SPAR creates value on a global scale through our voluntary trading model and convenient delivery of fresh food and groceries where people live. The group creates significant value for our independent retailers, who benefit from the economies of scale, efficiency and a wide scope of products offered and distributed through our distribution centres.

BUSINESS MODEL
Retailers further benefit from the merchandising expertise, support services and benchmarking offered by SPAR, which enable them to offer a range of products at competitive prices. Voluntary trading further equips retailers with the ability to customise their product and service offering to be responsive to their local, niche consumer segment needs and expectations. This unlocks value for both retailers and consumers.

To support this value creation, our business model is grounded in SPAR’s core business as a wholesaler and distributor of goods. At each point in the value chain, we support close working relationships with key stakeholders to enhance our value proposition. We strive to manage our use of resources and the six capitals of value creation through environmentally and socially sustainable business practices.

The management of our material social and environmental impact is discussed from page 68.

The diagram on the opposite page outlines the core activities of SPAR. This is followed by a discussion of our five material relationships, which are critical to the sustainability of our business model.

In addition to our relationship with our suppliers, employees, retailers, consumers and communities, we recognise our shareholders, government and regulators as key stakeholders. While the group actively engages with our various stakeholders at different touch points along the value chain (described below), SPAR is in the process of developing a comprehensive stakeholder engagement framework that will further assist in managing the needs, expectations and risks associated with our key stakeholder groups to ensure the achievement of our strategy.

KEY STAKEHOLDER GROUP | TOUCH POINTS | KEY TOPICS
--- | --- | ---
Suppliers | More information on page 38 | • Return on investment  
• Shared value  
• Willingness to collaborate
Employees | More information on page 39 | • Employer of choice  
• Motivated brand ambassadors  
• Learning organisation
Retailers | More information on page 40 | • Common goals  
• Business partners  
• First choice brands
Consumers | More information on page 42 | • Value for money  
• Brand that cares  
• Trusted
Communities | More information on page 43 | • Ownership of My SPAR  
• Involvement in community  
• Care for community
Shareholders | More information on page 32 | • Sound investment  
• Good communication  
• Consistent growth
Government | | • Improve engagement through industry bodies
Regulators | | • Improve engagement through industry bodies
In the following discussion of our business model and strategy, quantitative and qualitative data refers only to South Africa as this remains our most significant area of operation.

UNDERSTANDING OUR OPERATING ENVIRONMENT

SPAR operates within a highly competitive environment. Sustained economic weakness resulted in a low-sales environment. This led to aggressive marketing and unsustainable price drops by competitors. Rising fuel, food and utility prices continue to affect our consumers and retailers. Persistent drought and fluctuating exchange rates spiked food inflation. This is a particular concern for stores targeted at lower-LSM consumers, as defined-income households must reduce their baskets to absorb costs. Service delivery protests and labour unrest linked to the South African local municipal elections in August resulted in operational disruptions at supplier operations, distribution centres and stores. To enable growth and provide profit-making opportunities, the group maintained its strategic focus on optimising our core business functions, discussed below. SPAR continues to service the growing demand for convenience and our Fresh offering – with quality as the differentiator.
OUR APPROACH

SPAR’s operating model relies on an efficient supply chain and robust relationships with suppliers to ensure an appealing value proposition for retailers at acceptable wholesale margins. The scale of our logistics and distribution systems provides suppliers with substantial volumes and scale at reduced operating costs. The high volumes handled at our distribution centres ensure a spread of fixed costs that translates into reduced unit costs. Joint business planning with our suppliers encourages vertical co-ordination and efficiency, and we have identified a number of cost-reduction opportunities. These include, for example, backhauling and one-way loads, optimal buying configurations and supply chain mapping. Backhauling and one-way loads require collaboration with suppliers to deliver goods to retailers on their return journey from our distribution centres, where possible. We also deliver goods to retailers near our suppliers, collect goods from suppliers, and return to the distribution centre with a full truck. These initiatives reduce unnecessary labour and fuel costs associated with delivery trucks returning to their point of origin empty. Optimised supplier fleet utilisation further results in a reduction in our carbon footprint. Supply chain mapping makes use of our cost-to-serve modelling tool and enables us to work with our suppliers to optimise the most effective route to market. These initiatives result in increased efficiencies and shared savings for our suppliers and the group. By stripping costs out of our supply chain, we are further able to pass the cost-saving benefit on to our retailers.

