236,524
- **Services to suppliers** 0%

**Total disbursements per investment area end September 2013**

- **Direct farm** 88% R16,859,827
- **Manufacturing SMEs** 4% R773,689
- **Services projects** 3% R721,738
- **Services to suppliers** 4% R775,630

**Total commitments per investment area end September 2013**

- **Direct farm** 59% R32,567,733
- **Manufacturing SMEs** 34% R3,150,000
- **Services projects** 6% R721,738
- **Services to suppliers** 6% R18,724,500

* Comprises R12,850,000 of guarantee extensions that are recoverable. Where recovered, these funds will be earmarked for extended support to existing projects or support new projects.
FUND STAFF AT WORK

1. Moshisi Lehlongwane, supplier development manufacturing manager, with Chris Lebese from Pitseng Arts and Crafts.
2. Lionel Hartman, senior packhouse operations manager, with farmers Samuel Phasha and Jamela Mogodi.
3. Sedrick Dlomu, packhouse administrator trainee contractor.
4. Seasonal contractors employed at the Ezemvelo Ofcolaco packhouse.
5. Hamilton Mazibuko and Ntombiza Mokoena, supplier development field technologist at Inanda Dam.
7. AJ Gatley, supplier development field coordinator (right) with Kobela Mokgohloa, a smallholder farmer supplying Massmart from Winterveld, Gauteng.
“You cannot compete with small amounts of produce, you have to be able to implement a proper growing programme and have market access. My farm has changed completely with MassFresh and TechnoServe.”

Samuel Phasha

SAMUEL PHASHA, a former security guard in Nelspruit, was one of 187 land claimants who received 167 hectares in 2000. Within three years, he was the sole remaining farmer with an agreement to source all labourers from the village of former claimants.

Growing peppers, butternut, tomatoes and green beans, Phasha says the technical assistance he received from TechnoServe changed the way he farms and ensured he was able to repay the first inputs loan from Massmart within one season.
Direct farm programme

Helping today’s smallholder farmers become tomorrow’s commercial suppliers

Kobela Mokgohloa, a new Massmart supplier, on his farm in Winterveld, Gauteng.

Current farmer footprint

Kobela Mokgohloa, a new Massmart supplier, on his farm in Winterveld, Gauteng.
**Ezemvelo**

**Direct farm programme**
- 164 farmers linked to Massmart’s food supply chain since commencement of the programme
- 337 farmers trained as of October 2013
- 514 total tons supplied to Massmart by smallholder farmers in 2012
- **R3.2 million** total smallholder farmer sales in 2012
- **R4.3 million** total smallholder farmer sales as from February to October 2013

**R7.5 million in direct and facilitated sales to date, set to double in 2014.**

**Farmers trained**

- **Hygrotech – 156 trained**
  - Female: 54%
  - Male: 46%

- **SABS – 21 trained**
  - Female: 14%
  - Male: 86%

- **Other training – 160**
  - Female: 37%
  - Male: 63%
DIRECT FARM continued

Grant budget

- SHDN: R150 thousand spent towards post-harvest aggregation support
- Mnothophansi: R400 thousand spent on packshed construction to start during the first week of November
- Gift of Service: R450 thousand reserved for packshed construction which will be erected once the Mnothophansi structure is completed

- Hygrotech training budget – R450,000: 41% disbursed, 59% available
  - 33% have trained 4 sites
  - 67% have trained 1 more site planned for the rest of the year

