

CONTINUAL BUSINESS STRATEGY REGENERATION

By

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Confidentiality clause

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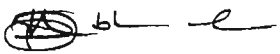
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Sincerely

SD MBELE

Declaration

This dissertation has not been previously accepted for any degree and is not being currently submitted in candidature for any degree.

Signed.....

24 February 2005
Date.....

Acknowledgements

To my dear Lord Jesus Christ – Thank you for my gifts, for Your Love, patience and mercy.

To my fiancé Thandokazi, my son Ntokozo and my daughter Ntobeko – you are my pillars of strength and centre of focus. All the inspiration and energy that I needed to complete this research dissertation came from you.

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SD Mbele

Abstract

During the last century business strategy has been the focus point for many corporations. Industry has grown exponentially and competition has evolved from traditional to non-conventional boundaries. In this age of high technological advances, globalisation and boarder-less markets, the *5 Forces* acting on firms within an industry as best explained by Michael Porter, can threaten the livelihood and survival of a business unless they are carefully managed and pre-empted actions are taken.

The subject on the what-to-do part of the strategy has been exhausted by many writers, strategists and business consultants. What organisations have realised over the years is that not only is it important to choose a winning strategy, but the manner in which the strategy is implemented is crucially important. A third dimension essential to the successful implementation of a strategy is the ongoing nature and renewal cycles necessary to run the strategy planning process successfully. Business theorists have commonly cited the fact that successful strategies are

ongoing in nature and need to be regenerated on a continual basis. This is a time-consuming and expensive exercise and has led some organisations to sticking to the orthodox 'start-stop' 5-yearly strategy planning processes.

This research dissertation presupposes the fact that if strategy is executed in a continual regeneration principle, the organisation gains the ability to respond timeously with fresh strategies as the dictated by the environment.

PPC Cement, a premium cement manufacturer and distributor, is also facing the need to streamline its resources towards successful strategy implementation and has a vested interest in unlocking the mystery surrounding the ongoing nature of business strategy.

This research dissertation sets the tone in supplying valuable information necessary to companies like PPC Cement in order to make informed decision on whether on not to pursue continual business strategy regeneration, and most importantly – how to?

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CHAPTER 1: INTRODUCTION

1.1 Introduction

Pretoria Portland Cement Company Limited (PPC), currently the market leader in the South African cement industry, has been a major producer of cement and related products in South Africa for over 100 years. Amongst other accolades, the company was recently voted 6th best company to work for in SA for 2003 amongst 30 contestants. PPC holds half of the SA cement market share in terms of sales whilst it's competitors Lafarge, Holcim (previously known as Alpha) and Cimpor (holding company for NPC cement), share the remainder of the market share.

PPC has enjoyed a long and successful dominance of its market, but with the readmission of SA back into the global community this dominance is fast becoming precarious. The entry of the French and Swiss multinationals just a decade ago has changed the competition landscape in the South African cement industry drastically. With steady economic growth in the country and inevitable increase in demand for infrastructure and construction, this industry sets a good scene for a race for capacity expansion and eventual market saturation and thinning of profit margins. PPC has a business strategy that basically aims at satisfying its stakeholders, i.e. shareholders, customers, suppliers and employees in order to ensure a positive cash flow return on investment (CFROI). It is almost certain that the current strategy may not work if there's a shift in market demand conditions, global business climate and/ or technological advances. The question facing PPC is not whether or not to change the strategy to meet environmental challenges, but rather how to embark on successful continual strategy regeneration. The benefits of a successful regeneration strategy should be able to outweigh all costs involved and win the support of all stakeholders, deliver growth and profits and keep PPC ahead of competition.

1.2 Background to the research

PPC, now a subsidiary of Barloworld Leading Brands, established the first cement plant in South Africa in 1892, and listed on the Johannesburg Stock Exchange in 1910.

PPC is the leading supplier of cement in South Africa, with seven manufacturing facilities and five cement depots in South Africa, Botswana and Zimbabwe. Together these facilities are capable of producing over 6 million tons of cementitious products each year. The company has a distribution network that is responsible for supplying quality branded cement to the building and construction industry, concrete product manufacturers, hardware stores and DIY centres. Today PPC is the market leader in South Africa, with a product range that encompasses all applications and a technical services team that is on hand to provide industry solutions. PPC is committed to excellence in satisfying customers' needs, and strives for total quality in everything it does.

Mission Statement:

"Through the dedication and efforts for more than a century, the PPC team, has built the leading cement and lime group in Africa. PPC is proud of its achievements and the fact that its products have played a vital part in the development of the country. They are forging a new and exciting future as the country rejoins the global community. Entrusted with precious human, environmental, mineral, technical and financial resources, they are committed to developing, protecting and using these resources effectively and responsibly for the benefit of all stakeholders.

Above all, PPC believes that its people are their most valuable and important resource. By releasing their energy and enabling them all to achieve their personal and collective goals and aspirations, they will be a team that will achieve leadership in all endeavours."

Vision:

To become a significant international supplier of cement, lime and related products by the year 2005.

Values:

- ✚ Belief in satisfying customers' needs.
- ✚ Supply of quality products and services.
- ✚ Respect the individual.
- ✚ Provision of a non-discriminatory, healthy, safe and challenging working environment.
- ✚ Commitment to improving quality of life for people.
- ✚ To strive for security of employment.
- ✚ Care for the environment and the communities in which the company operates.
- ✚ To act professionally and with integrity.

Areas of focus:

Competitive people. The foundation of PPC is knowledge, skills and enthusiasm of its people. These assets they nurture and develop as the most important resource.

Competitive brands, products and services. PPC's position of market leadership is maintained through the continued development of their competitive brands, products and services.

Competitive operations. PPC benchmarks the performance all its activities against international best practices.

Competitive capital investment programme. In making investment for the future, PPC looks beyond the short and medium term, to ensure that they remain internationally competitive in the long term (INTERNET 1).

1.3 Motivation for the research

To achieve PPC's vision in this turbulent business environment, it is imperative that PPC keeps their 'finger on the pulse' by developing and implementing proactive measures. Success from the developed strategy will come from its adaptability to the quick changing business environment, accurate period of relevance and energy and enthusiasm with which it is implemented.

1.4 Value of the project

Because of the speed of change in many of today's industries, strategy life cycles are increasingly measured in months and single years, not decades or even five-year intervals. For companies that are committed to regular strategy reviews and development of explicit strategic plans, the strategic plan may take the form of a written document describing the industry's economics, key success factors, and drivers of change along with the company's strategic plan for dealing with its internal and external environments.

However, formal, written strategic plans seldom anticipate all the strategically relevant events that will transpire in upcoming months and years. Unforeseen events, unexpected opportunities and threats, and the constant bubbling up on new proposals encourage managers to modify planned actions and forge "unplanned" reactions. Postponing the recrafting of strategy until it's time to work on next year's strategic plan is both foolish and suicidal. Strategy is something that ought to be modified whenever unfolding events dictate. In the 'Internet economy', developments have been occurring so rapidly that quarterly, monthly or even weekly reviews of strategy have become essential and common – the notion of annual strategic plans has been abandoned almost entirely.

Strategy has an ongoing nature. Strategic management is an ongoing process, not a start-stop event. The opportunity of whether to continue or change the

company's vision, objectives, strategy and implementation approaches always presents itself. Strategic management is an ongoing, never-ending process, not a start-stop event that, once done, can be safely put aside for a while. Managers have an ever-present responsibility of detecting when new developments require a strategic response and when they don't. The manager's job is to monitor the winds of market and customer change, and initiate adjustments as needed. This is why the task of evaluating performance and initiating corrective change is both the end and the beginning of the strategic management cycle (Thompson, Strickland 2003).

It is important that a research be conducted to explore and also reinforce the need for continual strategy regeneration as an essential tool for PPC's ongoing pursuit for leadership, growth and internationalisation. The research should also mould such a strategy as would be relevant to PPC.

1.5 Problem statement

'How can PPC Cement Company Limited continually renew their business strategy effectively?'

Modern business strategy theorists, the likes of Thompson and Strickland (2003), have put an overt emphasis on successful business strategy as being an ongoing active pursuit of competencies and capabilities that are difficult for competition to imitate. There is also a perception that a notable number of successful corporations continually reassess and regenerate their competitive strategies to stay ahead of the pack. It is on this emphasis and subsequent perception that this research bases a strong correlation between business success and the speed and structure of strategy regeneration.

Business history shows that high performing organisations often initiate and lead, not just react and defend. They launch strategic offensives to out-innovate and

out-manoeuvre rivals and secure sustainable competitive advantage, then use their market edge to achieve superior financial performance. High-achieving enterprises are nearly always the product of astute, proactive management, rather than the result of lucky breaks or a long run of good luck.

1.6 Objectives of the study

The success of the research will be drawn upon evidence of a significant number of successful companies employing continuous strategy regeneration. It is however not sufficient to conclude that continuous strategy regeneration has brought success for companies before, but it is of crucial interest that a strategy regeneration process pertinent and suitable to PPC Cement's business environment is recommended.

The objectives of the research are to:-

- ✚ Evaluate current continual strategy regeneration theories in existence;
- ✚ Establish a sample of successful South African businesses for the research analysis.
- ✚ Analyse the performance of the sample companies.
- ✚ Determine a sustainable strategic management practice for PPC on the ambits of continual strategy regeneration.

1.7 Research methodology

This paper will bear a strong anchor on qualitative research methodology. The data will be collected from internet surveys, articles etc. with all the necessary steps followed to ensure that the data collection instrument and process are both valid and reliable.

The sources of knowledge that will be used in this research will vary from known laws of business to direct observation of phenomena to statistical justification of

conclusions. Arguments will be used to explain, interpret, defend, challenge, and explore the meaning of concepts. Exposition may be employed where statements are merely descriptive and do not give reason. Deduction and induction will be necessary where conclusions are purported from inference and particular facts, successively. If new concepts and constructs are developed they will be clearly noted, otherwise existing research concepts will be utilised (Pervez, *et al* 1995).

The problem statement will help guide the direction of the research, identify facts that are relevant and provide the framework for organising the conclusions that result. It is also important that 'research ethics' are adhered to, to ensure that no persons are harmed or suffer adverse consequences as a result of the research activities. This also includes obtaining consent and protecting the confidentiality of any third party information. The following section will outline the plan for selecting the sources and types of information to be used to answer the research question.

The following points will also be quintessential to the success of this research:-

- ✚ Verification of terminology to ensure proper understanding by the reader.
- ✚ Justification and verification of measurement scales e.g. in distinguishing between good/ bad; acceptable/ unacceptable; successful/ unsuccessful etc.
- ✚ All delimitations, limitations and assumptions pertinent to the research will be clearly articulated.
- ✚ And lastly, where evidence of opposing theories is apparent, the writer (using the hypothesis bias) will bear *carte blanche* on deciding which theory is more relevant.

1.7.1 Research design

In this chapter a plan for selecting the sources of information required to answer the research question *'How can PPC Cement Company Limited continually*

renew their business strategy successfully?' will be laid out. There is also a need to develop a framework for specifying the relationship among the study variables. Thereafter, the procedure to be used from the hypothesis to the analysis of data will be outlined. It is important to note that there are two parts in the research question that need to be answered to satisfactorily fulfil the purpose of the research. (1) It is important that the research supplies a method for continually renewing the strategy; and (2) it is also important that the method for continually renewing the strategy brings success to the company.

It is important that the research objectives are revisited before selecting the sources and types of information needed to answer the research question. The objectives of the research are to: - research current continual strategy regeneration theories in existence; research continual strategy regeneration methods as employed by successful modern businesses; study and present the possible costs and benefits of continual strategy regeneration; conclude on the validity of this approach in modern business fundamentals; and finally, recommend a sustainable strategic management practice for PPC on the ambits of continual strategy regeneration.

To answer the research question and fulfil the research objectives, it is necessary to supply information that supports or reinforces the hypothesis that continually renewing a business strategy actually leads to success for an organisation. Evidence of more companies than not, enjoying success as a consequence of continual strategy regeneration should qualify the hypothesis. The type of information necessary should be available from business reviews, business articles, companies' publications, interviews and other sources. The source of information used may cover the full spectrum of communication media i.e. personal interviews, audiovisuals, telephone, TV, Internet, storage hardware e.g. compact disks and print media.

1.7.2 Data requirements

The data collected is required to verify whether the strategy a company is employing is static or continual. If the company's strategy fits the description of the study sample chosen, the next step will then be to identify data that will assist us in classifying the company as being successful or not. During this process, certain data will be necessary to substantiate that the company's success is a result of continual strategy regeneration.

1.7.3 Data collection

Since this is a formal qualitative study, data will be collected through reviews, articles and interviews. As mentioned above, the sample is delimited to successful companies and the number of companies in the sample will be limited by accessibility of data from the targeted companies and also, obviously, time constraints. The use of the world-wide-web will be quintessential in the identification of the targeted companies also in the review of strategies available on the public domain. Furthermore, interviews by telephone and email will be conducted with company personnel that may supply the required information.

1.7.4 Operational definitions of all variables

The variables used in this paper are described below from experience of use, logic and also from arbitrary definitions to avoid confusion of the reader:-

- ✚ *Organisation/ company firm etc.* – are used interchangeably referring to a business entity
- ✚ *Continual(ly)* – means that there is a formal and deliberate intention to repeat action, in this case strategy development.

- ✚ *Success(ful)* – means that the company reasonably excels and is one of the leading companies in its industry in terms of market share, profitability, share capital, CFROI, ROI, asset value and or any other chosen measure of business success indicator for the specific sector.
- ✚ *Correlation/ link* – means that there is evidence that one variable has a preceding or causal effect on the other one.
- ✚ *Renew, regenerate* – means to refresh, reassess or to make new and more relevant.

1.7.5 Validity, reliability and practicality of the measurement.

The first variable that will be measured from the data collected is the degree of continuity of a company's strategy. The text should supply evidence of whether or not the company's strategy is ongoing. The frequency of strategy renewal and the nature of the renewal i.e. whether it is a minor or major strategic shift are to be used as measurement instruments.

The second variable to be measured is 'success' of the organisations in the data sample. The measurement instrument consists of known financial standards and indicators i.e. ROI (return on investment), CFROI (cash flow return on investment), Net Asset Value, Share Capital, Prices Earnings Ratio etc. and also business and accounting standards like market share and PBIT (profit before interest and taxation). It is acknowledged that companies may strategically aim at gaining one performance factor at the expense of the other e.g. lower prices to gain market share at the expense of profits. This will be taken into account when concluding on the company's success.

The true test of the abovementioned measurement instruments will be whether they would actually measure what they are supposed to measure, consistently

for different companies and finally if the measurement procedure is convenient and interpretable (Cooper and Schindler 2003).

1.8 Limitations and delimitations of the project

As with most research papers of this nature, there are certain limitations that are inevitable and beyond the control of the writer. It is thus important that such possible limitations be outlined right at the beginning of the study as they may have profound impact on the direction and outcome of the research paper.

When researching this topic, it will be required that strategies of various successful organisations be analysed to establish the link between 'continual strategy regeneration' and business success. The most common frustration (with most strategy research) is the confidentiality with which business strategy information is held by organisations for competitive reasons. The information obtained may not dig deep enough to isolate the core competencies that organisations possess and thus resulting in somewhat weaker correlations of phenomena under investigation. The second limitation is the inevitable bias of the writer towards supporting theory and literature. As with all qualitative research, there is a tendency to explore a selection of theories that will further the research study towards the hypothetical outcome and thereby missing some fundamental arguments that could have led to more concrete conclusions. Continual strategy regeneration being a fairly uncommon topic, it is also expected that very few literature has been written thus far.

In the interest of simplifying the study and also keeping it within scope and schedule, it is equally important that some delimitation be set. To keep the study focused and relevant, bulk of the research will be based on one company i.e. PPC Cement. Whilst sampling a whole population may seem like a perfect way to eliminate error, it is both time-consuming and expensive to achieve. A

representative sample is more practicable under resource constraints. This research will be limited to a few companies (maximum ten).

In spite of the abovementioned limitations and delimitations, it is however noted that research, just like projects, normally are not an end but a journey through which time and financial resources need to be used resourcefully. There will certainly be other unforeseen challenges along the research. Success will not be determined by the absence of challenges, but rather by the careful and educated use of research instruments.

1. 9 Structure of the study

CHAPTER 2: STRATEGIC DECISIONS IN CONTEXT

In this section the various strategy theories related to the research that have been developed over the years are reviewed. The section moves from the general strategic principles to theories relating directly to continual business strategy regeneration. The sources of information used, vary from internet sites to articles by strategy consultants and professors. From the various theories reviewed, a model is developed which then serves as a 'blue print' for the analysis of strategic decisions faced by PPC Cement.

CHAPTER 3: SAMPLE CASE STUDIES

This chapter will attempt to set the foreground for the subsequent chapter which analyses into greater detail PPC Cement case study as the company stands currently. The success of the ten companies, based on the broad study of their performance results and comparisons, will put into perspective the size and current performance of PPC Cement within the broader South African and international market economies.

CHAPTER 4: PPC CEMENT COMPANY LIMITED CASE STUDY

In order for the research to be successful, it is critical that PPC's case be reviewed as it stands so that it may be possible to identify shortcomings in their strategy planning process.