Most of our procurements happen at distribution centre level, while certain products are sourced from local suppliers at store level. This enables sourcing in support of local enterprise. We work with suppliers to encourage sustainable product development and transparent sourcing. Our emerging farmer development programme assists vertical co-ordination between commercial and community farmers to the benefit of the surrounding rural economies.

More information about our emerging farmer development programme can be found on page 64.
OUR RELATIONSHIP WITH EMPLOYEES

WHO THEY ARE

3 881
EMPLOYEES ACROSS OUR CORPORATE OFFICES AND DISTRIBUTION CENTRES

74.3%
OF EMPLOYEE BASE IS MALE (due to the nature of work done at our distribution centres, where employees handle bulk goods and operate heavy machinery)

HOW WE ENGAGE

• Strong relationships with our workforce and the various trade unions
• Learning and development initiatives through The SPAR Academy of Learning
• Various committees established at each distribution centre, including Health and Safety, shop stewards and Values Committees
• Employee wellness clinics at each distribution centre – boosted by the launch during the year of our employee Wellness Week

RELATED STRATEGIC IMPERATIVES

• Transformation
• Retail relationships, leadership and support
• Centre of community
• Motivated and competent people
• Lean organisation
• Stakeholder returns
• Transformation
• Retailer relationships, leadership and support

OUR APPROACH

Motivated employees are crucial to SPAR’s future. We pride ourselves on being a business that is built on solid relationships, with an emphasis on family values and meaningful workplace interaction.

During the year, 9 060 days (2015: 15 067 days) were spent in employee training. Courses cover a wide spectrum, from enhancing operational proficiency at floor level, to development programmes to grow management. In total, R13.2 million was spent on training, reaching 10 800 employees across the group’s operations.

SPAR upholds our employees’ rights to freedom of association and collective bargaining. We have a record of strong relations with our workforce and the trade union, the South African Commercial Catering and Allied Workers Union (SACCAWU). We are committed to maintaining positive relationships with unions at the relevant distribution centres to agree on acceptable terms of employment of unionised members.

Three of our distribution centres, namely KwaZulu-Natal, North Rand and South Rand, are unionised and have recognition agreements in place with SACCAWU. Each distribution centre engages in wage negotiations according to a cyclical programme, and these are conducted directly between senior management and union representatives. The Lowveld distribution centre has no recognition agreement with a union due to the low representation among employees. The other four distribution centres, namely Western Cape, Eastern Cape, Lowveld and Build it, are not unionised.

SPAR provides employees with a wellness service through clinics at each distribution centre. We invested R3.7 million (2015: R2.8 million) in this service during the year. The service is provided free of charge to all on-site employees, with support focused on health and wellness, liquor and substance abuse.

SPAR has an HIV/AIDS policy and management framework in place. HIV-positive employees have access to voluntary counselling and support. SPAR runs HIV/AIDS awareness campaigns, accompanied by regular training facilitated by dedicated peer counsellors, to address workplace challenges relating to HIV/AIDS. All employees have access to a voluntary medical examination on an annual basis.

More information about our employees can be found in the ‘Social sustainability report’ on page 60.
OUR APPROACH

The success of the voluntary trading model hinges on maintaining a robust working relationship between wholesaler and retailer. For SPAR, the quality of this relationship is dependent on our ability to equip our retailers to run a sustainably profitable and professional business. Under the current economic conditions, and in the face of rising inflationary cost pressures and increased competition, maintaining this relationship remains our top priority.

We have increased our focus on our relationship with our retailers through financial benchmarking and the development of tailored service packages that respond to the unique challenges of individual stores. This is particularly important in South Africa, where customer demographics, spending power and surrounding infrastructure vary greatly across regions.

All retailers have access to an online database that makes available various SPAR store and product specifications and best practice manuals. This includes guidance on recipes and pricing to achieve consistency and quality in fresh produce and the growing home-meal replacement segment. This is supported by the SPAR Academy of Learning, which provides access to a variety of E-learning programmes shaped in response to retailers’ needs. These programmes range from short-term guidance on how to solve day-to-day issues in store, to longer-term programmes that build human resources and supervisory capability. The guilds further provide retailers with marketing support and access to SPAR’s development fund to invest in refurbishments.

We remain committed to growing our retailer base while supporting our existing retailers. In particular, our focus is attracting black entrepreneurs in South Africa. All new retailers receive support and guidance from the group and the guild to assist them in overcoming challenges associated with the initial set-up phase.
RETAIL TRAINING

**JUMPSTART**
To create a pool of entry-level candidates from which retailers can recruit. 1,052 candidates trained during the year and 321 have been placed in jobs.