- Transport subsidy budget – R500,000: 41% disbursed, 59% available

* All results as of end October 2013.
### Results summary call out to date

*Ezemvelo direct farm programme – active and growing*

| 20 | Total projects |
| 5 | Total active provinces |
| 164 | Number of smallholder farmers in supply chain |
| (60 female farmers and 104 male farmers) |
| 100% | BEE farmer participation |
| 5 | Number of intermediaries funded |
| (TechnoServe, Development Alternatives International, Lima Rural Development Foundation, SABS, Hygratech) |
| 215 | Hectares under production for 2013 |
| 3 | Average number of farm worker jobs created per ha |
| Which translates into approximately 645 seasonal labour opportunities created through participating farmers in the programme |
| R32,567,733 | Total committed |
| R16,859,827 | Total disbursed |
| R18,332,440 | Total available to commit |
| 514 | Total tons procured in 2012 |
| 800 | Total tons procured in 2013 |
| 297 | Total number of farmers trained |
| 1 | Total new enterprises facilitated |
| R3,550,000 | Total input credit provided at 0% interest in 2012 |
| R5,600,000* | Total input credit provided at 0% interest in 2013 |
| *Input credit used to pay labour, buy seed, chemicals and related implements. All recoveries reissued for the next season.* |
| R4.5 million | Total procured from SME farmers to date |
| (R3 million in sales facilitated to other buyers by 31 October 2013) |
Case study:
Gift of Service Cooperative

Gift of Service Cooperative comprises 27 farmers growing vegetable crops across four sites around Inanda Dam, KwaZulu-Natal. Members are mostly elderly female farmers who actively tend the farms. With access to 6 hectares of land, these farmers started working with Massmart in February 2013. They previously supplied their vegetable crops to the informal market, neighbouring community and, in some instances, local supermarkets. Historically, they benefited from the seeds and chemicals delivered by the local municipality and local Department of Agriculture. At the start of their relationship with Massmart, these farmers had very little knowledge on how to manage their vegetable crops and supply produce to retailer specifications.

Challenges and needs
The farmers’ greatest challenge has always been access to secure markets, which they have now attained through Massmart. Other challenges include infrastructure such packaging and storing facilities, as well as additional farming implements.

Support received from Massmart
The farmers now have access to Massmart-funded recoverable input credit to buy farming inputs funded by TechnoServe, together with on-farm technical support and training in the form of a commercial farmer as mentor. Further training is given to the farmers via Hygrotech, a Massmart partner that will offer training to all Ezemvelo participants. The farmers are also receiving infrastructure support in the form of a basic fresh produce packshed and cold storage facility. This will help the farmers overcome their distribution challenges and allow them to be more competitive and commercialised once they have an efficient distribution system.

“We are holding on to the hem of Massmart’s garment. Never before have we generated such an amount in sales.”

Gift of Service Cooperative members
Case study:
Hygrotech training partnership

Massmart-Hygrotech partnership
Massmart/Ezemvelo signed a memorandum of understanding with Hygrotech to establish a partnership that will train up to 450 farmers in the Ezemvelo direct farm programme.

Under this agreement, Hygrotech designed the manual being used to train farmers, with material including an introduction to crop production as well as five specific vegetable production manuals which will be implemented in phase 2 of the training.

Hygrotech is also offering a seed discount to all farmers who participate in the training.

About the course
Content covers an introduction to sustainable crop production, with farmers trained to work in a sustainable manner. It also covers the need for healthy soils as a means to prolong the soil’s suitability to grow crops; training on basic good agricultural practices such as irrigation; crop selection and market linkage requirements.

Females trained
47%

Farmers targeted for training
450

Massmart’s role
⇒ Provide materials and equipment needed for training
⇒ Coordinate venue and farmers
⇒ Ensure all required training facilities are available
⇒ Arrange catering.

Hygrotech’s role
⇒ Arrange own transport and accommodation, then invoice Massmart
⇒ Produce training content
⇒ Provide quality/intellectual materials trainers.

Miss Mangakane Debeila (31) from Ngwana Mante Farming Cooperative in Strysdskraal, Limpopo, gladly indicated that she has learnt a lot in the course, including:

1. To farm successfully and sustainably one needs to look after the soil.

2. Good irrigation practices and improving of soil texture over a continual time period will lead to healthy soils and a more productive farming enterprise for her and the other members in the cooperative.
**Introduction**

In March 2012, TechnoServe and Massmart launched the direct farm programme pilot as part of the global Walmart direct farm initiative. The goal is to identify, develop and support 80 to 100 smallholder farmers to supply Massmart and build a sustainable supplier base of fresh produce growers. The broad target is to assimilate smallholder producers in South Africa into the mainstream of commercial agro-food value chains. Massmart aims to source at least 70% of its fresh produce requirements directly off farms, and 30% of this will be sourced from smallholder farmers.