CHAPTER 5: EVALUATION OF THE CASE STUDY

The model developed in Chapter 3 is used to establish the suitability of PPC's current strategy planning process to the South African market conditions. If there are any shortcomings found, they will be addressed as is done in the gap analysis and strengths will be enhanced where applicable. This chapter will set ground for recommendations to be made in Chapter 6.

CHAPTER 6: CONCLUSION AND RECOMMENDATIONS

The model developed in the preceding sections helps to identify potential improvements in the manner in which PPC Cement conducts its strategy planning process. With the insight gained from the research, a new model for 'continual business strategy regeneration' for PPC is developed and recommended.

1.10 Summary

It is now clear what this research study intends to achieve i.e. the research objectives. It has also been clarified as to how these objectives can be achieved in the research methodology. The next immediate section will take us through several reviews of general and also specific strategic planning processes. Also, a list of ten successful companies will be reviewed. The next chapter sets the scene for the basis of an ideal strategy.

CHAPTER 2: STRATEGIC DECISIONS IN CONTEXT

2.1 Introduction

It is not just presumptuous to say that business strategies need not only be good but also a careful timing of how and when they are implemented and how frequently they need to be revised, is also a critical part of the strategic plan.

A strategy will work well only while the internal and external conditions of the organisation are relevant to what the strategy was crafted for. It goes without saying that it is highly unlikely that one solid strategy will stay relevant through various scenarios that it was not engineered for. With this knowledge in hindsight, a keen interest has developed amongst businesses to evaluate the need or not for them to continually regenerate their business strategies.

Continual strategy regeneration comes at a cost in terms of more management time spent on strategy development, monitoring, revaluation, and redevelopment of newer and more pertinent strategies. It is customary that most organisations will not fully embrace new costly exercises without some form of gauge of risk and indicator of the likelihood for success. While most businesses may claim to have achieved great success through shorter strategy cycles, none at this stage can quantify the portion that continual strategy regeneration has contributed to the success in comparison to other issues that may have affected the organisation in the same period. This has necessitated the research study into this topic to try and prove the existence of a link between continual strategy regeneration and business success and further suggest a model that would suit PPC Cement under its current market conditions.

Research confirms that industry foresight, strategic leadership and scenario planning are closely linked. The prime question to be addressed by an organisation, is whether it is well equipped for the future it sees coming, whether

it can *continuously reposition itself for competitive advantage*, ahead of change. This can be achieved by considering the organisation's strategic vision against the scenarios of the future business environment, to establish the degree of match (INTERNET 3).

2.2 The current status of the topic

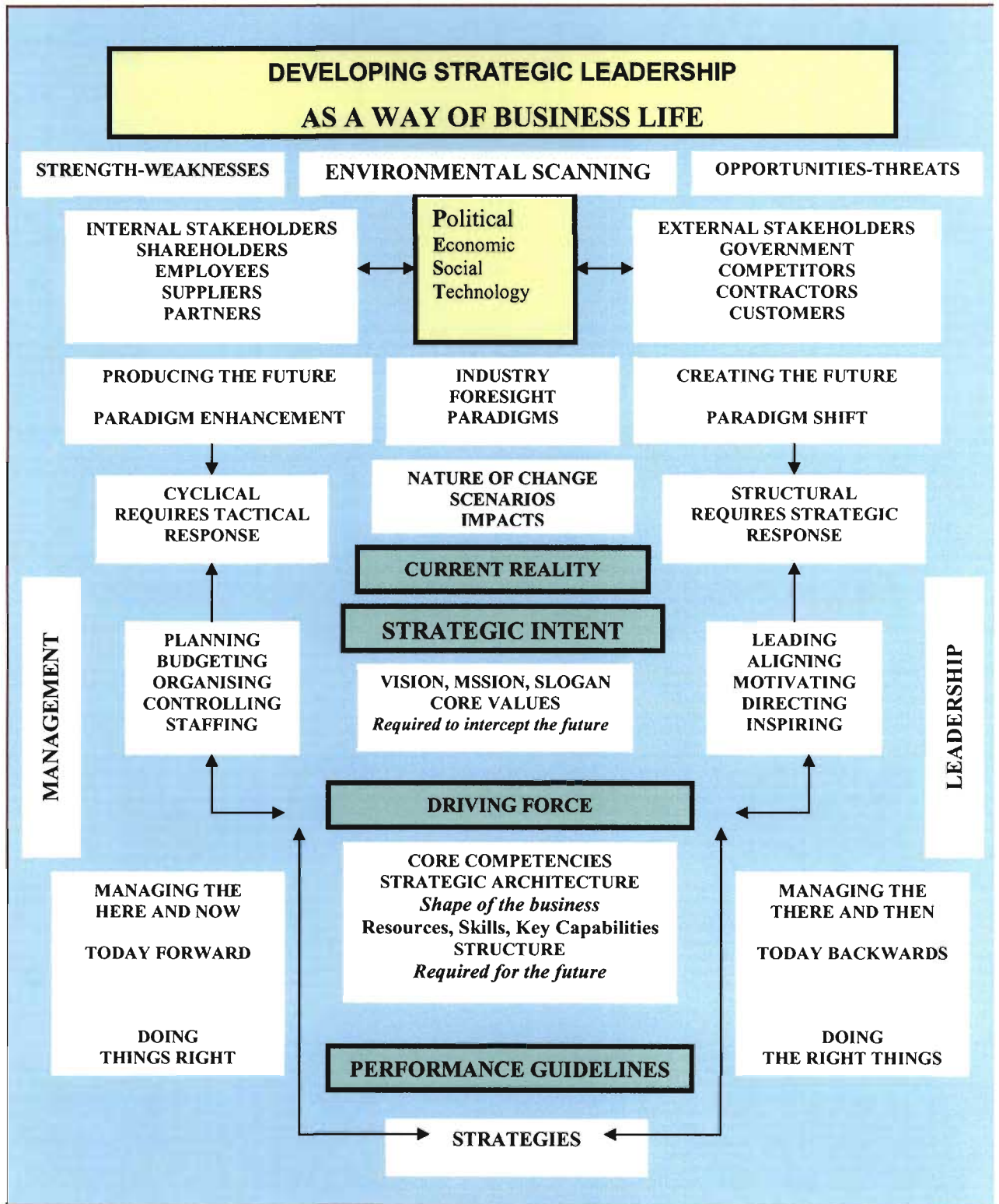
Amongst the few authors and business writers that have researched and produced literature on this topic, the following were found to bear the most current and relevant information.

2.2.1 STRATEGY REGENERATION PROCESS

The strategy regeneration approach takes a holistic view of the environment, identifying trends, core-driving forces, strategic issues and key uncertainties and looks into the future by developing scenarios and industry foresight. Scenario planning is dynamic. The focus of attention needs to be on the ongoing *strategic conversation*, penetrating both the formal and informal exchange of views through which the strategic understanding develops – and *strategic leadership* results. This contributes to the strategic conversation by creating (via Quarterly Strategic Forums) "... events through which views can be exchanged outside pressure of immediate decision-making, triggered by thought provoking inputs from their scenario team of experts (Van der Heidjen 1997).

The strategy regeneration process can further be illustrated by Figure 2.1, with the various elements of developing strategic leadership as a way of business life. The core elements are comprised of industry foresight; paradigms; nature of change; scenarios; impacts; vision mission, slogan; core values; core competencies; and strategic architecture all within the periphery of environmental scanning, management and business leadership (INTERNET 3).

Figure 2.1: Developing strategic leadership as a way of business life

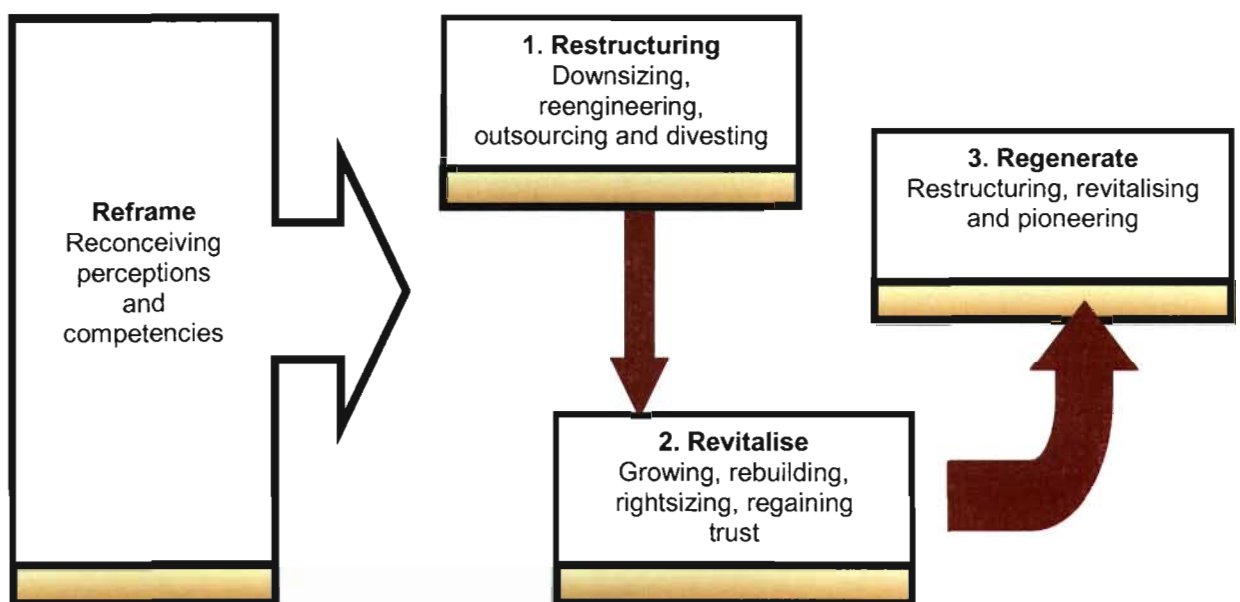


Source: http://www.bmi-brscu.co.za/portfolio_strategy.html

2.2.2 Three-stage approach to Strategy Regeneration

There are three stages of transformation and renewal. Migration through each stage requires that an organisation should “Reframe”, or think differently about its future. As illustrated in Figure 2.2, the three stages following a Reframing exercise include Restructuring, Revitalisation and then Regeneration.

Figure 2.2: The three stages of transformation and renewal in an organisation



Source: <http://www.hcandp.com/businessstrategy.asp>

Strategy Formulation

In large part, strategy formulation forms a vital component of the Reframing stage of transformation. Rather than assisting with the development of just another “annual corporate plan” however, this approach to strategy offers more permanent solutions and differs in both the context and content of strategy.

2.2.3 Different Perspective to the Context of Strategy

Strategy has traditionally been formalised within the context of an “Annual Corporate Plan” and typically focuses on the development of existing markets or increases in market share. At the least, it encourages exploitation of market niches.

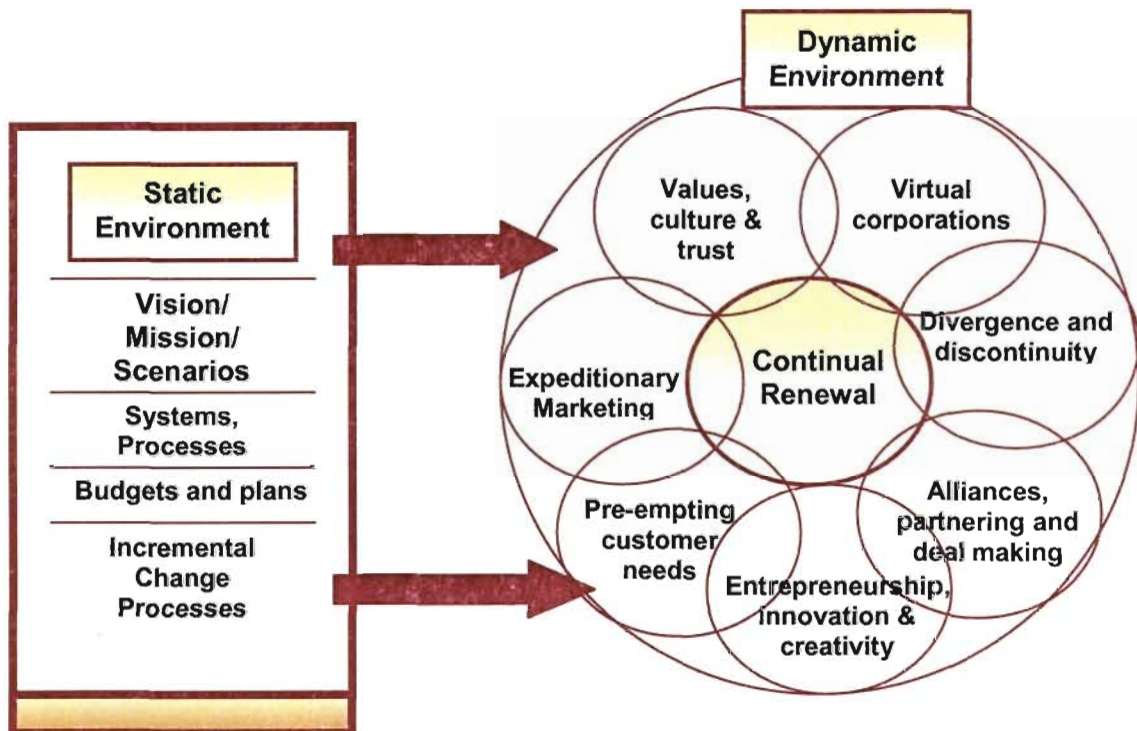
The problem with this rather limited view of strategy is that the process does not encourage the identification of opportunities capable of delivering extraordinary increases in growth, or innovative and entrepreneurial attempts to develop new markets. Market share is all about expanding further into existing markets whilst market niches are usually small components of the total (especially global) market.

As a traditional approach, this form of strategy continues to be used quite frequently. The reason for this is quite logically that it is an approach ‘that works’. They acknowledge this attribute, but warn that the traditional approach works best in static (stable) environments, but is less appropriate in dynamic (fast changing) environment. Their experience tells them that the future is far more likely to be dynamic than static. Who could forecast for example events such as the September 11, Enron, Ansett, dot.com to dot.bomb? The difference is important as each environment is concerned with different issues and requires different approaches to strategy.

In dynamic environments, continual change requires that an organisation adopts a culture of ‘strategic thinking’ as opposed to that of strategic planning. *A strategic plan is conducted once a year (sometimes every two years), whereas strategic thinking is represented by continual renewal of strategy.* Strategic thinking engenders an ongoing process of change and is formulated in conversations throughout the organisation. In this sense, strategy is conducted in an entirely different context to the past and as a result is fresh, well communicated but most importantly, it is relevant. An illustration of the different

requirements of strategy in a static vs. dynamic environment as shown in Figure 2.3. Note the difference in content, from mission, vision and values to strategic renewal and an environment of values, culture and trust, alliances, 'virtual' corporations and partnering.

Figure 2.3: Strategy requirements for static vs. dynamic environment



Source: <http://www.hcandp.com/businessstrategy.asp>

Various tools and techniques are applied to assist managers to think differently and to free themselves of the shackles that are imposed from entrenched, traditional thinking. Such exercises include creative thinking, scenario analysis, future envisioning and core competence analysis.

2.2.4 A Different Perspective to the Content of Strategy

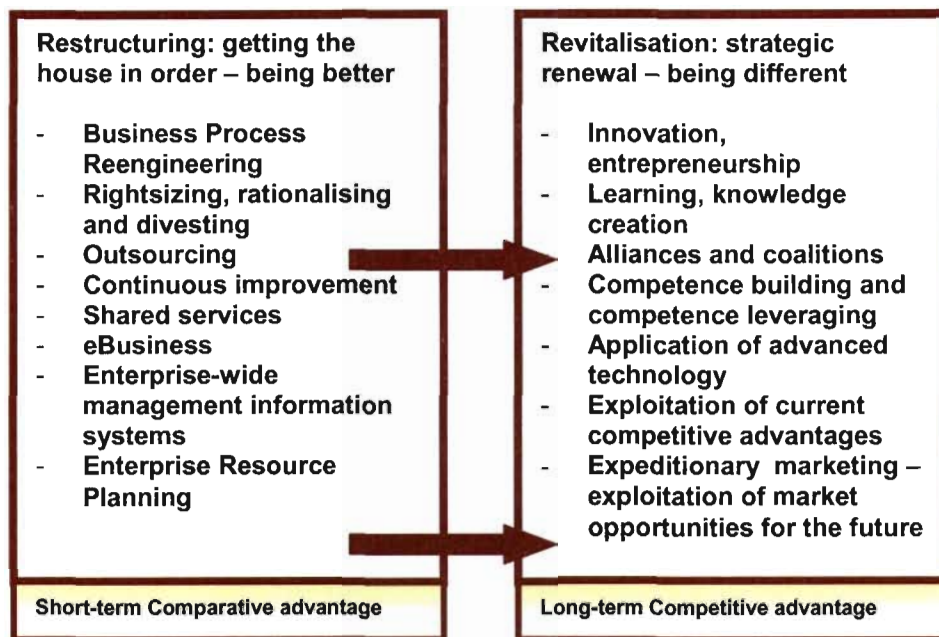
The content of this approach to strategy also varies from traditional methods. Rather than relying solely on Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis, in dynamic environments an organisation's strategic issues will

vary in accordance with the state of transformation in which they are currently situated, as illustrated in Figure 2.3. Strategic solutions will vary for each organisation and for each stage of transformation in which the organisation resides. Differences in strategy of relevance to each stage of the organisational transformation and renewal model are discussed as follows.