**GOOD FOOD FUNDIS**
Skills programme in the areas of bakery, fresh produce, home-meal replacements and butchery.

**RETAIL MANAGEMENT PROGRAMME**
A distance learning course to improve retailer skills. Since 2011, 245 retailers have completed this course.

**MANAGEMENT INDUCTION PROGRAMME**
A programme assisting new retailers to understand how SPAR operates. Since 2002, 1,138 delegates have completed the course.

**E-LEARNING**
Reaching 266 stores this year, with more than 20 programmes conducted and 27,778 employees trained.
OUR RELATIONSHIP WITH CONSUMERS

WHO THEY ARE
DUE TO OUR GEOGRAPHICAL SPREAD AND VOLUNTARY TRADING MODEL, WE SERVICE THE FULL SPECTRUM OF LSM GROUPS IN SOUTHERN AFRICA.

HOW WE ENGAGE
- Marketing and promotional campaigns
- Ad hoc customer perception surveys
- In-house customer care line
- Benchmarking exercises between cluster stores
- Owner-managed stores with direct daily interaction with consumers
- Social media, including Facebook

RELATED STRATEGIC IMPERATIVES
- Centre of community
- Retailer profitability
- Excellence in Fresh
- Competitive pricing

OUR APPROACH
Ensuring that SPAR is perceived as offering customers value, quality and convenience is critical in growing and maintaining our market share. We remain within the industry benchmark on the surveyed basket. Additionally, we work with our retailers to offer consumers a comfortable and rewarding shopping experience focused on cleanliness, convenience and friendly employees.

We service the full spectrum of LSM groups in South Africa, which exposes the group to a wide range of trading patterns. Generally, higher-income consumers opt for convenience items and fresh produce. This includes ready-to-eat products, home-meal replacement items and daily, top-up shopping. Conversely, lower-income consumers are more likely to do a monthly shop, with an emphasis on commodity and bulk products. The ability to stock the appropriate product mix to cater accurately for unique customer profiles at store level is a key strength of the voluntary trading model. This enables retailers to customise their service offering, unlocking value for consumers.

We further strive to offer our retailers the facility to create value for consumers through our My SPAR Rewards programme. Participating consumers benefit from electronic product coupons that are sent to their mobile phones to help them save money. The group has an in-house customer care line that addresses complaints and queries. Marketing campaigns focused on promoting family values and a balanced lifestyle are also important in maintaining the group’s positive engagements with consumers.
OUR RELATIONSHIP WITH COMMUNITIES

WHO THEY ARE

OUR STORES ARE OWNER-MANAGED BY INDIVIDUALS WHO ENGAGE WITH THEIR LOCAL COMMUNITY

HOW WE ENGAGE

- Each SPAR store aims to be centre of community by offering an end-to-end product range
- Philanthropic activities at retailer level to grow brand loyalty and play a positive role
- Investment in community development initiatives at group level, including sponsorships

RELATED STRATEGIC IMPERATIVES

- Centre of community
- Retail relationships, leadership and support

OUR APPROACH

SPAR stores play a key role in the community as the local supplier of household goods. Other brand offerings, such as TOPS at SPAR and Pharmacy at SPAR, further ensure that a local neighbourhood SPAR can become a convenient, one-stop shopping destination. The voluntary trading model enables retailers to support local enterprise development, adding value by growing the local economy. Retailers and their employees are also often from the local community, which strengthens personal ties with their target market.

SPAR is founded on passion, family values and entrepreneurship. To foster this culture and position the SPAR brand as a force for good in society, the group encourages retailers to be the centre of their community by supporting philanthropic and sponsorship initiatives at store level.

There is a symbiotic relationship between SPAR’s continued growth and the sustainability of the communities that support our stores. Our formal CSI policy ensures that allocated funds support meaningful, sustainable projects, locally and nationally. During the year, SPAR invested R15.7 million (2015: R14.1 million) in CSI initiatives and R16.8 million (2015: R17.5 million) in various sponsorship projects.

More information about SPAR’s investment in local communities can be found in the ‘Social sustainability report’ on page 59.
BUSINESS MODEL AND STRATEGY
(CONTINUED)

SPAR’S STRATEGY GUIDES THE BUSINESS TOWARDS OUR OVERARCHING GOAL OF GENERATING SUSTAINABLE STAKEHOLDER RETURNS IN A MANNER THAT IS BENEFICIAL FOR SOCIETY AND THE ENVIRONMENT.