### Milestones and progress

<table>
<thead>
<tr>
<th>Milestone</th>
<th>Progress</th>
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<tbody>
<tr>
<td>80 to 100 farmers selected</td>
<td>87 farmers recruited in Ofcolaco, 12 in KZN and business plans developed for all.</td>
</tr>
<tr>
<td>Farmers trained in agronomy, irrigation, basic business skills and post-harvest handling</td>
<td>In-field training is ongoing. Classroom training in agronomy, irrigation and business skills ran from May to November 2013. Two days of classroom training provided by Hygrotech, a seed company partnering with Massmart.</td>
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<tr>
<td>Technical assistance and business support</td>
<td>All farmers now using sustainable agriculture practices.</td>
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<tr>
<td>Market linkages and finance for selected farmers established</td>
<td>These farmers earned collective revenue of R3.2 million in 2012. In 2013, sales have exceeded that level (includes 23% of sales to local markets). All farmers received input finance at various levels, transport and packaging subsidies for qualifying circumstances. In April 2012, Massmart released R3.5 million in revolving credit at 0% interest. This was accessed by 18 farmers, all supplying produce to Massmart, with a 91% recovery of the loan in 2012. Massmart remains the buyer of first resort for these farmers.</td>
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**TECHNOSERVE PROJECT UPDATE**

**TechnoServe flagship direct farm programme project partner report card**

| 2012 PILOT (18 SMALLHOLDER FARMERS) | 580 TONS OF FRESH PRODUCE | 2013 99 SMALLHOLDER FARMERS |
DIRECT FARM PROGRAMME – CHALLENGES AND LESSONS LEARNED

➾ Most farmers need more than one season to produce a total crop that is retail-ready. This is especially true for farmers with no prior retail market exposure. A key lesson is that our investments with farmers need to be in place for three to four seasons to ensure full readiness and future sustainability.

➾ Most farmers and cooperatives lack basic financial and administrative skills and access to tools (computers, printers, fax and email) to facilitate sales administration.

➾ Farmers also require technical support via project partners or commercial farmer mentors to develop growing programmes, used by retail buyers for their planning and forecasting systems.

➾ Farmers who are new vendors need training on invoicing and statement processes to ensure timely payment.

➾ Farmers also need training on assessing their cost of production, sales income and enterprise profitability.

➾ Finally, farmers must have basic packing facilities in place on the farm and access to off-farm facilities that are integral to food safety, transportation access and final sales.

Plans for the future

➾ Expand Ezemvelo direct farm programme footprint by establishing and embedding a presence in the Eastern Cape and North West provinces.

➾ Expand the programme scope from vegetables and fruit, to sourcing red meat and eggs.

➾ Establish partnerships with industry experts such as Bayer and Sakata Seed Southern Africa Pty Ltd (SAKATA) to provide chemical and crop production training to Ezemvelo beneficiaries.

➾ Implement a pilot project targeting smallholder farmers who specialise in potato production, partner with Potatoes SA for successful implementation.

➾ Continue to track and monitor sales growth for smallholder farmer vendors.

➾ Target a 3,000-ton smallholder farmer vegetable programme in 2014.

➾ Manage and further develop the packhouse non-profit company model.
Manufacturing

Developing a more inclusive supply chain; enhancing local production.
# Results summary call out to date