Restructure: Before embarking upon aggressive growth strategies, firms must ensure the fundamentals of their existing business are sound. Competition in these circumstances requires that organisations are continuously cost competitive and will continue to remain cost competitive in the future. They must also have the ability to decisively manage their external market positions as measured in terms of maintaining or increasing their percent ownership of market share.

As illustrated in Figure 2.4 however, restructuring typically offers minimal competitive advantage, but rather, is more likely to deliver a short term comparative advantage. The imperative is to remain cost and quality competitive in current markets, but in the markets of the future, an organisation must be innovative and develop new markets or indeed, industries of its own. This is the role of Revitalisation.

Figure 2.4: Restructuring vs. Revitalisation



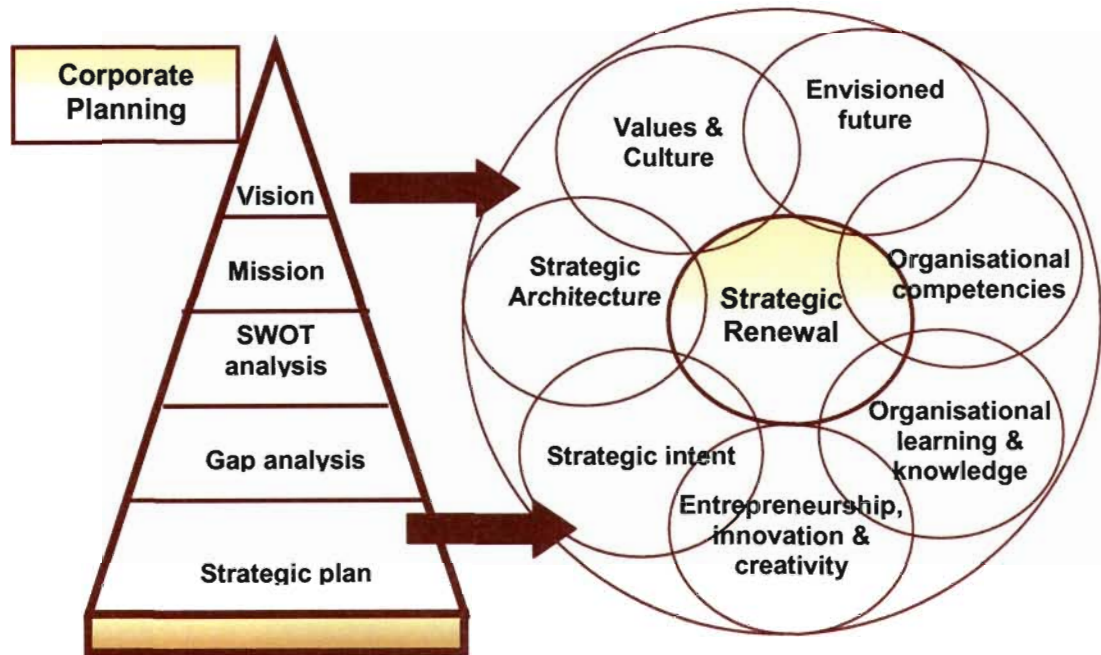
Source: <http://www.hcandp.com/businessstrategy.asp>

Revitalise: Restructuring is oriented primarily towards cost reduction, the redesign of processes, the introduction of basic technology and downsizing. Revitalisation on the other hand is concerned with growth through the deployment of advanced technology, the co-operation of motivated people, and the nurturing of innovation and entrepreneurship.

Under revitalisation, every employees trust is paramount and this provides the basis for sustainable growth. Building on the values of the firm, the transformation objective is to establish a growth path that has as its criteria the creation of new markets, new industries and most importantly, new wealth. From experience, revitalisation is the most difficult stage of transformation as new skills are required and old ways of thinking are challenged. There is therefore, a need for executives to 'reframe' their thought processes and to develop a new vision for the future. In revitalisation, an organisation must move from the stable process of corporate planning to a more aggressive mode of strategic renewal.

Illustrated as follows, strategic renewal provides a foundation for the future and a platform for strategic conversations to take place, see Figure 2.5.

Figure 2.5: Strategic renewal

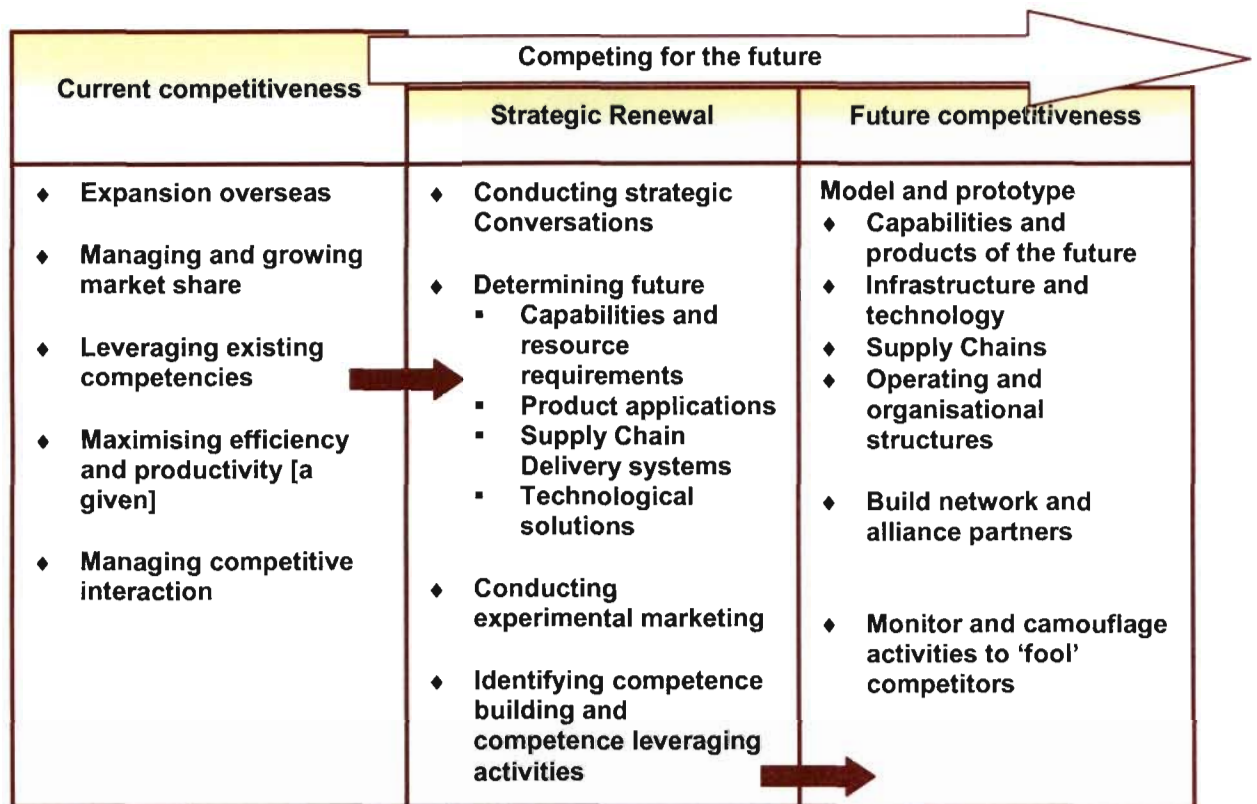


Source: <http://www.hcandp.com/businessstrategy.asp>

Regeneration: Not many organisations enjoy the space labelled Regeneration. In this capacity, a firm is continually fine tuning the edges of restructuring and revitalisation, but is also focusing on audacious business development and the creation of new wealth. Business building in this sense is ideally occurring on a global scale and results in significant increases in organisation size and market and industry presence (INTERNET 4).

In regeneration mode the senior management team is concerned both with competitiveness in current markets, but also the firm's ability to compete in the markets of the future. In this scenario, strategic conversations are centred on the middle ground, strategic change and organisational renewal, as illustrated in Table 2.1.

Table 2.1: Competing for the future



Source: <http://www.hcandp.com/businessstrategy.asp>

2.3 Adaptability, strategy and people essential for success

The world is an ever changing place and agrarian, industrial and information revolutions come and go. Technological developments have resulted in shorter lifecycles for each revolution. The information age is the first age whose beginning and end will be witnessed by one generation. Bacteria and viruses are evolutionary more successful than humans as they have much shorter life cycles and can therefore mutate faster and adapt to change more rapidly. Each revolution results in a changed economy and each economy changes the form of capital in existence. First there was physical capital, now there is monetary capital which, in turn, is evolving into intellectual capital.

Each age has had its own share of problems. In the industrial age, the problem was pollution, in the information age, the issue of privacy presents a new set of challenges. In the next age, biotechnology and ethical issues will have to be solved.

Gurus are often sought in order to explain and understand the phenomena that are present in an age. In time, there is a growing gap between a company's organisation which involves its people and culture, and its business which is centred on the market place. In 2001, a guru might be brought in to fix the gap between a company's business and organisation. While this is fine, the problem is that once thinking and systems have been changed for 2001, the company is in 2002 (Davis 2001).

Davis, a visionary thinker and strategist who has lectured at Harvard Business School for a number of years, recently visited South Africa. He emphasised that in order for companies to operate successfully and at a competitive level, it is essential for them to adapt to a changing environment, have a strategy in place to meet increasing demands and efficiently and effectively manage their human resources.

If you are still debating on whether or not e-commerce is the way forward or if it is suited for your industry, you're running far behind. The information age is in its third quarter and it will come to an end soon. The next age will be the biotechnology age where limbs will be regenerated and cells cloned. In addressing the problems that companies face, businesses can change as fast as the external environment. The problem is that in organisations, people can't change as fast.

The challenge is to encourage companies to get their organisations to operate in real time which will facilitate an ability to change more quickly and to keep up with the rate of change of the business." The new technology available can help

speed this process up because the more the intranet is grown, the more the business is grown. For a company to effectively unite its business rate of change and adaptability with its organisation's ability to meet the demands of change, an institution must be able to translate time into speed, space into connectivity and mass into intangibles.

Cisco Systems has effectively translated time into speed. This involves giving time a value and turning it into a commodity which means that performance is continuously measured and benchmarked. Cisco is able to close down its books on a daily basis. No other company has the ability to shut down globally in an hour and therefore, Cisco can respond to threats and opportunities in a much shorter time. Translating space into connectivity has huge ramifications for supply chain management.

By installing a chip in its soft drink machines, Coca Cola can keep track of how many drinks are available in the machines, when the machines need refilling and what drinks are more popular in what areas. This has an impact on production levels, the marketing mix, operation and its financial strategy.

By translating mass into intangibles, the economical value of something like a motor car has migrated into the software. The upgrading of the software of the vehicle is now more important than the vehicle itself and owners will upgrade software rather than changing the whole car.

2.3.1 Change and adaptability

For businesses trying to meet the demands of change and adaptability, it is essential to bear in mind that the new economy is dependant on technology which means if one can't keep up with technology, one can't keep up with the economy. In line with this, software has changed from being a product into being a service.

Along with the demands of change and adaptability, companies need to have strategies in place that will help them meet these demands. The only way to survive is to innovate faster than a person 'commoditises.' Old and new business models are different, but currently exist simultaneously. The old model was based on the need to improve quality and the increase of price was determined by the scarcity of the product.

The new model shifts instead to focus on value that is generated by abundance and not scarcity. Knowledge is an important commodity and the more there is, the more it is shared, the more valuable it becomes. Ford, in the motor industry, is an example of the new economy and the old economy working together. The old economy is very labour intensive and focuses on assembly lines. Ford partnered with Oracle and formed a separate business unit to operate in the old as well as the new economy. This new business is now worth more than the entire Ford Corporation. People are the parts of a company that adapt to change and put a successful strategy in place. Intellectual capital and knowledge workers are the most important resources in business, yet few companies have a strategy for the development of their people. Human resource departments need to function and behave more like builders of human asset portfolios than as internal administrators.

In devising their human resource strategy, companies need to be increasingly aware of what their competitors are doing. The evolution that is taking place in human resources is that companies will start to look at what a staff member is 'trading at' before deciding on whether to retain or replace him or her. In terms of staffing, companies should project what their business will be like in four years time and assess what kinds of competencies and skills will be needed. Wealth forms change every time the foundation of an economy changes.

Individuals are becoming the controllers of their own destiny literally. In England, households own more unearned money than firms do. This means that

companies are going to have to use innovative incentive schemes as the control of wealth is transferred from the hands of institutions to those of individuals (Davis 2001).

2.4 Globalisation of the world economy: Strategies for South African managers

The world's economies are in the process of being transformed and are becoming increasingly integrated as a result of globalisation. While the trend towards globalisation is not new, the rate at which this shift has been occurring has accelerated in recent years, with far-reaching implications for business and management.

Leading corporations are losing control since their strategic thinking has far outdistanced their organisational capabilities - a situation where strategy is internationalising faster than individual executives and managers themselves are. The challenge for business and management is how to cope, remain competitive and prosper in this demanding and ever changing global environment (Adler and Bartholomew 1999).

The real question is why some firms are more successful in such a demanding, dynamic and competitive international environment than others - what strategies do successful firms pursue and why were those specific strategies chosen? It has been hypothesised that, over and above sound strategic and managerial capabilities, the concept of mindset makes the difference and is crucial to sustainable competitive advantage.

The concept of globalisation can be defined in many different ways. In its most simplified meaning, the term globalisation can be referred to as 'selling the same product worldwide.' Globalisation is reshaping the macro economic level as well as the personal level of everyday life in every part of the world by opening up

new opportunities and tearing down boundaries that kept people separate from one another and limited possibilities for interaction, co-operation and collaboration as well as for personal, national, regional and global economic growth and prosperity. It is clear that the globalisation phenomenon has made all these issues more acute, but also considerably more complex.

The problems that multinational enterprise (MNE) managers now encounter often defy the technological quick fixes of the past and even the new technology must be supplemented, among others, with considerations of such culturally influenced human attitudinal and behavioural attributes as openness, acceptance of other people's values, tolerance for ambiguity and the desire to learn. It is evident that this increasingly complex situation brought about by globalisation requires a new way of thinking, a new mindset, to be successful.

2.4.1 In search of a global mindset

A literature search has revealed that the kind of attribute that would enhance exceptional functioning and performance in a global environment could be equated to a behavioural attribute like point of view (a position from which something is considered or evaluated), standpoint (a position from which objects or principles are viewed and judged) or philosophy (the most general beliefs, concepts and attitudes of an individual or group). More recently, the term mindset has been identified to describe the desired human behavioural attribute referred to above (a mental inclination, tendency or habit; a fixed state of mind).

Mindset is a predisposition to see the world in a particular way that sets boundaries and provides explanations for why things are the way they are while, at the same time, establishing guidance for ways in which people should behave. In other words, a mindset is a filter through which people look at the world. A mindset is a way of being rather than a set of skills (Rhine-smith 1994).

It is an orientation to the world that allows you to see certain things that others do not see. A global mindset means that people scan the world from a broad perspective, always looking for unexpected trends and opportunities that may constitute a threat or an opportunity to achieve personal, professional or organizational objectives. Referring to the concepts of globalisation, global business and global mindset encountered thus far, it is proposed that a person who subscribes to globalisation is expected to:

- ✚ See the world as a whole.
- ✚ Search for similarities or commonalities among the various elements of the world such as people and their habits.
- ✚ Exploit the similarities or commonalities to discover differences and
- ✚ Use the knowledge gained from this worldwide search to design and execute strategies that will maximise the benefits to all (local and global) stakeholders.

The relevant question here is what values, benefits, attitudes and behaviours must a person have in order to subscribe to the philosophy of globalisation as defined above? Before proceeding to answer this question it must be explored why mindset matters, what a global mindset is and how to create a global mindset. Mindset refers to the cognitive filters through which individuals and organisations observe and make sense of the world. Since humans are selective in what they observe and biased in how they interpret what they observe. These cognitive filters are acquired through various developmental processes over time, the most important being learning from experience. It could therefore be concluded that the greater the diversity in the experiences of two individuals or organisations, the more likely it is that their mindsets will be different.

The number and type of opportunities, challenges and issues that must be pursued and how to go about it are determined by the perceptions of environment and people which are, in turn, based on learning and experience.

According to these concepts, mindset applies to both individuals and organisations. In the individual's mindset, his or her brain basically receives and interprets information (Hough and Neuland 2001).

2.5 Leadership perspective - value driven leadership: The business model

It is simple logic that the success of a company's mission, vision and strategy depends on a reasonable buy-in by all in the work place. This vexing problem is seldom dealt with successfully although much time, effort and money is often thrown at it. Typically, management addresses the problem by formulating some kind of 'statement' in a wall papering, think tank exercise. This is further flavoured by adding BHAG (big, hairy and aggressive goals), values, time lines, an overall strategy and action plans. The outcome is mostly some or other fairly obscure, flowery mission statement or statement of purpose, backed by so-called 'stretching targets' which nobody could have dreamed up.