STRATEGIC AND SUSTAINABILITY OBJECTIVES

We review our strategy every year to ensure we are responsive to the risks and opportunities arising in our external context. Furthermore, we recognise that risk management is integral to the achievement of SPAR’s strategic imperatives. We perform an annual, comprehensive ERM analysis to ensure our sustainability risks are integrated with our group risks and group strategy, with appropriate action plans in place.

More information about SPAR’s strategy for addressing sustainability can be found on page 59.

One of the key elements of SPAR’s strategy is our strategic imperatives. By delivering on these imperatives, we are well positioned to achieve our strategic outcomes and vision to be the ‘First-choice brands in the communities we serve’. Our ERM framework supports this by assisting the group to identify key risks linked to our imperatives.

A group risk register was developed in 2014 that details our top 40 risks. These risks have been identified across SPAR’s value chain, and are managed at different levels of the business. To strengthen accountability and mitigate the key risks identified, detailed action plans have been developed, with clearly defined owners and timelines.

The risks outlined below have been identified and ranked as the top 10 risks most likely to impact the achievement of the group’s strategy. These risks are monitored and managed at board level.

<table>
<thead>
<tr>
<th>RANKED RISK</th>
<th>DESCRIPTION</th>
<th>ACTION PLAN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Macroeconomic factors causing a decline in business</td>
<td>Global and macroeconomic conditions, such as inflation, currency depreciation, unemployment, etc.</td>
<td>• Identify key macroeconomic factors impacting the business&lt;br&gt;• Track and report on trends, and flag when factors reach certain thresholds&lt;br&gt;• Develop medium to long-term mitigation strategies</td>
</tr>
<tr>
<td>Inability to develop new sites stunting growth</td>
<td>Acquiring new growth sites is fundamental to the growth strategy</td>
<td>• Identify new business drivers&lt;br&gt;• Identify opportunities to assist retailers with capacity to own multiple stores</td>
</tr>
<tr>
<td>Political instability in SPAR markets hindering business</td>
<td>National or international political events that result in fundamental shifts in a country’s economic system, such as Brexit</td>
<td>• Active participation in industry bodies such as the Consumer Goods Council of South Africa (CGCSA) as well as the National Business Initiative (NBI)&lt;br&gt;• Increase constructive engagement with government</td>
</tr>
<tr>
<td>Significant physical damage to infrastructure causing business disruptions</td>
<td>Fire, natural disaster, racking collapse, accidents, incidents at neighbouring facilities, etc.</td>
<td>• Conduct regular risk audits, and action areas of non-compliance&lt;br&gt;• Revise, update and communicate emergency management plan to all employees biannually</td>
</tr>
</tbody>
</table>
### RANKED RISK

<table>
<thead>
<tr>
<th>Risk Description</th>
<th>Description</th>
<th>Action Plan</th>
</tr>
</thead>
</table>
| New legislative requirements negatively impacting business | New legislative requirements impacting the business, such as the Draft Carbon Tax Bill, e-Tolling, increased taxes, etc. | • Maintain list of upcoming legislative changes affecting the business  
• Identify and engage with relevant stakeholders to influence and inform new legislation  
• Analyse and report on potential impact of new legislation  
• Document actions to mitigate negative impact of new legislation |
| Poor individual retailer performance negatively impacting SPAR Group | There is a wide spread of retailer performance, including reputational and financial. Poor-performance stores impact brand, price perception, store viability, group profitability and efficiency. There is a risk of retailers not becoming involved in the communities they serve in a meaningful, sustainable way, and therefore not living SPAR’s vision. | • Identify which retailers are performing below financial cluster benchmarks, and identify actions to improve stores  
• Offer new retailers training and support  
• Develop a list of poor-performing retailers per region, and identify unique actions to address this |
| Transformation issues across all areas negatively impacting the business | Multiple transformation issues with regard to employees and management, supply chain and enterprise development, retailers and training and development. These issues must be monitored and advanced. | • Identify transformation targets in terms of each of the codes  
• Offer retailers leadership in completing their transformation scorecards  
• Identify entrepreneur development and supplier development opportunities |
| Poor adherence to and implementation of group initiatives by retailers | Resistance and a lack of buy-in and discipline by retailers results in an inability to market our offerings on a national basis. This results in financial and reputational damage. | • Conduct and document robust pilots for all new concepts/initiatives in most appropriate stores  
• Document list of mandatory initiatives |
| Disruption of operations due to labour disputes and/or industrial and mass action | Labour unrest from a variety of causes, including spill over from related industries, unsatisfactory resolution of central bargaining and outsourcing issues. | • Conduct an annual comprehensive climate survey at all sites (including central office)  
• Identify opportunities to improve relationship with union and employees  
• Annual review and update of strike contingency plan |
| Major customer groups negatively influencing sustainability of the business | Large groups present a number of challenges, including proportionally large influence on specific DCs, profitability, reputation, relationships and standards with other retailers, dropshipments, loss of a significant percentage of business, leaving the group, etc. | • Identify risks per major customer group that could impact SPAR’s future sustainability |