*Manufacturing and services programme – positioned for growth*

| 15 ➔ | Total projects |
| 5 ➔ | Number of manufacturers supported to date |
| 4 ➔ | Number of manufacturers supported to date |
| 1 ➔ | Women-owned business of the four BEE-owned companies |
| 2 of 5 ➔ | Number of existing manufacturing suppliers Massmart supported |
| 3 of 5 ➔ | Number of new entrant suppliers to Massmart supported |
| 19 ➔ | Number of developing wine brands supported in 2013 of which nine are female-owned and ten are male-owned. Developing wine brands are either 100% BEE-owned or are significantly BEE empowered. Total active provinces = two |
| 23 ➔ | Number of SME suppliers in supply chain |
| 5 ➔ | Number of service providers funded |
| 2 ➔ | Of the six service providers to suppliers |
| R3,150,000 ➔ | Total committed |
| R773,689 ➔ | Total disbursed |
| R92,876,311 ➔ | Total available to commit: Manufacturing |
| R8,236,524 ➔ | Total available to commit: Services projects |
| R775,630 ➔ | Services to suppliers (disbursed) |
| 2013 ➔ | Strategy defined in 2013 with input from the fund committee and advisory board |
| ➔ | Strong pipeline of projects |
| ➔ | Well-positioned to increase scale in 2014 |
Supplier profiles and progress

Developing wine brands programme
Massmart established this programme in 2012 to create opportunities and assist emerging black-owned and black-empowered wine brands with market access and supplying their wines through Massmart liquor chains. The programme actively promotes transformation through marketing and logistical support for these BEE wine brands.

Constraints facing emerging wine brands:
- Lack of access to market
- Distribution capabilities, warehousing and marketing capabilities
- Lack of basic understanding of the requirements needed to supply retailers.

Massmart is helping to address some of these challenges through its Supplier Development Fund. The fund is working in partnership with Cool Wines Pty Ltd to provide professional services for distribution, warehousing and handling of developing wine brands selected in the programme. In addition, Cool Wines will capitalise on the relationship with its sister company, Meridian Wine Merchants, to conduct in-store promotional activities for participating brands.

2012 progress update
- 20 wines were selected in a 2011 blind wine-tasting, based on the criteria of quality to price per category to be sold in Makro and Game stores
- The first order was placed in December 2011 with first delivery in early January 2012
- Cool Wines handled the distribution and marketing initiatives of the wines
- Two brands (Bayede and Seven Sisters) showcased the impact of Walmart in South Africa by opening up international market opportunities with Walmart US and Walmart China
- Of the 20 brands:
  - Six delisted due to discontinued production and poor sales because of high cost and incorrect range selection
  - Three graduated into phase 2 which will focus on marketing and promotions
  - Three graduated out of the programme
  - Eight continued on the programme, receiving further support in distribution and marketing.
2013 progress update

- **19** black-owned/black-empowered brands representing **24 wine varietals** in the 2013 leg of programme (*nine female* and ten male)
- **Eight new brands**, eight continuing brands from 2012 and three brands that graduated into the second marketing-only phase
- First delivery in **May 2013**
- **Sold 16,938 bottles** of wine from January 2012 to October 2013 across selected Game stores and 19 Makro stores nationwide
- **All-inclusive sponsorship** to attend the 2013 Soweto Wine Festival for all brands
- After the February 2013 visit to Walmart US, Seven Sisters introduced **three more** wine varietals into Walmart US, taking the tally to six wines from this brand
- Under Seven Sisters’ latest agreement, it will ship 5,000 cases of its brands into **500 Walmart stores**
- Bayede, which already supplies Walmart China, is signing a supply agreement with **Walmart Brazil** as its latest success.
SUPPLIER PROFILES AND PROGRESS continued

Class of 2013

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<tr>
<th>Bayede Marketing</th>
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<tr>
<td>Seven Sisters</td>
<td>Solms Delta</td>
<td>Lindhorst</td>
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<tr>
<td>Cape Dreams</td>
<td>Thandi Wines</td>
<td>Howard Booysen</td>
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<tr>
<td>Bosman Family Vineyards</td>
<td>Sesfikile</td>
<td>Stellenrust</td>
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<tr>
<td>Vins D’Orrance</td>
<td>House of Mandela</td>
<td>Thokozani</td>
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<tr>
<td>Women in Wine</td>
<td>Milk <em>(The Food and Wine Factory)</em></td>
<td>Skoko Wines</td>
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<td>Libby’s Pride</td>
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Seven Sisters, led by Vivian Kleynhans, is one of the programme’s success stories in the Walmart world. In August 2012, the label launched its wines in 54 Walmart stores across the US, and is now on the shelves of 300 Walmart outlets.