The process is then translated into a communication project involving all kinds of media from industrial theatre to documentary video's and lots of paper. This does not belittle the process entirely. These are sincere attempts to redefine business in a volatile and questioning environment that is challenging business behaviour externally and trying to create meaning for those involved internally. The problem with business plans generally is that the world often has different plans for the business. Stakeholder buy-in to the overall mission, vision and strategy has to take into account a multitude of issues before it can be achieved. These include:

- ✚ It has to focus on the contribution the company makes to its market.
- ✚ Rewards such as profits, wages, etc. have little place in a mission statement even if they are couched in enlightened self-interest terms.
- ✚ It has to be realistically authentic and a reflection of the way the company sees itself.
- ✚ It has to be identifiable in all tasks and the impact of these tasks on the company's mission or purpose has to be taught and understood. It is

unforgivable, for example, to find a worker in a gold mine who has never seen a bar of gold let alone be able to identify his albeit small contribution to jewellery, investment and other laudable uses. An example of a more successful formulation of a mission statement is Pick 'n Pay's 'We serve'. This was the outcome of a bottom-up approach in which employees were involved at all levels.

- ✚ Mission, vision and values have to be personified by the behaviour of top leadership particularly the CEO. It is easier to follow the contributory, benevolent vision of a strong leader than it is to formulate one's own.
- ✚ And finally, intention is judged by attention. The core focus of all activities including operational discussions and of course measurements and final accounting statements, have to be aligned to give credibility to the benevolent intent of the business. It really doesn't help to argue that a person is here to serve others when everything measured and discussed is about serving the self or the shareholder.

The latter issue has given rise to many new accounting tools such as the theory of constraints (TOC), throughput accounting and the balanced scorecard. The real problem is that if the final, overall accounting focus is still the income statement, then these tools themselves become a means to that end. They will be skewed to reflect that and the score components will be prioritised and emphasised to add momentum to a profit/cost driven understanding as opposed to a 'serving' and value adding understanding of business.

The profit/cost driven approach arguably creates divisions that make it impossible to focus on a unifying benevolent mission. The value added measurement and the value added statement fully address this problem. The value added understanding addresses all three fundamental areas of business: transforming; measuring and intention. It therefore forces the company into a model that implies prudence and maximum profitability, wealth and longer term growth.

Today most mission statements or statements of purpose do reflect a benevolent intent in some way or other. Why is it that at grass roots level there is this sense of inconsistency? People say one thing, but do another! The simple answer is that the role of profits and meeting the legitimate expectations of shareholders in sustaining the mission is not understood. People have failed to position profits as a means rather than an end in itself. But, more likely, are simply not being truthful in the mission statement itself. It may be better to go back to a decade or two ago when most mission statements openly professed to maximise return for the shareholders.

The difficulty in aligning all activities in the business to a 'serving' mission is that we are stuck in a business model that we have inherited from the past. The moment people assume that any business is based on profit as its primary motive, that forces it into this model and all activities will reflect this as being the superordinate goal. A contributory mission statement then becomes nothing more than a piece of paper or a nice picture on a wall.

This model, which was born in the Industrial Revolution in a class structured British society, can be called the Anglo-Saxon profit driven model. The model sees its primary focus as the generation of profits as measured by the income statement. The balance sheet, or shareholder worth, is then seen to be a consequence of the income statement. At worst, the model sees labour as an input cost or commodity in the same class as materials. At best, it sees labour as part of the operational activities whose main purpose is the generation of profit. The historic context to this model is important because ultimately it gave rise to the ideological divide, the birth of labour and social unrest and indeed a different model which can be called the labour or wage driven model. The latter can be illustrated simply by switching labour and shareholders in the graphic.

While the labour model collapsed in the command economies, it has survived in organisations like labour co-operatives and in countries such as Japan. This

model sees its primary purpose as being service to its customers. The only real 'input' costs are from outside suppliers.

The difference between output and input is measured as value added or wealth created which then becomes its main measurement of productivity. The value added statement is used throughout the accounting process and the income statement and balance sheet are seen to be an outflow of value added. It can be forcefully argued that the value added focus does lead to higher profits. But invariably, these would more likely be the outcome of growth rather than of containment.

As long as the business follows the fundamental rules of wealth distribution - which are to meet the legitimate expectations of all of the stakeholders and to encourage continued contribution - the model will exceed all of the outcomes of the profit driven model including shareholder worth.

The contention is, however, that - showing and using the value added statement at all operational levels and designing sub-scores to the statement - it gives a far better alignment tool.

Finally, alignment of activities is only possible if the dialogue is fundamentally influenced and changed in the day to day operations. The overall focus of a company is invariably going to be reflected in the attention given to it in its meetings, operational and strategic. The mission and vision have to be authentic and can face either in a self-serving direction reflected in the income statement or in a contributing direction as measured by the value added statement.

Experience has clearly shown that the income statement blocks the flow. It is impossible to get an uninterrupted, clear line of sight link between the income statement and the preoccupation of operational meetings. This becomes even more difficult when the mission statement faces towards the right (give), but the executive strategy actually faces towards the left (take.) By designing sub-scores

to the value added statement pertinent to the different levels, this automatically creates a template for the content of all meetings, from the strategic at executive and management levels, to the operational at departmental, team and one-on-one levels.

These scores are so clearly linked to value added that a solid golden thread is forged between task and mission. By providing the only valid common and contributing focus for all in the organisation, the value added understanding and measurements will ultimately not only positively influence employee commitment and behaviour, but also strongly impact on remuneration policy, incentives and flexible pay (Schuitema 2001).

2.6 Relationship between the literature and the research topic

Most of the articles reviewed in this paper share a common foundation with the research topic i.e. they identify and emphasise the need for continual renewal of strategy as opposed to strategy having a beginning and an end. In the reviews it came out that what makes the ongoing nature of strategy an imperative is the dynamic and rapidly changing nature of the business environment.

The reviews have come fully in support of the hypothesis that continually changing the strategy to make it suitable and relevant to the current environment will lead to success. The review of the strategy consulting unit article calls this phenomenon 'developing strategic leadership as way of business life'. They also distinguish between strategic planning as opposed to strategic thinking, with the latter being more preferable as it is more responsive and is less costly.

From the review of the second article, there is a clear distinction outlined in the approaches needed under static as opposed to dynamic business environments. They identify static environments as being suited to the conventional 'corporate planning' procedures and on the other hand the dynamic environment needing a complete 'strategic renewal'. With the latter business environment being the most

likely suited for the fast globalising business sector, they suggest that businesses should concentrate their time and resources on developing strategic thinking.

The second strategy review article further argues that conventional strategies the likes of *reengineering*, will give the organisation a short-term *comparative advantage* whereas complete strategy *revitalisation* will earn an organisation a long-term *competitive advantage*. The paper's hypothesis is, of course, that businesses that achieve this strategic renewal process as a way of doing business will by far succeed in threading the white waters of today's business streams. There is an apparent divergence suggested by the two paper reviews in the method to be followed in continually renewing the business strategy. The first article shows an A to Z approach whilst the second article's approach is cyclical, has neither beginning nor end. They both, however, draw a parallel and bridge between the conventional and dynamic strategy processes.

2.7 Summary

This chapter has very well supplied us reasons for the importance of pursuing a research study on the topic of 'continual strategy regeneration'. This chapter has also supplied a literature review to identify the current status of this topic in the business faculties. Further to this, the literature reviewed was found to come in full support of the research paper's hypothesis that continual strategy regeneration does actually bring strategic leadership and eventual success.

The literatures reviewed had common grounds on certain specific strategic issues. These issue range from the continual nature of successful strategies, separate strategies necessary under static and dynamic business environments, strategic/ corporate planning versus strategic thinking, to the parallel routes and bridges between short-term comparative advantage and long-term competitive advantages.

There are, however, notable differences in the manner in which the literatures address the manner in which to achieve the continued strategy renewal process, the first being a linear model and the other a cyclical process. It is from the two models and further research that we will draw up a new model for strategy regeneration suitable to PPC Cement's business environment.

In Chapter 3, ten successful South African companies will be analysed to present the ideal performance results which can be used as the guidepost for the research on PPC Cement's case study in the subsequent chapters.

CHAPTER 3: SAMPLE CASE STUDIES

3.1 Introduction

A sample of ten companies has been randomly chosen out of a list of 393 successful South African companies as supplied by the corporate information centre network (INTERNET 5).

The sample chosen for the case study comprises of the following companies (1) Amalgamated Beverage Industries Ltd, (2) Pick 'n Pay Stores Limited, (3) Woolworths Holdings Limited, (4) Sasol Ltd, (5) Shoprite Holdings Limited, (6) Murray & Roberts Holdings Ltd, (7) Impala Platinum Holdings Limited, (8) Alexander Forbes Limited, (9) Tiger Brands Ltd, and (10) MTN Group Limited.

To verify the basis of the companies' success, the research analysis has been focused on several mutually reinforcing business principles. These principles are (a) Competitor Analysis, (b) Sales Analysis, (c) Recent Stock Performance, (d) Dividend Analysis, (e) Profitability Analysis, (f) Inventory Analysis, and (g) Financial Position.

This chapter will attempt to set the foreground for the subsequent chapter which analyses into greater detail PPC Cement case study as the company stands currently. The success of the ten companies, based on the broad study of their performance results and comparisons, will put into perspective the size and current performance of PPC Cement within the broader South African and international market economies.

3.2 Amalgamated Beverage Industries Ltd

Amalgamated Beverage Industries Ltd (ABI). The Group's principal activities are the manufacture, trade marketing, sales and distribution of soft drink brands, including carbonated soft drinks, sports and energy drinks, bottled water, fruit juices and iced tea. The products are distributed under the following brand names, Coca-Cola, Sprite, Fanta, Lemon Twist, Sparkling Granadilla, Coca-Cola Light, TAB, Sparletta brands, Stoney Ginger Beer, Schweppes, Just Juice, Appletiser, Grapetiser, Milo, Play, Bibo, Minute Maid, BonAqua, Valpre, Powerade and Nestea.

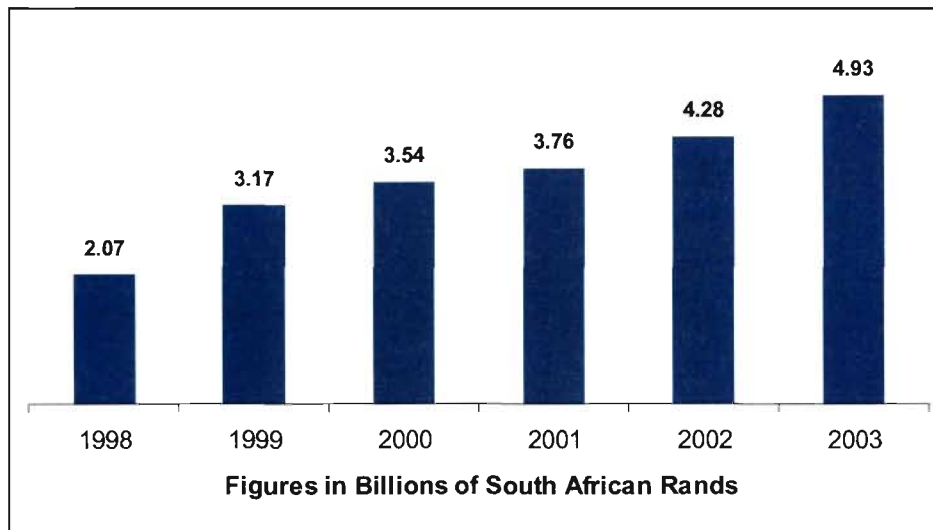
3.2.1. Competitor Analysis

Amalgamated Beverage Industries Ltd operates in the Bottled and canned soft drinks sector. This analysis compares Amalgamated Beverage Industries Ltd with three other soft drink producers in developing countries: Embotelladora Andina SA of Chile (2003 sales of 386.86 billion Chilean Pesos [US\$642.18 million]), Jugos Del Valle, S.A. de C.V. of Mexico (4.11 billion Mexican Pesos [US\$362.30 million]), and Grupo Continental SA which is also based in Mexico (9.95 billion Mexican Pesos [US\$877.59 million]).

3.2.2 Sales Analysis

Amalgamated Beverage Industries Ltd reported sales of 4.93 billion South African Rands (US\$756.23 million) for the fiscal year ending March of 2003. This represents an increase of 15.2% versus 2002, when the company's sales were 4.28 billion South African Rands. Sales at Amalgamated Beverage Industries Ltd have increased during each of the previous five years (and since 1998, sales have increased a total of 138%). For illustration refer to Figure 3.1.

Figure 3.1: Recent Sales at Amalgamated Beverage Industries Ltd



During 2003, the company's sales increased at a faster rate than all three comparable companies. While Amalgamated Beverage Industries Ltd enjoyed a sales increase of 15.2%, the other companies saw smaller increases: Embotelladora Andina SA sales were down 2.9%, Jugos Del Valle, S.A. de C.V. increased 3.8%, and Grupo Continental SA experienced growth of 2.0%.

Amalgamated Beverage Industries Ltd currently has 3,792 employees. With sales of 4.93 billion South African Rands (US\$756.23 million), this equates to sales of US\$199,427 per employee. This is higher than the three comparable companies, which had sales between US\$62,685 and US\$162,742 per employee, refer to Table 3.1.

Table 3.1: Sales Comparisons (Fiscal Year ending 2003)

Company	Year Ended	Sales (US\$mIns)	Sales Growth	Sales/ Emp (US\$)	Largest Region
Amalgamated Beverage Industries Ltd	Mar 2003	756.229	15.2%	199,427	South Africa (100.0%)
Embotelladora Andina SA	Dec 2003	642.181	-2.9%	162,742	N/A
Jugos Del Valle, S.A. de C.V.	Dec 2003	362.295	3.8%	86,302	N/A
Grupo Continental SA	Dec 2003	877.590	2.0%	62,685	N/A

3.2.3 Recent Stock Performance

During each of the previous 3 fiscal years, this stock has increased in value (at the end of March of 2001, the stock was at 38.00 South African Rands). For the 52 weeks ending 4/22/04, the stock of this company was up 48.9% to 70.00 South African Rands. During the past 13 weeks, the stock has increased 2.7%. During the 12 months ending 9/30/03, earnings per share totalled 3.89 South African Rands per share. Thus, the Price / Earnings ratio is 17.99. These 12-month earnings are lower than the earnings per share achieved during the last fiscal year of the company, which ended in March of 2003, when the company reported earnings of 4.16 per share. Earnings per share rose 39.1% in 2003 from 2002.

This company is currently trading at 2.10 times sales. The three companies vary greatly in terms of price to sales ratio: trading from 0.30 times all the way up to 2.36 times their annual sales. Amalgamated Beverage Industries Ltd is trading at 3.13 times book value. The company's price to book ratio is higher than that of all three comparable companies, which are trading between 0.87 and 3.01 times book value, refer to Table 3.2.

Table 3.2: Summary of company valuations (as of 4/22/04)

Company	P/E	Price/ Book	Price/ Sales	52 Wk Pr Chg
Amalgamated Beverage Industries Ltd	18.0	3.13	2.10	48.90%
Embotelladora Andina SA	58.0	3.01	2.36	31.16%
Jugos Del Valle, S.A. de C.V.	N/A	0.87	0.30	84.91%
Grupo Continental SA	13.6	1.94	1.51	26.22%

The market capitalisation of this company is 10.36 billion South African Rands (US\$1.59 billion). Closely held shares (i.e., those held by officers, directors, pension and benefit plans and those shareholders who own more than 5% of the stock) amount to over 50% of the total shares outstanding: thus, it is impossible for an outsider to acquire a majority of the shares without the consent of management and other insiders. The capitalisation of the floating stock (i.e., that which is not closely held) is 2.81 billion South African Rands (US\$431.32 million).

3.2.4 Dividend Analysis

During the 12 months ending 9/30/03, Amalgamated Beverage Industries Ltd paid dividends totalling 2.39 South African Rands per share. Since the stock is currently trading at 70.00 South African Rands, this implies a dividend yield of 3.4%. Amalgamated Beverage Industries Ltd has increased its dividend during each of the past 5 fiscal years (in 1998, the dividends were 0.92 South African Rands per share).

During the same 12 month period ended 9/30/03, the Company reported earnings of 3.89 South African Rands per share. Thus, the company paid 61.4% of its profits as dividends.

3.2.5 Profitability Analysis

On the 4.93 billion South African Rands in sales reported by the company in 2003, the cost of goods sold totalled 3.89 billion South African Rands, or 78.9% of sales (i.e., the gross profit was 21.1% of sales). This gross profit margin is better than the company achieved in 2002, when cost of goods sold totalled 79.7% of sales.

Amalgamated Beverage Industries Ltd's 2003 gross profit margin of 21.1% was lower than all three comparable companies (which had gross profits in 2003 between 46.5% and 55.0% of sales).

In 2003, earnings before extraordinary items at Amalgamated Beverage Industries Ltd were 632.00 million South African Rands, or 12.8% of sales. This profit margin is an improvement over the level the company achieved in 2002, when the profit margin was 10.6% of sales, refer to Table 3.3.

The company's return on equity in 2003 was 21.8%. This was an improvement over the 18.5% return the company achieved in 2002. (Extraordinary items have been excluded).