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Read more in the Risk Committee report on page 102.
### BUSINESS MODEL AND STRATEGY
(CONTINUED)

#### STRATEGIC OUTCOMES
The following table provides an overview of our stated strategic outcomes and associated imperatives, and provides a measurement of progress made in delivering against our key strategic performance indicators per outcome:

<table>
<thead>
<tr>
<th>OUTCOME</th>
<th>KEY PERFORMANCE INDICATORS</th>
<th>PROGRESS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>WORLD-CLASS REPLENISHMENT</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Strategic imperatives</strong></td>
<td>• Excellence in Fresh</td>
<td>• Enhancements to our retail and warehousing systems through stock and storage replenishment enhancement (SRE) projects (including automated ordering). This has been implemented across the group</td>
</tr>
<tr>
<td></td>
<td>• Supply chain optimisation</td>
<td>• Stock levels increased by 10.3%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Ongoing innovation in logistics management, including the implementation of a routing system that identifies the most effective route-to-market and ensures a reduction in distance travelled as well as fuel used. During the year, this resulted in a reduction of four vehicles from our fleet</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Increased focus on enhanced cube utilisation in trucks and distribution centres, supported by route optimisation, has resulted in a substantial drop in average cost per kilometre</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• The litres of biofuel used increased to 442,605 (2015: 324,800)</td>
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<tr>
<td></td>
<td></td>
<td>• Incentive schemes are crucial to expense management. Productivity incentive schemes resulted in an increase in productivity across our distribution centres over the past four years.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• 13,342 metric tonnes of plastic and cardboard recycled</td>
</tr>
<tr>
<td><strong>COMPETITIVE PRICING</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Strategic imperatives</strong></td>
<td>• Retailer profitability</td>
<td>• Monthly Business Monitor International (BMI) research shows that we remain within the industry benchmark on the surveyed basket</td>
</tr>
<tr>
<td></td>
<td>• Centre of community</td>
<td>• Calculated marketing approach to advance product and price promotions that compliment a positive price perception</td>
</tr>
<tr>
<td></td>
<td>• Supply chain optimisation</td>
<td>• Marketing is used to communicate the consistent quality and value of the SPAR brand – ‘As good as the best for less’</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Continued focus on managing wholesale profit margins and retailer profit margins to the mutual benefit of both</td>
</tr>
<tr>
<td><strong>COMPREHENSIVE RANGE</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Strategic imperatives</strong></td>
<td>• Excellence in Fresh</td>
<td>• All retailers have access to an online database providing guidance on production planning, recipe costing and food safety</td>
</tr>
<tr>
<td></td>
<td>• Supply chain optimisation</td>
<td>• Distribution centres are able to provide a fully inclusive range of dry, perishables and fresh to retail</td>
</tr>
<tr>
<td></td>
<td>• Retailer profitability</td>
<td>• The SPAR brand has a wide product range and pricing mix that services the entire LSM spectrum</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Ongoing innovation of house brands to introduce new products has been especially effective as consumers favour value-for-money products</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Responding to growth in demand for convenience items, including ready-to-eat and home-meal replacement products</td>
</tr>
<tr>
<td>OUTCOME</td>
<td>KEY PERFORMANCE INDICATORS</td>
<td>PROGRESS</td>
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<tr>
<td>---------</td>
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<td>----------</td>
</tr>
<tr>
<td>WORLD-CLASS BRAND</td>
<td>• Retailer profitability • Centre of community</td>
<td>• House brands as a percentage of total sales • Customer survey responses • Loyalty programme uptake</td>
</tr>
<tr>
<td>BEST RETAILERS</td>
<td>• Retail performance • Market share • Health and safety incidents • New retailers and stores • Existing store growth • Existing store revamps and refurbishments</td>
<td></td>
</tr>
<tr>
<td>NEW BUSINESS GROWTH</td>
<td>• New business opportunities</td>
<td>• Contributions from the Irish and Swiss businesses • New stores and trade agreements in Africa</td>
</tr>
</tbody>
</table>