“I made no secret of my indignation, which set the wheels in motion. The Makro wine buyer was brought in and, following a blind tasting, selected one of our wines to sell at Makro. We started off with a programme for 2012 and a review will follow soon for the 2013 programme. I’m grateful for the assistance given by Makro/Massmart.”

Carolyn Barton is the wine buyer from Makro working with the fund to support developing wine brands in the retail space.

“We as Makro are proud to be part of such a great initiative, listing and supporting these 19 brands in this big-player-dominated industry. Success in this category is only possible if one understands the art of added value, selling the occasion, encouraging trial, focusing on selling and driving the message of authenticity, a unique point all our brands have.”
Bio Lotion Cosmetics
Founded in 2010 by Vundade Silora, Bio Lotion is a 100% black-owned company selling skincare products, specifically body cream and hand cream.

Vundade, known as Vusi, hails from Alexandra and previously worked for Discovery Health as a sales consultant before venturing into the world of entrepreneurship. He closed his first business, a panel-beating shop, to start Bio Lotion.

Bio Lotion’s retail footprint spreads across retailers, wholesalers, pharmacies and independent stores. It is listed with a number of retailers and pharmacies, including Checkers, Shoprite, Spar and Dis-Chem. Working with our fund, Bio Lotion is now listed nationally with Jumbo and Makro, and in the top-40 Game stores.

Case study:
Supplier profile and progress

➾➾ Initially listed with Jumbo Crown Mines for a three-month trial period from February 2013
➾➾ During a successful trial period, Bio Lotion sold out, reaching its target of **720 units in two months**, a month earlier than the projected three months
➾➾ After successful trials in Jumbo, its store footprint in Massmart chains increased to **66 stores** (all seven Jumbo stores, all 19 Makro stores and the top-40 Game stores) during the year
➾➾ Funding support in the form of a grant helped with merchandising and marketing, especially as the company launches into more chains
➾➾ This growth in our various retail formats proves that the Bio Lotion brand is being well received by customers
➾➾ Weekly in-store activations supported by the fund have helped build brand awareness.
Case study:
South African Bureau of Standards quality management audits

Key objectives
Helping small suppliers close SABS-identified gaps towards ISO 9001 compliance.
Increase supplier awareness of corrective measures to comply with Massmart standards on certification and legislative requirements.

Project scope
Phase 1 – SABS quality management systems development audit, under the ambit of the SABS/Massmart MOU. The Massmart SDF provides complete financing of phase 1.

Phase 2 – Suppliers that have completed the SABS development audit are required to advance their QMS to ISO 9001 certification. But, this is based on principles of supplier self-funding and the non-exclusive services of Biztec/Guideline.

The approximate total costs inclusive of full certification are as follows:
- SABS baseline audit = R7,000 (which is covered by the SDF)
- Guideline/Biztec = R30,000 (online certification system and Massmart service provider of choice to assist vendors with closing identified gaps at vendors’ own cost)
- SABS certification/surveillance audits = R30,000 (administered by SABS at the vendors’ cost)
Progress update
To date, 366 SMME suppliers to Massmart have been selected for a first audit on compliance levels to quality management systems. Benchmark criteria for selection included:

- Being a small-sized business
- Being active local Massmart suppliers
- Needing assistance in complying with basic quality management systems
- Needing support to grow their business in Massmart.

This benchmark could also serve as a filter to identify committed, high-potential smaller vendors versus those with less likelihood of growing their business in Massmart. As we are now in the second year of the project, 116 suppliers have had their first audit. The project is ongoing and making notable progress in raising supplier awareness on compliance levels and required improvements.