Table 3.3: Profitability Comparison

Company	Year	Gross Profit Margin	EBITDA Margin	Earns bef. extra
Amalgamated Beverage Industries Ltd	2003	<>	N/A	12.8%
Amalgamated Beverage Industries Ltd	2002	20.3%	N/A	10.6%
Embotelladora Andina SA	2003	46.5%	22.7%	4.1%
Jugos Del Valle, S.A. de C.V.	2003	N/A	50.0%	-0.6%
Grupo Continental SA	2003	N/A	55.0%	11.4%

3.2.6 Inventory Analysis

The value of the company's inventory totalled 270.00 million South African Rands. Since the cost of goods sold was 3.89 billion South African Rands for the year, the company had 25 days of inventory on hand (another way to look at this is to say that the company turned over its inventory 14.4 times per year). This is an increase in days in inventory from, when the company had 183.00 million South African Rands, which was only 20 days of sales in inventory.

3.2.7 Financial Position

As of this date, the company's long term debt was 11.00 million South African Rands and total liabilities (i.e., all monies owed) were 1.01 billion South African Rands.

The accounts receivable for the company were 298.00 million South African Rands, which is equivalent to 22 days of sales. This is an improvement over the end of 2002, when Amalgamated Beverage Industries Ltd had 33 days of sales in accounts receivable, refer to Table 3.4.

Table 3.4: Financial Positions

Company	Year	LT Debt/ Equity	Days AR	Days Inv.
Amalgamated Beverage Industries Ltd	2003	0.00	22	25
Embotelladora Andina SA	2003	0.57	55	35
Jugos Del Valle, S.A. de C.V.	2003	0.02	N/A	N/A
Grupo Continental SA	2003	0.00	N/A	N/A

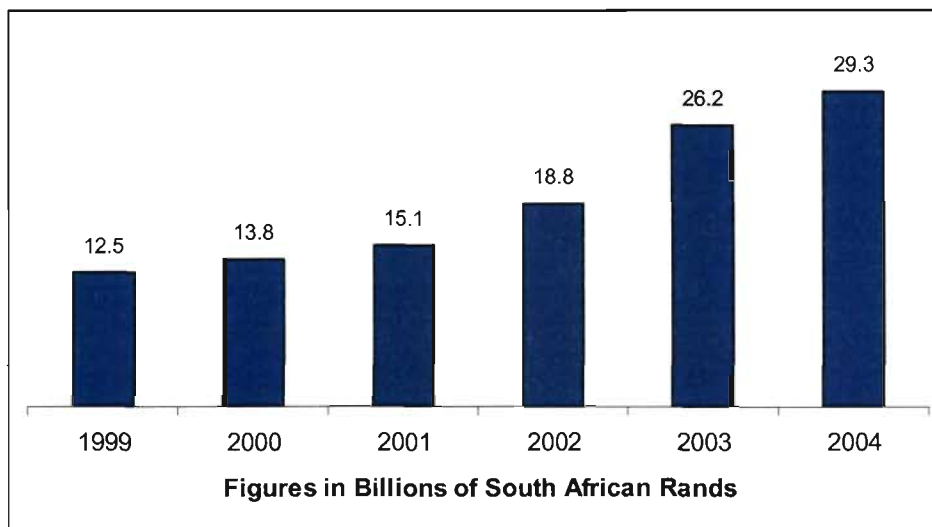
3.3 Pick 'n Pay Stores Limited

Pick 'n Pay Stores Limited (PIKWIK). The Group's principal activity is the retail of food, clothing and general merchandise throughout Southern Africa and in New South Wales, Australia. The Group operates through three divisions. Retail division consists of Hypermarkets, Supermarkets, Family Franchise, Mini Market Franchise, Butcheries, and Auto Centres. Group Enterprises division includes Score Supermarkets, Boxer Superstores, Boardmans, TM Supermarkets, HealthPharm Pharmacies, Property and Go Banking. It also sees out new investment opportunities in Southern Africa and the wider world. Franklins Australia consists of Franklins stores in metro Sydney and New South Wales. During 2003, the Group acquired 6 Franklins stores and Boxer Superstores Group.

3.3.1 Sales Analysis

Pick 'n Pay Stores Limited reported sales of 29.28 billion South African Rands (US\$4.35 billion) for the fiscal year ending February of 2004. This represents an increase of 11.8% versus 2003, when the company's sales were 26.19 billion South African Rands. Sales at Pick 'n Pay Stores Limited have increased during each of the previous five years (and since 1999, sales have increased a total of 134%).

Figure 3.2: Recent Sales at Pick 'n Pay Stores Limited



Pick 'n Pay Stores Limited currently has 31,000 employees. With sales of 29.28 billion South African Rands (US\$4.35 billion), this equates to sales of US\$140,431 per employee. For illustration refer to Figure 3.2.

3.3.2 Recent Stock Performance

For the 52 weeks ending 4/23/04, the stock of this company was up 34.2% to 17.31 South African Rands. During the past 13 weeks, the stock has increased 3.0%. During the 12 months ending 2/29/04, earnings per share totalled 1.10 South African Rands per share. Thus, the Price / Earnings ratio is 15.74. Earnings per share rose 17.5% in 2004 from 2003.

This company is currently trading at 0.29 times sales. Pick 'n Pay Stores Limited is trading at 6.20 times book value.

The market capitalisation of this company is 8.37 billion South African Rands (US\$1.24 billion). Closely held shares (i.e., those held by officers, directors, pension and benefit plans and those shareholders who own more than 5% of the stock) amount to over 50% of the total shares outstanding; thus, it is impossible

for an outsider to acquire a majority of the shares without the consent of management and other insiders. The capitalisation of the floating stock (i.e., that which is not closely held) is 1.73 billion South African Rands (US\$257.47 million).

3.3.3 Dividend Analysis

During the 12 months ending 2/29/04, Pick 'n Pay Stores Limited paid dividends totalling 0.80 South African Rands per share. Since the stock is currently trading at 17.31 South African Rands, this implies a dividend yield of 4.6%. Pick 'n Pay Stores Limited has increased its dividend during each of the past 5 fiscal years (in 1999, the dividends were 0.28 South African Rands per share).

During the same 12 month period ended 2/29/04, the Company reported earnings of 1.10 South African Rands per share. Thus, the company paid 72.7% of its profits as dividends.

3.3.4 Profitability Analysis

On the 29.28 billion South African Rands in sales reported by the company in 2004, the cost of goods sold totalled 24.14 billion South African Rands, or 82.4% of sales (i.e., the gross profit was 17.6% of sales). This gross profit margin is lower than the company achieved in 2003, when cost of goods sold totalled 81.2% of sales.

In 2004, earnings before extraordinary items at Pick 'n Pay Stores Limited were 515.70 million South African Rands, or 1.8% of sales. This profit margin is an improvement over the level the company achieved in 2003, when the profit margin was 1.7% of sales. Earnings before extraordinary items have grown for each of the past 5 years (and since 2000, earnings before extraordinary items have grown a total of 93%).

The company's return on equity in 2004 was 55.6%. This was significantly better than the already high 41.3% return the company achieved in 2003. (Extraordinary items have been excluded).

3.3.5 Financial Position

At the end of 2004, Pick 'n Pay Stores Limited had negative working capital, as current liabilities were 4.41 billion South African Rands while total current assets were only 3.71 billion South African Rands. The fact that the company has negative working capital could indicate that the company will have problems in expanding. However, negative working capital in and of itself is not necessarily bad, and could indicate that the company is very efficient at turning over inventory, or that the company has large financial subsidiaries.

The company's long term debt was 188.20 million South African Rands and total liabilities (i.e., all monies owed) were 4.79 billion South African Rands. The long-term debt to equity ratio of the company is 0.14.

3.4 Woolworths Holdings Limited

Woolworths Holdings Limited. The Group's principal activity is the operation of retail chain stores, department stores and speciality stores. Its two operating subsidiaries are Woolworths and Country Road. Woolworths offers a selected range of clothing, footwear, toiletries, cosmetics, homeware and food under its own brand name. It has 226 stores throughout Africa and the Middle East. Country Road offers apparel and homeware brand in its 41 stores in Australia, New Zealand and Singapore.

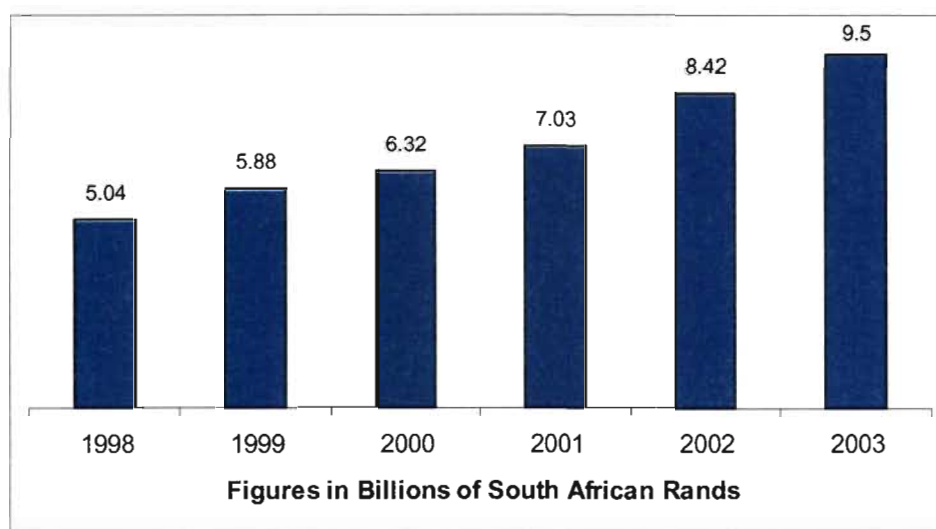
3.4.1 Competitor Analysis

Woolworths Holdings Limited operates in the Misc. general merchandise stores sector. This analysis compares Woolworths Holdings Limited with three other department stores in Africa / Mid East: Massmart Holding (2003 sales of 20.37 billion South African Rands [US\$2.94 billion] of which 31% was Massdiscounters), Tradehold Limited (6.28 billion South African Rands [US\$904.35 million]), and Foschini Limited (3.88 billion South African Rands [US\$559.16 million]).

3.4.2 Sales Analysis

Woolworths Holdings Limited reported sales of 9.50 billion South African Rands (US\$1.37 billion) for the fiscal year ending June of 2003. This represents an increase of 12.8% versus 2002, when the company's sales were 8.42 billion South African Rands. Sales at Woolworths Holdings Limited have increased during each of the previous five years (and since 1998, sales have increased a total of 89%).

Figure 3.3: Recent Sales at Woolworths Holdings Limited



Almost all of the company's 2003 sales were in its home market of South Africa: in 2003, this region's sales were 8.18 billion South African Rands, which is equivalent to 86.1% of total sales. In 2003, sales in Rest of Africa were up at a rate that was much higher than the company as a whole: in this region, sales increased 39.0% to 196.20 million South African Rands. Although the company's overall sales increased, sales were not up in all regions of the world: sales in Australasia were down 4.7% (to 1.07 billion South African Rands) and sales in Middle East fell 3.3% (to 59.00 million South African Rands). For illustration refer to Figure 3.3.

Woolworths Holdings Limited currently has 12,208 employees. With sales of 9.50 billion South African Rands (US\$1.37 billion), this equates to sales of US\$112,131 per employee, refer to Table 3.5.

Table 3.5: Sales Comparisons (Fiscal Year ending 2003)

Company	Year Ended	Sales (blns)	Sales Growth	Sales/ Emp (US\$)	Largest Region
Woolworths Holdings Limited	Jun 2003	9.500	12.8%	112,131	South Africa (86.1%)
Massmart Holding	Jun 2003	20.370	21.9%	175,090	South Africa (93.1%)
Tradehold Limited	Feb 2003	6.276	-8.0%	92,036	N/A
Foschini Limited	Mar 2003	3.881	18.0%	43,002	N/A

3.4.3 Recent Stock Performance

During each of the previous 3 fiscal years, this stock has increased in value (at the end of June of 2000, the stock was at 3.45 South African Rands). For the 52 weeks ending 4/23/04, the stock of this company was up 41.5% to 7.20 South African Rands. During the past 13 weeks, the stock has fallen 1.4%.

During the 12 months ending 12/31/03, earnings per share totalled 0.70 South African Rands per share. Thus, the Price / Earnings ratio is 10.29. These 12-month earnings are greater than the earnings per share achieved during the last fiscal year of the company, which ended in June of 2003, when the company reported earnings of 0.63 per share. Earnings per share rose 122.1% in 2003 from 2002. Note that the earnings number includes a 0.01 charge in fiscal year 2003.

This company is currently trading at 0.65 times sales. Woolworths Holdings Limited is trading at 2.39 times book value, refer to Table 3.6.

Table 3.6: Summary of company valuations (as of 4/23/04)

Company	P/E	Price/ Book	Price/ Sales	52 Wk Pr Chg
Woolworths Holdings Limited	10.3	2.39	0.65	41.50%
Massmart Holding	11.9	3.43	0.30	68.51%
Tradehold Limited	N/A	1.33	0.14	33.33%
Foschini Limited	11.0	2.12	1.16	73.62%

The market capitalisation of this company is 6.22 billion South African Rands (US\$896.46 million). The capitalisation of the floating stock (i.e., that which is not closely held) is 3.37 billion South African Rands (US\$485.08 million).

3.4.4 Dividend Analysis

During the 12 months ending 12/31/03, Woolworths Holdings Limited paid dividends totalling 0.32 South African Rands per share. Since the stock is currently trading at 7.20 South African Rands, this implies a dividend yield of 4.4%. This company's dividend yield is higher than the three comparable companies (which are currently paying dividends between 0.0% and 3.6% of the

stock price). The company has paid a dividend for 6 straight years. Woolworths Holdings Limited has increased its dividend during each of the past 3 fiscal years (in 2000, the dividends were 0.14 South African Rands per share).

During the same 12 month period ended 12/31/03, the Company reported earnings of 0.70 South African Rands per share. Thus, the company paid 45.7% of its profits as dividends.

3.4.5 Profitability Analysis

On the 9.50 billion South African Rands in sales reported by the company in 2003, the cost of goods sold totalled 8.15 billion South African Rands, or 85.8% of sales (i.e., the gross profit was 14.2% of sales). This gross profit margin is lower than the company achieved in 2002, when cost of goods sold totalled 80.9% of sales.

The company's earnings before interest, taxes, depreciation and amortisation (EBITDA) were 520.60 million South African Rands, or 5.5% of sales. This EBITDA margin is worse than the company achieved in 2002, when the EBITDA margin was equal to 11.9% of sales.

In 2003, earnings before extraordinary items at Woolworths Holdings Limited were 549.60 million South African Rands, or 5.8% of sales. This profit margin is an improvement over the level the company achieved in 2002, when the profit margin was 3.1% of sales, refer to Table 3.7.

The company's return on equity in 2003 was 24.1%. This was significantly better than the 11.4% return the company achieved in 2002. (Extraordinary items have been excluded).

Table 3.7: Profitability Comparison

Company	Year	Gross Profit Margin	EBITDA Margin	Earns bef. extra
Woolworths Holdings Limited	2003	<>	5.5%	5.8%
Woolworths Holdings Limited	2002	19.1%	11.9%	3.1%
Massmart Holding	2003	5.1%	3.8%	2.1%
Tradehold Limited	2003	7.5%	-1.4%	-9.0%
Foschini Limited	2003	N/A	14.3%	9.3%

3.4.6 Inventory Analysis

The value of the company's inventory totalled 564.40 million South African Rands. Since the cost of goods sold was 8.15 billion South African Rands for the year, the company had 25 days of inventory on hand (another way to look at this is to say that the company turned over its inventory 14.4 times per year). In terms of inventory turnover, this is a slight improvement over, when the company's inventory was 511.20 million South African Rands, equivalent to 27 days in inventory.

3.4.7 Financial Position

The accounts receivable for the company were 2.45 billion South African Rands, which is equivalent to 94 days of sales, refer to Table 3.8. This is higher than at the end of 2002, when Woolworths Holdings Limited had 82 days of sales in accounts receivable.

Table 3.8: Financial Positions

Company	Year	Days AR	Days Inv.
Woolworths Holdings Limited	2003	94	25
Massmart Holding	2003	24	42
Tradehold Limited	2003	8	24
Foschini Limited	2003	174	66

3.5 Sasol Ltd

Sasol Ltd. The Group's principal activity is the production of oil and gas with substantial chemical interests. These core interests are supported by coal-mining operations in South Africa, where coal is converted into synfuels and chemicals through proprietary Fischer-Tropsch technologies. The Group has chemical manufacturing and marketing operations in Europe, Asia and the Americas. Chemical portfolios include polymers, solvents, surfactants, waxes and nitrogenous products. The Group also refines crude oil into liquid fuels in South Africa.

