OUR BUSINESS MODEL

Our business model describes how the Pick n Pay Group creates long-term sustainable value for all its stakeholders – through the effective and balanced use of our capitals, while keeping the customer at the centre of everything we do. Our business model is underpinned by strong corporate social governance, with our unique values at its core.

OUR CAPITALS

Financial capital
The financial resources raised and utilised by the Group, consisting of equity and debt funding, and earnings generated and retained by the Group.

Manufactured capital
The physical infrastructure used in the Group’s operations, which includes its real estate, distribution channel and the information technology used throughout the Group.

Intellectual capital
The knowledge, systems, processes, intellectual property and brands contained within the Group.

Human capital
Our valued Pick n Pay and Boxer staff, with their skill, talent, ambition and diversity, that underpin a winning team.

Social and relationship capital
The relationships the Group has developed with all its stakeholders, governed by its values and the enduring principle that doing good is good business.

Natural capital
The environmental resources utilised throughout the Group’s operations, through its production, distribution and retailing of consumer products.

OUR PRIMARY BUSINESS ACTIVITIES AND VALUE DRIVERS

The Group is a food, grocery, clothing and general merchandise retailer, selling a wide range of products at competitive prices under our Pick n Pay and Boxer brands. The Group’s operating model utilizes its capital inputs in its retail operations in the most effective and efficient manner in order to optimise its capital outputs and outcomes for all.

Our capital outputs include the wide range of products and services that we sell to our customers under our Pick n Pay and Boxer brands – this includes food, groceries, clothing, general merchandise and other value-added services. As a result of our retail operations, we produce by-products and waste, and we remain committed to reducing our environmental impact.

OUR CAPITAL OUTCOMES

Financial capital
A tough trading year resulted in muted turnover growth of 5.3%.

Successful strategic initiatives drove improvements in our customer offer, resulting in strong quarter four turnover growth of 7.3%.

Gross profit margin maintained at 18.7%, with operating efficiency supporting price investment.

Manufactured capital
Reached new customers and communities by opening 125 net new stores.

Improved our customer offering through the refurbishment of 61 company-owned stores and opening of two new distribution centres.

Intellectual capital
Modernised our Smart Shopper loyalty programme.

Strengthened procurement through buy better programme.

Launched Pick n Pay Fast Pay.

Partnered with TymeDigital to launch low-cost banking services.

Launched our new mobile-enabled online shopping website.

Introduced 730 new or refreshed own-brand products in store.

Human capital
Pick n Pay implemented a voluntary severance programme (VSP), reducing our workforce by 10%, which has improved the productivity and efficiency of the Pick n Pay team.

Delivered 31,595 training interventions, reaching almost 11,000 staff.

Social and relationship capital
Partnered with eight new spaza store owners, bringing safe, modern and high-quality grocery offer to previously underserved customers.

Supported our communities by assisting learners through Pick n Pay School Clubs and raising funds through Pick n Pay Pink Walks for breast cancer research.

Natural capital
Energy use per square metre reduced by 37% compared to our 2008 baseline, a 3% improvement on last year.

We diverted 54% of our waste from landfill, a total of just over 18,000 tonnes.

Substantive action taken to reduce our water consumption, with a 13% decrease on last year.

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In this way, Pick n Pay meets the changing needs of its customers and other stakeholders and ensures long-term value creation.

The Group has created value for our stakeholders for over 50 years. Our business model maintains a virtuous circle which balances the needs of our stakeholders in a fair and effective manner while managing the trade-offs between our capitals.

This virtuous circle enables growing and sustainable returns for shareholders, while supporting ongoing investment in the communities in which we serve and meaningful reinvestment into our business and our people.

The economic and social upliftment of the communities we serve leads to growth for all.

Our successful strategy supports investment in our communities, in line with our ethos of doing good in good business. See pages 44 to 51.

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We procure goods and services from suppliers and service providers. We provide direct employment to more than 80,000 people across our owned and franchise business. We give back to the communities in which we operate through investment in education and literacy programmes, housing, nutrition and poverty-relief schemes, and through the support of cultural and theatrical projects, sports development and environmental programmes.

**THE VALUE CREATED AND DISTRIBUTED AMONG OUR VARIOUS STAKEHOLDERS**

We create substantial economic development and employment opportunity across our value chain through the creation and distribution of wealth among our various stakeholders.

**OUR CAPITAL TRADE-OFFS**

Our stakeholders have competing interests and needs. Similarly, there is interdependence between our capitals. Below are a few examples of some of the trade-offs that have been necessary in our business to create greater shared value for all:

**Efficient and productive labour force**
- We are committed to becoming leaner, fitter and better for customers. This requires ongoing streamlining of employee and other operational structures.

**Product availability**
- We maintained consistent on-shelf availability during 2018 – ensuring customers can always find what they need in our stores. This requires investment in higher levels of inventory, which can lead to wasted produce if customer demand does not meet expectation. Automated forecast and replenishment systems are improving our performance in this area.

**Responsible procurement**
- We continue to invest in building a diverse and ethical supply base to support sustainable farming. Our investment includes the development of small emerging local businesses, including the growth of our private label range of products.

**Food safety**
- We are committed to providing customers with safe, high-quality food in a safe and secure shopping environment. This requires ongoing investment in best practice health, safety and security standards.

**Economic upliftment of employees**
- In 2018, the Group purchased shares to the value of R423.4 million under its employee share incentive schemes, delivering substantial wealth creation for employees at all levels.

**Growing outside South Africa**
- We believe opportunities outside South Africa will provide us with a second engine for growth. However, expanding our footprint into the rest of Africa does not come without risk, including the operational challenges of trading in a new environment and the risk of foreign currency movements.

**Reducing our impact on the environment**
- To find more energy-efficient and environmentally friendly ways to do business, we invest in energy-efficient lighting and refrigeration, rain water harvesting and recycling initiatives across our stores and distribution centres.

**THE VALUE WE CREATE**

OUR CAPITAL TRADE-OFFS

Our stakeholders have competing interests and needs. Similarly, there is interdependence between our capitals. Below are a few examples of some of the trade-offs that have been necessary in our business to create greater shared value for all:

**R6.7 billion**
- for our employees – providing economic upliftment and job security

**R0.5 billion**
- paid in Government taxes and over R30 million invested in CSI initiatives – for the social upliftment of our communities

**R1.6 billion**
- to providers of capital – generating long-term sustainable returns

**R1.5 billion**
- reinvested for future growth – for the benefit of all stakeholders

**R10.3bn VALUE ADDED**
- R81.7 billion – turnover and other revenue from a growing owned and franchise estate, serving more customers with a stronger offer
- R71.4 billion – cost of merchandise sold and operations, providing growth opportunities for thousands of suppliers and service providers across our value chain

**OUR BUSINESS MODEL (continued)**

This is Pick n Pay

CHAPTER 2