Audit progress
Suppliers selected – 366

Audited – 116
No longer active Massmart suppliers – 104
Already ISO 9001 accredited/have SABS mark – 28
“Declined” to be audited – 59
Scheduled audits – 23
Suppliers awaiting contact – 19
Case study:

BBL SME development programme

The partnership between the fund, Big Break Legacy (BBL) and its service provider partner Gordon Institute of Business Sciences (GIBS) is focused on business management training for 50 entrepreneurs currently supplying Massmart or with the potential to be suppliers. Of the 50 selected entrepreneurs, 43 (86%) are from previously disadvantaged communities. BBL and GIBS will provide the training while the fund will cover course costs.

The inaugural class of 50 will start the certificate training programme in January 2014.

The programme will be delivered by expert lecturers at GIBS to empower SME business owners with training in:

- Marketing, business planning/modelling and operations management
- Personal mastery, leading others and your organisation
- Financial and management accounting
- Sales and new business development
- Negotiation skills and strategy review
- Compliance, governance and tax.
The Big Break Legacy project encourages South Africa’s innovative entrepreneurial spirit through various media platforms (television, print, social media, online) and academic offerings. It was launched as a reality TV show for entrepreneurs to:

➾ Demystify entrepreneurship
➾ Showcase what it takes to be an entrepreneur
➾ Inspire a “can do” spirit among South African entrepreneurs.

➾ The business school of the University of Pretoria, in the heart of the financial capital of South Africa, Sandton
➾ Client partnerships with 80 leading South African and international organisations
➾ Only business school in SA offering MBA in entrepreneurship; also offers one-year certificate programme in entrepreneurship
Programme candidates

Gender spread

<table>
<thead>
<tr>
<th></th>
<th>Female</th>
<th>Male</th>
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<tr>
<td></td>
<td>44%</td>
<td>56%</td>
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SME category representation

- Food
- Services
- Clothing
- Agriculture
- DIY
- Skin care
- Hair care
- Outdoor
- Bricks
- Paint
- Furniture
- Decorative
- Commodities
- Liquor

Pam Komani is CEO of June Communications – a design and marketing company. She has worked for Comair as an acting sales manager looking after the public sector in the airline industry, reaching the toughest targets. She has a diploma in interior decorating and certification in travel and tourism.

Mandisi Gangandeni is MD of The Food and Wine Factory, a wine distribution company aimed at young black middle-class individuals in emerging markets of the South African wine industry and growing hospitality industry. He has a BCom from the University of Durban, and was a logistics and supply chain specialist for ArcelorMittal South Africa.

Potso Mathekga is CEO of Grapeseed Trading which manufactures Maggie’s Mageu in the perishable foods category. She is a qualified chemical engineer with vast experience in the food industry, and has worked for Procter & Gamble, ABI and Nestlé.
The Massmart Supplier Development and Big Break Legacy Programme launches at GIBS

Mncane Mthunzi, Massmart Supplier Development Executive: “The key challenge facing entrepreneurs today is training. While they understand their core business, they often need help in terms of broader management and business skills. We need to develop our human capital if we are going to grow our economy. Massmart is delighted to be involved with this programme as it will help diversify our supplier base while also offering specialised training that could change the lives of entrepreneurs in South Africa.”

Says GIBS Enterprise Development Academy Director, Yogavelli Nambiar: “If South Africa is to achieve the goal of having the SME sector produce the largest quantity of jobs, these enterprises need to be supported to be sustainable, to grow and to thrive. Part of this support is providing the entrepreneur with access to business education, mentorship, linking them to capital and new markets, and other resources, which the businesses will benefit from through the 12-month programme.”

Founder and chairman of The Big Break Legacy, Ezra Ndwandwe: “We started this initiative to take advantage of our TV property and to continue assisting the development of entrepreneurs while helping small businesses to access opportunities in big corporates through enterprise development. Massmart is the first of many clients of BBL that has taken the leap of faith in our programme, and sees this as an opportunity to bolster its own supplier database with new businesses that prove worthy of being in their shops. The idea is to develop new suppliers that are competent and who understand the entire value chain of the business they will be engaging with.”
XChem Chemicals

⇒ Initially listed in five Builders Warehouse stores in Pretoria (Centurion, Woodlands, Zambezi, Gezina and Faerie Glen)
⇒ Expected to generate more sales over the next few months as it rolls out nationally in Massbuild
⇒ Regional approach to national roll-out under way, after successfully completing the 11-store Gauteng roll-out by November 2013
⇒ National roll-out forecast shows that monthly orders will comprise over 36,000 units
⇒ XChem will be one of only three selected adhesives suppliers to represent this category in the new Builders SuperStore format
⇒ The fund helped XChem expand production capacity to manage anticipated volumes in line with projected national orders.