3.5.1 Competitor Analysis

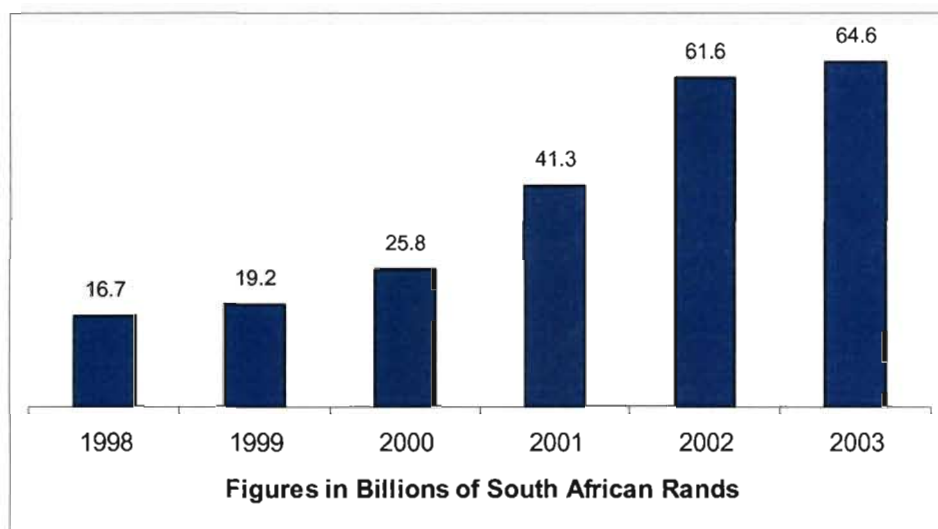
Sasol Ltd operates within the Industrial organic chemicals sector. This analysis compares Sasol Ltd with three other chemical manufacturers in developing countries: Braskem S.A. of Brazil (2003 sales of 10.14 billion Brazilian Reals [US\$3.44 billion]), Jilin Chemical Industrial Company Limited of China (20.65 billion Chinese Renmimbi [US\$2.49 billion]), and Aluminium Corporation of China Limited which is also based in China (23.25 billion Chinese Renmimbi [US\$2.81 billion]).

3.5.2 Sales Analysis

During the year ended June of 2003, sales at Sasol Ltd were 64.56 billion South African Rands (US\$9.30 billion). This is an increase of 4.8% versus 2002, when the company's sales were 61.58 billion South African Rands. This was the fifth consecutive year of sales increases at Sasol Ltd (and since 1998, sales have increased a total of 287%).

Sales of Oil and Gas saw an increase that was more than double the company's growth rate: sales were up 39.8% in 2003, from 6.09 billion South African Rands to 8.51 billion South African Rands. Sasol Ltd also saw significant increases in sales in Synfuels (up 8.1% to 13.64 billion South African Rands) and Other (up 23.1% to 362.00 million South African Rands). Not all segments of Sasol Ltd experienced an increase in sales in 2003: sales of Mining fell 18.2% to 1.01 billion South African Rands. (However, this segment's sales were only a very small portion of the company's overall sales). Sasol Ltd also experienced decreases in sales in Chemicals (down 0.7% to 41.03 billion South African Rands).

Figure 3.4: Recent Sales at Sasol Ltd



During the past five years, sales of Chemicals have become increasingly important to the company, and in 2003 accounted for 64% of the total sales at Sasol Ltd, versus only 47% of total sales in 1999. (During the previous four years, Sales of Chemicals increased 357%, while all other segments at Sasol Ltd grew only 131%). Sales of Synfuels accounted for only 21% of sales in 2003, versus 41% in 1999.

Although Sasol Ltd is headquartered in South Africa, it derives most of its sales outside of its home market: sales in South Africa were 31.14 billion South African Rands which was only 48.2% of 2003's sales. In 2003, sales in Far East were up at a rate that was much higher than the company as a whole: in this region, sales increased 65.2% to 1.63 billion South African Rands. Sasol Ltd also experienced significant increases in sales in South Africa (up 16.5% to 31.14 billion South African Rands). Although the company's overall sales increased, sales were not up in all regions of the world: sales in Europe were down 3.7% (to 17.15 billion South African Rands) and sales in North America fell 12.7% (to 8.81 billion South African Rands) and sales in Rest of Africa fell 5.8% (to 1.96 billion South African Rands) and sales in Southeast Asia and Australasia fell 38.6% (to 1.10 billion South African Rands).

Although sales at this company increased, they increased at a slower rate than the three comparable companies in 2003. The sales increase of 4.8% was less than those at Braskem S.A. (up 57.5%), Jilin Chemical Industrial Company Limited (57.2%), and Aluminium Corporation of China Limited (38.4%).

The company currently employs 31,150. With sales of 64.56 billion South African Rands (US\$9.30 billion), this equates to sales of US\$298,611 per employee. The sales per employee levels at the three comparable companies vary greatly, from US\$41,787 to US\$3,755,013, refer to Table 3.9. Some of the variation may be due to the way each of these companies counts employees (and if they count subcontractors, independent contractors, etc).

Table 3.9: Sales Comparisons (Fiscal Year ending 2003)

Company	Year Ended	Sales (US\$mIns)	Sales Growth	Sales/ Emp (US\$)	Largest Region
Sasol Ltd	Jun 2003	9.302	4.8%	298,611	South Africa (48.2%)
Braskem S.A.	Dec 2003	3.436	57.5%	3,755,013	Domestic (97.9%)
Jilin Chemical Industrial Company Limited	Dec 2003	2.495	57.2%	109,786	N/A
Aluminium Corporation of China Limited	Dec 2003	2.808	38.4%	41,787	N/A

3.5.3 Recent Stock Performance

For the 52 weeks ending 4/23/04, the stock of this company was up 29.6% to 100.90 South African Rands. During the past 13 weeks, the stock has fallen 4.1%. During the past 52 weeks, the stock of Sasol Ltd has performed significantly worse than the three comparable companies, which saw gains between 135.5% and 377.1%.

During the 12 months ending 12/31/03, earnings per share totalled 9.40 South African Rands per share. Thus, the Price / Earnings ratio is 10.73. These 12-month earnings are lower than the earnings per share achieved during the last fiscal year of the company, which ended in June of 2003, when the company reported earnings of 12.83 per share. Earnings per share fell 17.2% in 2003 from 2002. Note that the earnings number includes a 0.28 pre-tax charge in fiscal year 2003.

This company is currently trading at 0.95 times sales. The three companies vary greatly in terms of price to sales ratio: trading from 0.27 times all the way up to 2.64 times their annual sales. Sasol Ltd is trading at 1.77 times book value. The company's price to book ratio is lower than that of all three comparable companies, which are trading between 2.20 and 2.107 times book value, refer to Table 3.10.

Table 3.10: Summary of company valuations (as of 4/23/04)

Company	P/E	Price/ Book	Price/ Sales	52 Wk Pr Chg
Sasol Ltd	10.7	1.77	0.95	29.60%
Braskem S.A.	47.6	2.20	0.51	377.12%
Jilin Chemical Industrial Company Limited	10.0	2.20	0.27	135.49%
Aluminium Corporation of China Limited	17.2	3.27	2.64	343.55%

The market capitalisation of this company is 61.56 billion South African Rands (US\$8.87 billion). The capitalisation of the floating stock (i.e., that which is not closely held) is 53.09 billion South African Rands (US\$7.65 billion).

3.5.4 Dividend Analysis

During the 12 months ending 12/31/03, Sasol Ltd paid dividends totalling 4.50 South African Rands per share. Since the stock is currently trading at 100.90 South African Rands, this implies a dividend yield of 4.5%. This company's dividend yield is higher than the three comparable companies (which are currently paying dividends between 0.0% and 0.8% of the stock price). The company has paid a dividend for 6 straight years.

During the same 12 month period ended 12/31/03, the Company reported earnings of 9.40 South African Rands per share. Thus, the company paid 47.9% of its profits as dividends.

3.5.5 Profitability Analysis

On the 64.56 billion South African Rands in sales reported by the company in 2003, the cost of goods sold totalled 34.82 billion South African Rands, or 53.9% of sales (i.e., the gross profit was 46.1% of sales). This gross profit margin is lower than the company achieved in 2002, when cost of goods sold totalled 52.7% of sales.

The company's earnings before interest, taxes, depreciation and amortisation (EBITDA) were 17.54 billion South African Rands, or 27.2% of sales. This EBITDA margin is worse than the company achieved in 2002, when the EBITDA margin was equal to 30.1% of sales.

In 2003, earnings before extraordinary items at Sasol Ltd were 7.82 billion South African Rands, or 12.1% of sales. This profit margin is lower than the level the company achieved in 2002, when the profit margin was 15.4% of sales.

The company's return on equity in 2003 was 26.0%. This was significantly worse than the already high 42.7% return the company achieved in 2002. (Extraordinary items have been excluded), refer to Table 3.11.

Table 3.11: Profitability Comparison

Company	Year	Gross Profit Margin	EBITDA Margin	Earns bef. extra
Sasol Ltd	2003	<>	27.2%	12.1%
Sasol Ltd	2002	47.3%	30.1%	15.4%
Braskem S.A.	2003	23.9%	19.2%	2.1%
Jilin Chemical Industrial Company Limited	2003	N/A	N/A	N/A
Aluminium Corporation of China Limited	2003	N/A	38.2%	15.3%

Sasol Ltd reports profits by product line. During 2003, the itemised operating profits at all divisions were 11.91 billion South African Rands, which is equal to 18.5% of total sales. Of all the product lines, Synfuels had the highest operating profits in 2003, with operating profits equal to 59.0% of sales. In fact, during each of the previous 5 years, Synfuels has had the highest operating profits of all product lines at Sasol Ltd.

Chemicals had the lowest operating profit margin in 2003, with the operating profit equal to only 4.7% of sales. (This product line is the largest product line at Sasol Ltd, accounting for approximately 64% of sales in 2003). This marks the third year in which Chemicals had the lowest operating profit margins.

3.5.6 Inventory Analysis

The value of the company's inventory totalled 8.75 billion South African Rands. Since the cost of goods sold was 34.82 billion South African Rands for the year, the company had 92 days of inventory on hand (another way to look at this is to say that the company turned over its inventory 4.0 times per year). In terms of inventory turnover, this is an improvement over, when the company's inventory was 9.01 billion South African Rands, equivalent to 101 days in inventory.

Research and Development Expenses at Sasol Ltd in 2003 were 376.00 million South African Rands, which is equivalent to 0.6% of sales. In 2002, Sasol Ltd spent 359.00 million South African Rands on R&D, which was 0.6% of sales.

3.5.7 Financial Position

The company's long term debt was 4.58 billion South African Rands and total liabilities (i.e., all monies owed) were 35.61 billion South African Rands. The long-term debt to equity ratio of the company is 0.13.

The accounts receivable for the company were 10.37 billion South African Rands, which is equivalent to 59 days of sales, refer to Table 3.12. This is an improvement over the end of 2002, when Sasol Ltd had 62 days of sales in accounts receivable.

Table 3.12: Financial Positions

Company	Year	LT Debt/ Equity	Days AR	Days Inv.	R&D/ Sales
Sasol Ltd	2003	0.13	59	92	0.6%
Braskem S.A.	2003	2.41	58	56	N/A
Jilin Chemical Industrial Company Limited	2003	N/A	N/A	N/A	N/A
Aluminium Corporation of China Limited	2003	0.29	N/A	N/A	N/A

3.6 Shoprite Holdings Limited

Shoprite Holdings Limited. The Group's principal activities are the operation of supermarkets, distribution of fresh produce, properties development and furniture retailing. In 30-Jun-2003, the Group has 641 corporate outlets. The Group operates in the South Africa, Namibia, Lesotho, Swaziland and Mauritius.

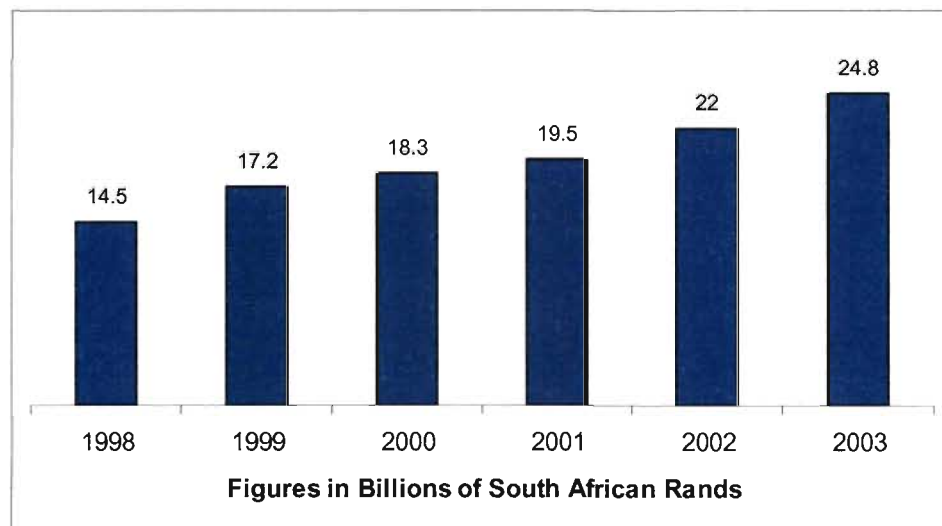
3.6.1 Competitor Analysis

Shoprite Holdings Limited operates within the Grocery stores sector. This analysis compares Shoprite Holdings Limited with three other supermarkets and grocery stores in Africa / Mid East: Pick 'n Pay Stores Limited (2003 sales of 26.19 billion South African Rands [US\$3.77 billion]), Super-Sol Limited of Israel (6.32 billion Israel Shekels [US\$1.37 billion] of which 99% was Sales), and Blue Square - Israel Limited which is also based in Israel (5.17 billion Israel Shekels [US\$1.12 billion]).

3.6.2 Sales Analysis

During the year ended June of 2003, sales at Shoprite Holdings Limited were 24.82 billion South African Rands (US\$3.58 billion). This is an increase of 12.9% versus 2002, when the company's sales were 21.98 billion South African Rands. This was the fifth consecutive year of sales increases at Shoprite Holdings Limited (and since 1998, sales have increased a total of 71%). Sales of Furniture saw an increase that was more than double the company's growth rate: sales were up 101.8% in 2003, from 640.39 million South African Rands to 1.29 billion South African Rands.

Figure 3.5: Recent Sales at Shoprite Holdings Limited



The company derives almost all of its revenues in its home market of South Africa: in 2003, this region's sales were 22.40 billion South African Rands, which is equivalent to 90.3% of total sales. In 2003, sales in Other African Countries were up 13.6% to 2.57 billion South African Rands. For illustration refer to Figure 3.1.

The company currently employs 66,431. With sales of 24.82 billion South African Rands (US\$3.58 billion), this equates to sales of US\$53,845 per employee. This is a great deal lower than the three comparable companies, which had sales between US\$121,752 and US\$156,113 per employee. Note that some of the figures stated herein could be distorted based on exact classification of employees and subcontractors, refer to Table 3.13.

Table 3.13: Sales Comparisons (Fiscal Year ending 2003)

Company	Year Ended	Sales (US\$mIns)	Sales Growth	Sales/ Emp (US\$)	Largest Region
Shoprite Holdings Limited	Jun 2003	3.577	12.9%	53,845	South Africa (90.3%)
Pick 'n Pay Stores Limited	Feb 2003	3.774	39.2%	121,752	Southern Africa (82.6%)
Super-Sol Limited	Dec 2003	1.374	-6.6%	154,396	Israel (100.0%)
Blue Square - Israel Limited	Dec 2003	1.124	-6.8%	156,113	N/A

3.6.3 Recent Stock Performance

For the 52 weeks ending 4/30/04, the stock of this company was up 73.2% to 9.70 South African Rands. During the past 13 weeks, the stock has increased 7.8%. During the past 52 weeks, the stock of Shoprite Holdings Limited has outperformed (by a large margin) the three comparable companies, which saw gains between 16.8% and 36.0%.

During the 12 months ending 12/31/03, earnings per share totalled 1.01 South African Rands per share. Thus, the Price / Earnings ratio is 9.60. These 12-month earnings are greater than the earnings per share achieved during the last fiscal year of the company, which ended in June of 2003, when the company reported earnings of 0.83 per share. Earnings per share rose 5.5% in 2003 from 2002. Note that the earnings number includes a 0.04 charge and 0.30 credit in fiscal year 2003.

This company is currently trading at 0.20 times sales. This is at a lower ratio than all three comparable companies, which are trading between 0.33 and 0.38 times their annual sales. Shoprite Holdings Limited is trading at 2.56 times book value, refer to Table 3.14.

Table 3.14: Summary of company valuations

Company	Date	P/E	Price/ Book	Price/ Sales	52 Wk Pr Chg
Shoprite Holdings Limited	4/30/04	9.6	2.56	0.20	73.20%
Pick 'n Pay Stores Limited	4/30/04	16.3	6.38	0.33	36.03%
Super-Sol Limited	4/29/04	N/A	1.44	0.35	22.61%
Blue Square - Israel Limited	4/29/04	N/A	1.88	0.38	16.82%

The market capitalisation of this company is 4.93 billion South African Rands (US\$709.79 million). The capitalisation of the floating stock (i.e., that which is not closely held) is 3.48 billion South African Rands (US\$501.81 million).

3.6.4 Dividend Analysis

During the 12 months ending 12/31/03, Shoprite Holdings Limited paid dividends totalling 0.33 South African Rands per share. Since the stock is currently trading at 9.70 South African Rands, this implies a dividend yield of 3.4%. This company's dividend yield is lower than the three comparable companies (which are currently paying dividends between 4.5% and 25.7% of the stock price). The company has paid a dividend for 6 straight years. Shoprite Holdings Limited has increased its dividend during each of the past 4 fiscal years (in 1999, the dividends were 0.14 South African Rands per share).

During the same 12 month period ended 12/31/03, the Company reported earnings of 1.01 South African Rands per share. Thus, the company paid 32.7% of its profits as dividends.