ANGELA CHRIS PITSI is a qualified psychologist who, in 2006, acquired a detergent-manufacturing company which she single-handedly restructured into an adhesive and sealants manufacturer. This company is now well established, trading in Centurion as XChem Chemicals Pty Ltd.

Wholly South African-owned, XChem has three divisions: adhesives, sealants and speciality chemicals. XChem DIY adhesives and sealants are popular in homes, offices, schools and industries. XChem products are marketed under several brand names: Fort-tite, Fortseal, Fortcoat, Fortsol and Fortcast.

The company has 12 employees and is led by a highly qualified and experienced management team with 17 years’ experience in the adhesives and sealants industry.
CHRISTOPHER LEBESE is a 52-year-old clay and pottery designer from Soweto. Chris established Pitseng Arts and Craft in Soweto in 2001 with the objective of designing and manufacturing unique African contemporary ceramic pieces, focusing on interior décor (lamps and vases).

Pitseng Arts and Craft currently operates from the Soweto Empowerment Zone in Diepkloof and employs four staff members. Pitseng Arts and Craft has in the past exhibited at Decorex locally and at international exhibitions in Europe, Germany, China and many other countries.

Pitseng Arts and Craft is a two-time winner of the SA Handmade Collection Awards, in 2011 and 2012. Their current customer base includes walk-in customers and exhibitions locally and internationally, but with no presence in the formal retail market.

SDF interventions

➾ Route to market
➾ Modern machinery and tools to automate some of the production
➾ Range development
➾ Working capital

Plantimex partnership to supply ceramic pots

➾ Plantimex is a pot plant supplier to Massbuild
➾ SDF has assisted with acquiring of raw material, equipment and working capital
➾ Ready pot plants will be supplied to Builders Warehouse and Builders Express
➾ First delivery in November 2013
About the Ezemvelo Ofcolaco packhouse

- Trading as a non-profit company – Vexogenix – a development enterprise undertaking by the Massmart Supplier Development Fund and TechnoServe
- A total of R1.3 million invested by the fund in the packhouse set-up (building revamp, refrigeration, loading facility, sort line, computers)
- An amount of R2 million invested by the fund in operations set-up support (pack materials, initial staffing, pest management system, crates, compliance improvements) for Vexogenix; to be reinvested after the packhouse reaches break-even status
- Senior packhouse manager seconded by the fund to build and transfer business as standalone non-profit company. Massmart plans to participate as a director along with selected farmers who are suppliers to the packhouse
- Throughput capacity per 500m² facility of 3,500 tons per annum. Potential to raise R2.5 million to R4 million per annum in revenue from pack and handling charges
- Vision and action plan: to be a low-cost handling facility with full traceability, serving smallholder farmers who will be shareholders in the non-profit company.

Ezemvelo Ofcolaco packhouse interim outputs

- Packing since mid-August 2013
- More than 20 seasonal jobs created
- Currently 17 farm sites representing 81 smallholder farmers supplying through the facility
- Traceability from farm to actual pallet and box delivered into Fruitspot
- SABS support to develop packhouse systems and process controls
- Weekly price-pooling system developed for aggregated loads
- SMS price communication system rolled out.
Communications report
FUND MANAGEMENT COMMUNICATIONS REPORT

Supported by the Massmart corporate affairs team, a media campaign was launched to raise the public profile of the fund and its beneficiaries.

This increases awareness of the fund and an informed public can then contact us to explore partnership opportunities and supply-chain linkages. Raising the profile of our beneficiaries increases market awareness of their brands and services which, in turn, can help drive foot traffic to their products and services and ultimately increase sales which supports repeat purchase orders.