3.6.5 Profitability Analysis

On the 24.82 billion South African Rands in sales reported by the company in 2003, the cost of goods sold totalled 23.10 billion South African Rands, or 93.1% of sales (i.e., the gross profit was 6.9% of sales). This gross profit margin is lower than the company achieved in 2002, when cost of goods sold totalled 83.5% of sales. The gross margin in 2003 was the lowest of the previous five years (in 2002, the gross margin had been as high as 16.5%).

Shoprite Holdings Limited's 2003 gross profit margin of 6.9% was lower than all three comparable companies (which had gross profits in 2003 between 16.6% and 26.9% of sales).

The company's earnings before interest, taxes, depreciation and amortisation (EBITDA) were -996.41 million South African Rands, or -4.0% of sales. This EBITDA to sales ratio is roughly on par with what the company achieved in 2002, when the EBITDA ratio was -5.1% of sales. All three comparable companies had positive EBITDA margins, while Shoprite Holdings Limited had a negative margin.

In 2003, earnings before extraordinary items at Shoprite Holdings Limited were 420.19 million South African Rands, or 1.7% of sales. This profit margin is lower than the level the company achieved in 2002, when the profit margin was 1.8% of sales.

The company's return on equity in 2003 was 28.8%. This was an improvement over the 28.5% return the company achieved in 2002. (Extraordinary items have been excluded, refer to Table 3.15).

Table 3.15: Profitability Comparison

Company	Year	Gross Profit Margin	EBITDA Margin	Earns bef. extra
Shoprite Holdings Limited	2003	<>	-4.0%	1.7%
Shoprite Holdings Limited	2002	16.5%	-5.1%	1.8%
Pick 'n Pay Stores Limited	2003	18.8%	0.5%	1.7%
Super-Sol Limited	2003	16.6%	4.1%	-2.1%
Blue Square - Israel Limited	2003	N/A	26.9%	-0.1%

Shoprite Holdings Limited reports profits by product line. During 2003, the itemised operating profits at all divisions were 470.36 million South African Rands, which is equal to 1.9% of total sales. Of all the product lines, Furniture had the highest operating profits in 2003, with operating profits equal to 5.7% of

sales. (However, Furniture only accounts for 5% of total sales at Shoprite Holdings Limited). In 2002, Supermarkets had the highest operating profits (2.2% of sales versus 8.6% for Furniture).

Supermarkets had the lowest operating profit margin in 2003, with the operating profit equal to only 1.7% of sales. (This product line is the largest product line at Shoprite Holdings Limited, accounting for approximately 95% of sales in 2003). This marks the fourth year in which Supermarkets had the lowest operating profit margins.

3.6.6 Inventory Analysis

The value of the company's inventory totalled 2.59 billion South African Rands. Since the cost of goods sold was 23.10 billion South African Rands for the year, the company had 41 days of inventory on hand (another way to look at this is to say that the company turned over its inventory 8.9 times per year). In terms of inventory turnover, this is an improvement over, when the company's inventory was 2.25 billion South African Rands, equivalent to 45 days in inventory.

3.6.7 Financial Position

At the end of 2003, Shoprite Holdings Limited had negative working capital, as current liabilities were 4.85 billion South African Rands while total current assets were only 4.69 billion South African Rands. The fact that the company has negative working capital could indicate that the company will have problems in expanding. However, negative working capital in and of itself is not necessarily bad, and could indicate that the company is very efficient at turning over inventory, or that the company has large financial subsidiaries.

The accounts receivable for the company were 1.29 billion South African Rands, which is equivalent to 19 days of sales, refer to Table 3.16. This is an

improvement over the end of 2002, when Shoprite Holdings Limited had 25 days of sales in accounts receivable.

Table 3.16: Financial Positions

Company	Year	Days AR	Days Inv.
Shoprite Holdings Limited	2003	19	41
Pick 'n Pay Stores Limited	2003	7	26
Super-Sol Limited	2003	41	24
Blue Square - Israel Limited	2003	N/A	N/A

3.7 Murray & Roberts Holdings Ltd

Murray & Roberts Holdings Ltd (M & R). The Group's principal activities are the provision of construction operations, engineering contracting and services, construction services and material supplies and fabrication and manufacture. The Group offers a full range of building construction and development from group housing to major hotels, shopping centres, offices and large industrial projects. In September 2002, the Group disposed Gearing Foundry and Cosmar business. The Group also disposed Alloy Wheels International South Africa with effect from 01-Jul-2003.

3.7.1 Competitor Analysis

Murray & Roberts Holdings Ltd operates within the Bridge, tunnel, & elevated highway sector. This analysis compares Murray & Roberts Holdings Ltd with three other road and highway construction companies in developing countries: Group Five Limited (2003 sales of 4.10 billion South African Rands [US\$586.76 million]), Empresas ICA Sociedad Controladora of Mexico (9.55 billion Mexican

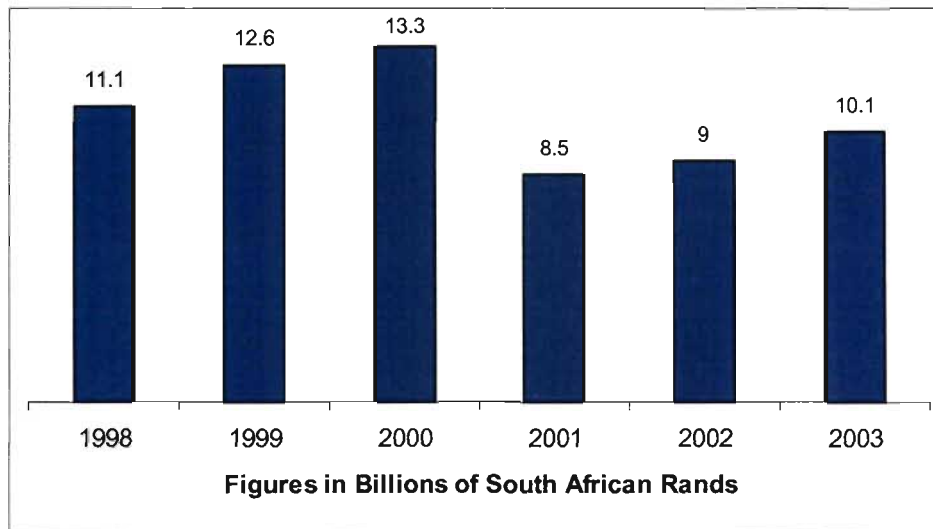
Pesos [US\$832.99 million]), and Shanghai Tunnel Engineering Co Ltd. which is based in China (5.16 billion Chinese Renmimbi [US\$622.82 million]).

3.7.2 Sales Analysis

During the year ended June of 2003, sales at Murray & Roberts Holdings Ltd were 10.11 billion South African Rands (US\$1.45 billion). This is an increase of 12.0% versus 2002, when the company's sales were 9.03 billion South African Rands. The sales level in 2003 was fairly close to the level five years ago: in 1998, Murray & Roberts Holdings Ltd had sales of 11.08 billion South African Rands. Sales of Engineering Contracting and Services saw an increase that was more than double the company's growth rate: sales were up 33.8% in 2003, from 714.00 million South African Rands to 955.00 million South African Rands.

Murray & Roberts Holdings Ltd also saw significant increases in sales in Construction Services and Material Supplies (up 20.3% to 3.38 billion South African Rands). Not all segments of Murray & Roberts Holdings Ltd experienced an increase in sales in 2003: sales of Corporate fell 50.0% to 30.00 million South African Rands. (However, this segment's sales were only a very small portion of the company's overall sales). Murray & Roberts Holdings Ltd also experienced decreases in sales in Fabrication and Manufacturing (down 8.2% to 1.76 billion South African Rands).

Figure 3.6: Recent Sales at Murray & Roberts Holdings Ltd



The company derives most of its revenues in its home market of South Africa: in 2003, this region's sales were 5.62 billion South African Rands, which is equivalent to 55.6% of total sales. In 2003, sales in Middle East were up at a rate that was much higher than the company as a whole: in this region, sales increased 45.7% to 1.47 billion South African Rands. Murray & Roberts Holdings Ltd also experienced significant increases in sales in Pacific Rim/SE Asia (up 28.8% to 402.00 million South African Rands). Although the company's overall sales increased, sales were not up in all regions of the world: sales in Africa were down 10.5% (to 1.87 billion South African Rands). For illustration refer to Figure 3.6.

The company currently employs 15,827. With sales of 10.11 billion South African Rands (US\$1.45 billion), this equates to sales of US\$91,421 per employee. This is higher than the three comparable companies, which had sales between US\$42,886 and US\$86,734 per employee, refer to Table 3.17.

Table 3.17: Sales Comparisons (Fiscal Year ending 2003)

Company	Year Ended	Sales (US\$blns)	Sales Growth	Sales/ Emp (US\$)	Largest Region
Murray & Roberts Holdings Ltd	Jun 2003	1.447	12.0%	91,421	South Africa (55.6%)
Group Five Limited	Jun 2003	0.587	2.0%	42,886	N/A
Empresas ICA Sociedad Controladora	Dec 2003	0.833	19.7%	86,734	N/A
Shanghai Tunnel Engineering Co Ltd.	Dec 2003	0.623	18.2%	63,644	N/A

3.7.3 Recent Stock Performance

In recent years, this stock has performed terribly. In fiscal year 1996, the stock traded as high as 28.50 South African Rands, versus 13.00 South African Rands on 4/30/04.

During each of the previous 4 fiscal years, this stock has increased in value (at the end of June of 1999, the stock was at 3.05 South African Rands).

For the 52 weeks ending 4/30/04, the stock of this company was up 23.8% to 13.00 South African Rands. During the past 13 weeks, the stock has fallen 7.8%. During the 12 months ending 12/31/03, earnings per share totalled 1.70 South African Rands per share. Thus, the Price / Earnings ratio is 7.65. Earnings per share rose 11.8% in 2003 from 2002. Note that the earnings number includes a 0.15 pre-tax credit and 0.16 pre-tax charge in fiscal year 2003. This company is currently trading at 0.43 times sales. Murray & Roberts Holdings Ltd is trading at 1.58 times book value, refer to Table 3.18.

Table 3.18: Summary of company valuations (as of 4/30/04)

Company	P/E	Price/ Book	Price/ Sales	52 Wk Pr Chg
Murray & Roberts Holdings Ltd	7.6	1.58	0.43	23.80%
Group Five Limited	6.5	1.35	0.16	105.38%
Empresas ICA Sociedad Controladora	N/A	1.23	0.64	88.27%
Shanghai Tunnel Engineering Co Ltd.	32.8	1.95	0.66	-16.23%

The market capitalisation of this company is 4.31 billion South African Rands (US\$617.42 million). The capitalisation of the floating stock (i.e., that which is not closely held) is 2.94 billion South African Rands (US\$420.32 million).

3.7.4 Dividend Analysis

During the 12 months ending 12/31/03, Murray & Roberts Holdings Ltd paid dividends totalling 0.53 South African Rands per share. Since the stock is currently trading at 13.00 South African Rands, this implies a dividend yield of 4.1%. This company's dividend yield is higher than the three comparable companies (which are currently paying dividends between 0.0% and 4.0% of the stock price).

During the same 12 month period ended 12/31/03, the Company reported earnings of 1.70 South African Rands per share. Thus, the company paid 31.2% of its profits as dividends.

3.7.5 Profitability Analysis

On the 10.11 billion South African Rands in sales reported by the company in 2003, the cost of goods sold totalled 8.35 billion South African Rands, or 82.6% of sales (i.e., the gross profit was 17.4% of sales). This gross profit margin is

better than the company achieved in 2002, when cost of goods sold totalled 83.9% of sales. In 2003, the gross margin was the highest of the previous five years (and in 2000 was as low as 4.1%).

The company's earnings before interest, taxes, depreciation and amortisation (EBITDA) were 695.40 million South African Rands, or 6.9% of sales. This EBITDA margin is better than the company achieved in 2002, when the EBITDA margin was equal to 3.8% of sales.

Murray & Roberts Holdings Ltd achieved greater efficiencies in its selling, general and administrative (SG&A) expenses: it cut these expenses by 47.60 million South African Rands, or about 4.3% in 2003, but was able to nonetheless increase its sales by 12.0%.

In 2003, earnings before extraordinary items at Murray & Roberts Holdings Ltd were 564.50 million South African Rands, or 5.6% of sales. This profit margin is lower than the level the company achieved in 2002, when the profit margin was 5.6% of sales.

The company's return on equity in 2003 was 21.3%. This was a decline in performance from the 25.5% return that the company achieved in 2002. (Extraordinary items have been excluded) , refer to Table 3.19.

Table 3.19: Profitability Comparison

Company	Year	Gross Profit Margin	EBITDA Margin	Earns bef. extra
Murray & Roberts Holdings Ltd	2003	<>	6.9%	5.6%
Murray & Roberts Holdings Ltd	2002	16.1%	3.8%	5.6%
Group Five Limited	2003	N/A	N/A	2.4%
Empresas ICA Sociedad Controladora	2003	N/A	15.7%	-11.2%
Shanghai Tunnel Engineering Co Ltd.	2003	14.4%	7.8%	2.1%

Murray & Roberts Holdings Ltd reports profits by product line. During 2003, the itemised operating profits at all divisions were 621.00 million South African Rands, which is equal to 6.1% of total sales. Of all the product lines, Engineering Contracting and Services had the highest operating profits in 2003, with operating profits equal to 12.1% of sales. (However, Engineering Contracting and Services only accounts for 9% of total sales at Murray & Roberts Holdings Ltd). This was also the case in the previous year: in 2002, Engineering Contracting and Services had the highest operating profits as well.

Construction Operations had the lowest operating profit margin in 2003, with the operating profit equal to only 4.7% of sales.

3.7.6 Inventory Analysis

The value of the company's inventory totalled 536.50 million South African Rands. Since the cost of goods sold was 8.35 billion South African Rands for the year, the company had 23 days of inventory on hand (another way to look at this is to say that the company turned over its inventory 15.6 times per year). This is an increase in days in inventory from, when the company had 444.20 million South African Rands, which was 21 days of sales in inventory.

3.7.7 Financial Position

The company's long term debt was 217.70 million South African Rands and total liabilities (i.e., all monies owed) were 3.58 billion South African Rands. The long-term debt to equity ratio of the company is very low, at only 0.08.

The accounts receivable for the company were 2.09 billion South African Rands, which is equivalent to 75 days of sales, refer to Table 3.20. This is slightly higher than at the end of 2002, when Murray & Roberts Holdings Ltd had 75 days of sales in accounts receivable.

Table 3.20: Financial Positions

Company	Year	LT Debt/ Equity	Days AR	Days Inv.
Murray & Roberts Holdings Ltd	2003	0.08	75	23
Group Five Limited	2003	0.13	89	N/A
Empresas ICA Sociedad Controladora	2003	0.65	N/A	N/A
Shanghai Tunnel Engineering Co Ltd.	2003	0.85	92	88

3.8 Impala Platinum Holdings Limited

Impala Platinum Holdings Limited (IMPLATS). The Group's principal activities are the production and supply of platinum group metals to industrial economies. It is involved in mining, processing, refining and marketing of metals. The Group's areas of operation are Mining Projects and Operation, Processing of Concentrates, and Strategic Alliances and Investments. Mining Projects and Operation comprises mining and processing of the platinum group metal (PGM) products on the Impala Lease Area. Processing of Concentrates leverages processing and refining assets through the Impala Refining Services (IRS).

Strategic Alliances and Investments includes interests in Aquarius Platinum and joint venture in Two Rivers. The Group's products include Platinum, Palladium, Rhodium, and Nickel.

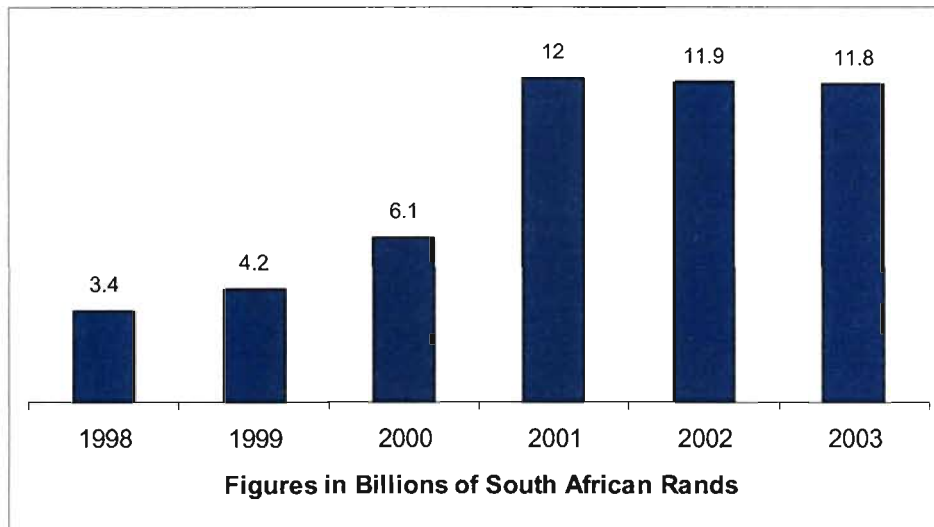
3.8.1 Competitor Analysis

Impala Platinum Holdings Limited operates in the Metal ores sector. This analysis compares Impala Platinum Holdings Limited with three other miscellaneous mining companies in Africa / Mid East: Barplats Investments Limited (2003 sales of 154.56 million South African Rands [US\$22.36 million] of which 100% was Platinum mining), Northam Platinum Ltd (1.47 billion South African Rands [US\$213.00 million] of which 100% was Platinum and Precious Metals), and African Rainbow Minerals Limited (4.90 billion South African Rands [US\$708.45 million] of which 59% was Ferrous metals).