2013 communications highlights
The fund will open two clear windows for proposals that meet its mandate and investment focus areas in 2014. These windows will be complemented by roadshows in up to four provinces which will also expand the reach of our activities.

We also intend to publish a summary of the annual progress report on the Massmart website. This will encourage openness on the fund’s activities, share lessons and help suppliers and potential partners understand how we work. The intention is to encourage information sharing and collaboration in the field of supplier development.
ABOUT MASSMART

Massmart is a managed portfolio of four divisions, each focused on high-volume, low-margin, low-cost distribution of mainly branded consumer goods for cash, in 12 countries in sub-Saharan Africa. The group comprises 374 retail and wholesale stores and is 53% owned by Walmart Stores Inc.

Massmart is the second-largest distributor of consumer goods in Africa, the leading retailer of general merchandise, liquor and home improvement equipment and supplies, and the leading wholesaler of basic foods. We operate through four divisions – Massdiscounters, Masswarehouse, Massbuild and Masscash. The group’s brands – Game, DionWired, Makro, Builders Warehouse, Builders Express, Builders Trade Depot, Builders SuperStore, CBW, Jumbo Cash and Carry, Cambridge Food and the Shield buying group – are well recognised in their market segments and span a diverse consumer base that covers living standards measure (LSM) 1 to 10. We continuously improve the performance of our portfolio of businesses through strategic and structural clarity, high market shares, excellent management and technology, and sharing resources.

Massmart’s sustainability proposition is focused on achieving commercial success by adopting a cost-effective mass distribution business model that offers stakeholder benefits on both ends of the retail value chain without compromising our commitment to socially responsible business practice. At the core of this proposition is a commitment to apply the highest standard of ethical conduct in our dealings with all stakeholders. The ultimate measure is being able to add exceptional economic value in a way that responds to the social and environmental challenges confronting the markets in which we operate.

Our accountability initiatives extend from integrating smallholder farmers into our supply chain through our supplier development programme to supporting stokvel schemes in our stores and developing our talented employees through our corporate university.

Founded in 1990 and listed on JSE Limited in July 2000 at R12.50 per share, the group is currently a top-40 listed company (by turnover) and a participant in the JSE’s Socially Responsible Investment Index. Massmart employs over 30,000 permanent and flexi-time staff.
OUTLOOK FOR 2014

The year ahead presents exciting and challenging prospects for the fund. In terms of project disbursements, we aim to treble our payout from the current year. We are on track to deliver on our manufacturing strategy and therefore expect commitments and disbursements in this sector to increase substantially. The strategy is backed fully by the fund committee, providing a solid platform for the fund to achieve this target.

Calendar 2014 will be a period of innovation in terms of how we manage the application process and how we can improve our visibility, which will ultimately increase our reach to potential beneficiaries. In terms of managing the flow of applications, we will introduce window periods for submitting new applications, which will improve efficiencies and turnaround times for completing the screening process.

We will conduct road shows around the country in the first quarter of the new year to expand our reach – in line with our strategy.

We will test a financial partnership with a banking partner to provide financial guarantees to suppliers needing access to finance beyond our grant and technical assistance support.

In line with our target to extend our reach, we will forge solid relationships with intermediaries with which we can place funds and they, in turn, can source qualifying beneficiaries in line with our strategy and mandate.

The direct farming programme is expected to maintain its stellar performance, with targets to increase procurement quantities without compromising on quality. There are also active plans to roll out the programme into other provinces. We have identified key lessons from the challenges of the 2013 operating year and will implement these to further enhance performance in this sector.
ACTIVE IMPLEMENTATION PARTNERS AND SERVICE PROVIDERS**

TechnoServe
Development Alternatives International (DAI)
Lima Rural Development Foundation
Hygrotech
South African Bureau of Standards
Cool Wines
Big Break Legacy
Leruo Consulting Pty Ltd
Leago Consulting Pty Ltd
Deloitte
SekelaXabiso

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