3.8.2 Sales Analysis

Impala Platinum Holdings Limited reported sales of 11.81 billion South African Rands (US\$1.71 billion) for the fiscal year ending June of 2003. This represents a decrease of 0.8% versus 2002, when the company's sales were 11.90 billion South African Rands. Contributing to the drop in overall sales was the 41.8% decline in Barplats, from 265.80 million South African Rands to 154.60 million South African Rands. There were also decreases in sales in Impala Platinum (down 1.2% to 11.34 billion South African Rands). However, these declines were partially offset by the increase in sales of Impala Refining Services (up 26.9% to 2.91 billion South African Rands).

Figure 3.7: Recent Sales at Impala Platinum Holdings Limited



Almost all of the company's 2003 sales were in its home market of South Africa: in 2003, this region's sales were 11.77 billion South African Rands, which is equivalent to 99.7% of total sales. For illustration refer to Figure 3.7.

Impala Platinum Holdings Limited currently has 31,588 employees. With sales of 11.81 billion South African Rands (US\$1.71 billion), this equates to sales of US\$54,086 per employee. The sales per employee levels at the three comparable companies vary greatly, from US\$31,597 to US\$931,856, as shown in the following table. Some of the variation may be due to the way each of these companies counts employees (and if they count subcontractors, independent contractors, etc), refer to Table 3.21.

Table 3.21: Sales Comparisons (Fiscal Year ending 2003)

Company	Sales (blns)	Sales Growth	Sales/ Emp (US\$)	Largest Region
Impala Platinum Holdings Limited	11.807	-0.8%	54,086	South Africa (99.7%)
Barplats Investments Limited	0.155	-41.9%	931,856	South Africa (100.0%)
Northam Platinum Ltd	1.472	-5.7%	31,597	Europe (45.8%)
African Rainbow Minerals Limited	4.896	21.0%	215,728	South Africa (36.4%)

3.8.3 Recent Stock Performance

For the 52 weeks ending 4/30/04, the stock of this company was up 19.6% to 473.50 South African Rands. During the past 13 weeks, the stock has fallen 17.2%. During the past 52 weeks, the stock of Impala Platinum Holdings Limited has outperformed the three comparable companies, which saw changes between -17.1% and 17.2%.

During the 12 months ending 12/31/03, earnings per share totalled 37.04 South African Rands per share. Thus, the Price / Earnings ratio is 12.78. These 12-month earnings are lower than the earnings per share achieved during the last fiscal year of the company, which ended in June of 2003, when the company reported earnings of 51.31 per share. Earnings per share fell 25.7% in 2003 from 2002.

This company is currently trading at 2.67 times sales. Impala Platinum Holdings Limited is trading at 2.97 times book value, refer to Table 3.22.

Table 3.22: Summary of company valuations (as of 4/30/04)

Company	P/E	Price/ Book	Price/ Sales	52 Wk Pr Chg
Impala Platinum Holdings Limited	12.8	2.97	2.67	19.60%
Barplats Investments Limited	N/A	4.33	2.87	-17.08%
Northam Platinum Ltd	13.1	1.47	1.51	-10.51%
African Rainbow Minerals Limited	N/A	1.68	0.87	17.19%

The market capitalisation of this company is 31.53 billion South African Rands (US\$4.56 billion). The capitalisation of the floating stock (i.e., that which is not closely held) is 29.93 billion South African Rands (US\$4.33 billion).

3.8.4 Dividend Analysis

During the 12 months ending 12/31/03, Impala Platinum Holdings Limited paid dividends totalling 22.50 South African Rands per share. Since the stock is currently trading at 473.50 South African Rands, this implies a dividend yield of 4.8%. This company's dividend yield is higher than the three comparable companies (which are currently paying dividends between 0.0% and 4.7% of the stock price). The company has paid a dividend for 6 straight years. Impala Platinum Holdings Limited last raised its dividend during fiscal year 2001, when it raised its dividend to 38.00 South African Rands from 17.60 South African Rands.

During the same 12 month period ended 12/31/03, the Company reported earnings of 37.04 South African Rands per share. Thus, the company paid 60.7% of its profits as dividends.

3.8.5 Profitability Analysis

On the 11.81 billion South African Rands in sales reported by the company in 2003, the cost of goods sold totalled 6.11 billion South African Rands, or 51.8% of sales (i.e., the gross profit was 48.2% of sales). This gross profit margin is lower than the company achieved in 2002, when cost of goods sold totalled 46.3% of sales.

Impala Platinum Holdings Limited's 2003 gross profit margin of 48.2% was better than all three comparable companies (which had gross profits in 2003 between 1.1% and 32.2% of sales).

The company's earnings before interest, taxes, depreciation and amortisation (EBITDA) were 5.49 billion South African Rands, or 46.5% of sales. This EBITDA margin is worse than the company achieved in 2002, when the EBITDA margin was equal to 53.7% of sales. The three comparable companies had EBITDA margins that were all less (between 1.1% and 32.2%) than that achieved by Impala Platinum Holdings Limited.

In 2003, earnings before extraordinary items at Impala Platinum Holdings Limited were 3.42 billion South African Rands, or 28.9% of sales. This profit margin is lower than the level the company achieved in 2002, when the profit margin was 38.5% of sales.

The company's return on equity in 2003 was 36.8%. This was significantly worse than the already high 71.3% return the company achieved in 2002. (Extraordinary items have been excluded), refer to Table 3.23.

Table 3.23: Profitability Comparison

Company	Year	Gross Profit Margin	EBITDA Margin	Earns bef. extra
Impala Platinum Holdings Limited	2003	<>	46.5%	28.9%
Impala Platinum Holdings Limited	2002	53.7%	N/A	38.5%
Barplats Investments Limited	2003	N/A	1.1%	-43.3%
Northam Platinum Ltd	2003	N/A	32.2%	18.7%
African Rainbow Minerals Limited	2003	29.9%	11.2%	-3.9%

Impala Platinum Holdings Limited reports profits by product line. During 2003, the itemised operating profits at all divisions were 5.03 billion South African Rands, which is equal to 42.6% of total sales. Of all the product lines, Impala Platinum had the highest operating profits in 2003, with operating profits equal to 39.1% of sales. (This product line is the largest at Impala Platinum Holdings Limited, and accounted for 96% of sales in 2003). In fact, during each of the previous 3 years, Impala Platinum has had the highest operating profits of all product lines at Impala Platinum Holdings Limited.

Impala Refining Services had the lowest operating profit margin in 2003, with the operating profit equal to only 16.9% of sales. This marks the third year in which Impala Refining Services had the lowest operating profit margins.

3.8.6 Inventory Analysis

The value of the company's inventory totalled 847.40 million South African Rands. Since the cost of goods sold was 6.11 billion South African Rands for the year, the company had 51 days of inventory on hand (another way to look at this is to say that the company turned over its inventory 7.2 times per year). In terms of inventory turnover, this is a significant improvement over, when the company's

inventory was 920.10 million South African Rands, equivalent to 61 days in inventory.

3.8.7 Financial Position

The company's long term debt was 62.70 million South African Rands and total liabilities (i.e., all monies owed) were 5.97 billion South African Rands. The long-term debt to equity ratio of the company is very low, at only 0.01.

The accounts receivable for the company were 1.64 billion South African Rands, which is equivalent to 51 days of sales, refer to Table 3.24. This is slightly higher than at the end of 2002, when Impala Platinum Holdings Limited had 42 days of sales in accounts receivable.

Table 3.24: Financial Positions

Company	Year	LT Debt/ Equity	Days AR	Days Inv.
Impala Platinum Holdings Limited	2003	0.01	51	51
Barplats Investments Limited	2003	0.00	64	4
Northam Platinum Ltd	2003	0.00	28	124
African Rainbow Minerals Limited	2003	0.00	70	95

3.9 Alexander Forbes Limited

Alexander Forbes Limited. The Group's principal activity is the provision of financial and risk services, direct marketing, multi-management investments and medical scheme administration. Financial services include retirement fund administration and consulting, actuarial services, healthcare consulting, asset consulting, personal financial planning and direct marketing of financial products.

Risk services include risk and insurance programme management and consulting, insurance broking & reinsurance broking, alternative risk finance consulting and facilities. It also offers claims management and insurance products and services for the individual. The Group's operations are located in South Africa, United Kingdom, Asia and Latin America. Risk services accounted for 50% of fiscal 2003 revenues; financial services, 33%; investment solutions, 9% and direct marketing, 8%.

3.9.1 Competitor Analysis

Alexander Forbes Limited operates within the Insurance agents, brokers, & service sector. This analysis compares Alexander Forbes Limited with three other insurance companies in Africa / Mid East: Discovery Holdings Limited (2003 sales of 3.61 billion South African Rands [US\$531.02 million] of which 82% was Health), Capital Alliance Holdings Limited (5.64 billion South African Rands [US\$831.50 million] of which 76% was Individual Life Insurance), and Mutual & Federal Insurance Company Ltd (5.73 billion South African Rands [US\$843.88 million] of which 45% was Personal).

3.9.2 Sales Analysis

During the year ended March of 2003, sales at Alexander Forbes Limited were 4.88 billion South African Rands (US\$718.82 million). This is an increase of 15.1% versus 2002, when the company's sales were 4.24 billion South African Rands. Sales of Financial Services saw an increase that was more than double the company's growth rate: sales were up 31.2% in 2003, from 1.21 billion South African Rands to 1.59 billion South African Rands. Alexander Forbes Limited also saw significant increases in sales in Risk Services (up 26.7% to 2.44 billion South African Rands).

The company derives most of its revenues in United Kingdom and Europe: in 2003, this region's sales were 2.62 billion South African Rands, which is equivalent to 53.6% of total sales.

The company's sales increased faster in 2003 than at all three comparable companies. While Alexander Forbes Limited enjoyed a sales increase of 15.1%, the other companies saw smaller increases: Discovery Holdings Limited sales were up 5.8%, Capital Alliance Holdings Limited decreased 67.3%, and Mutual & Federal Insurance Company Ltd experienced growth of 11.4%.

The company currently employs 5,420. With sales of 4.88 billion South African Rands (US\$718.82 million), this equates to sales of US\$132,624 per employee. This is lower than the three comparable companies, which had sales between US\$169,383 and US\$1,381,227 per employee. Note that some of the figures stated herein could be distorted based on exact classification of employees and subcontractors, refer to Table 3.25.

Table 3.25: Sales Comparisons (Fiscal Year ending 2003)

Company	Year Ended	Sales (blns)	Sales Growth	Sales/ Emp (US\$)	Largest Region
Alexander Forbes Limited	Mar 2003	4.880	15.1%	132,624	United Kingdom and Europe (53.6%)
Discovery Holdings Limited	Jun 2003	3.605	5.8%	169,383	South Africa (94.9%)
Capital Alliance Holdings Limited	Mar 2003	5.645	-67.3%	1,381,227	N/A
Mutual & Federal Insurance Company Ltd	Dec 2003	5.729	11.4%	257,517	South Africa (91.5%)

3.9.3 Recent Stock Performance

During each of the previous 3 fiscal years, this stock has fallen in value (at the end of 2003, the stock was at 15.75 South African Rands).

For the 52 weeks ending 4/30/04, the stock of this company was down 4.1% to 10.07 South African Rands. During the past 13 weeks, the stock has fallen 14.3%. During the past 52 weeks, the stock of Alexander Forbes Limited has performed significantly worse than the three comparable companies, which saw gains between 39.5% and 113.9%.

During the 12 months ending 9/30/03, earnings per share totalled 0.89 South African Rands per share. Thus, the Price / Earnings ratio is 11.31. These 12-month earnings are lower than the earnings per share achieved during the last fiscal year of the company, which ended in March of 2003, when the company reported earnings of 1.19 per share. Earnings per share fell 25.6% in 2003 from 2002. Note that the earnings number includes a 0.05 pre-tax credit and 0.09 pre-tax charge in fiscal year 2003.

This company is currently trading at 0.71 times sales. Alexander Forbes Limited is trading at 3.81 times book value. However, at the end of fiscal year 2003, this company's intangible assets (1.93 billion South African Rands) were higher than its common equity (915.00 million South African Rands), which means that the price to book ratio is not a very useful indicator, refer to Table 3.26.

Table 3.26: Summary of company valuations

Company	Date	P/E	Price/ Book	Price/ Sales	52 Wk Pr Chg
Alexander Forbes Limited	4/30/04	11.3	3.81	0.71	-4.10%
Discovery Holdings Limited	4/30/04	13.7	5.29	1.53	113.93%
Capital Alliance Holdings Limited	4/30/04	3.9	1.34	0.36	39.51%
Mutual & Federal Insurance Company Ltd	4/29/04	6.4	1.24	0.75	45.83%

The market capitalisation of this company is 3.48 billion South African Rands (US\$513.23 million). The capitalisation of the floating stock (i.e., that which is not closely held) is 2.07 billion South African Rands (US\$304.30 million).

3.9.4 Dividend Analysis

During the 12 months ending 9/30/03, Alexander Forbes Limited paid dividends totalling 0.67 South African Rands per share. Since the stock is currently trading at 10.07 South African Rands, this implies a dividend yield of 6.7%. The company has paid a dividend for 5 straight years. Alexander Forbes Limited has increased its dividend during each of the past 4 fiscal years (in 1999, the dividends were 0.28 South African Rands per share).

During the same 12 month period ended 9/30/03, the Company reported earnings of 0.89 South African Rands per share. Thus, the company paid 75.3% of its profits as dividends.

3.9.5 Profitability Analysis

On the 4.88 billion South African Rands in sales reported by the company in 2003, the cost of goods sold totalled 3.83 billion South African Rands, or 78.4% of sales (i.e., the gross profit was 21.6% of sales). This gross profit margin is very

slightly better than the company achieved in 2002, when cost of goods sold totalled 79.1% of sales.

In 2003, earnings before extraordinary items at Alexander Forbes Limited were 413.00 million South African Rands, or 8.5% of sales. This profit margin is lower than the level the company achieved in 2002, when the profit margin was 13.1% of sales.

The company's return on equity in 2003 was 68.6%. This was significantly worse than the already high 156.8% return the company achieved in 2002. (Extraordinary items have been excluded), refer to Table 3.27.

Table 3.27: Profitability Comparison

Company	Year	Gross Profit Margin	EBITDA Margin	Earns bef. extra
Alexander Forbes Limited	2003	<>	N/A	8.5%
Alexander Forbes Limited	2002	20.9%	N/A	13.1%
Discovery Holdings Limited	2003	N/A	39.1%	10.0%
Capital Alliance Holdings Limited	2003	N/A	81.0%	8.8%
Mutual & Federal Insurance Company Ltd	2003	N/A	84.1%	11.7%

Alexander Forbes Limited reports profits by product line. During 2003, the itemised operating profits at all divisions were 1.05 billion South African Rands, which is equal to 21.6% of total sales. Of all the product lines, Direct Marketing had the highest operating profits in 2003, with operating profits equal to 35.1% of sales. (However, Direct Marketing only accounts for 8% of total sales at Alexander Forbes Limited). In 2002, Investment Solutions had the highest operating profits (35.8% of sales versus 31.6% for Direct Marketing).

Financial Services had the lowest operating profit margin in 2003, with the operating profit equal to only 18.0% of sales. However, in 2002, Risk Services had the lowest profit margin (19.6% of sales versus 19.9% for Financial Services).

3.9.6 Financial Position

The company's long term debt was 2.50 billion South African Rands and total liabilities (i.e., all monies owed) were 52.43 billion South African Rands. The long-term debt to equity ratio of the company is 2.42. Alexander Forbes Limited does not appear to be very efficient in collecting payments. The accounts receivable for the company were 1.81 billion South African Rands, which is equivalent to 135 days of sales, refer to Table 3.28. This is an improvement over the end of 2002, when Alexander Forbes Limited had 266 days of sales in accounts receivable.

Table 3.28: Financial Positions

Company	Year	LT Debt/ Equity	Days AR
Alexander Forbes Limited	2003	2.42	135
Discovery Holdings Limited	2003	0.27	N/A
Capital Alliance Holdings Limited	2003	0.14	N/A
Mutual & Federal Insurance Company Ltd	2003	0.01	N/A

Note that some of the financial ratios stated within this analysis may be distorted because of sales in financing, leasing, etc., which can distort certain ratios. At Alexander Forbes Limited, sales of Financial Services totalled 1.59 billion South African Rands, which was equal to 32.64% of sales in 2003.

3.10 Tiger Brands Ltd

Tiger Brands Ltd (TIGBRANDS). The Group's principal activities are manufacturing and processing of consumer food products, producing and marketing health, personal care, critical care hospital products and household hygiene products and wholesaling of food products. Brand includes All Gold, Jungle, Fizz Pops, King Korn, Moni's pasta, KOO, DairyBelle, Citro Soda, Osteo-Matrix and Betadine. The Group acquired Robertsons Home care, Parke-Med, Citro Soda and the remaining 50% shareholding of Enterprise Foods (Pty) Ltd.

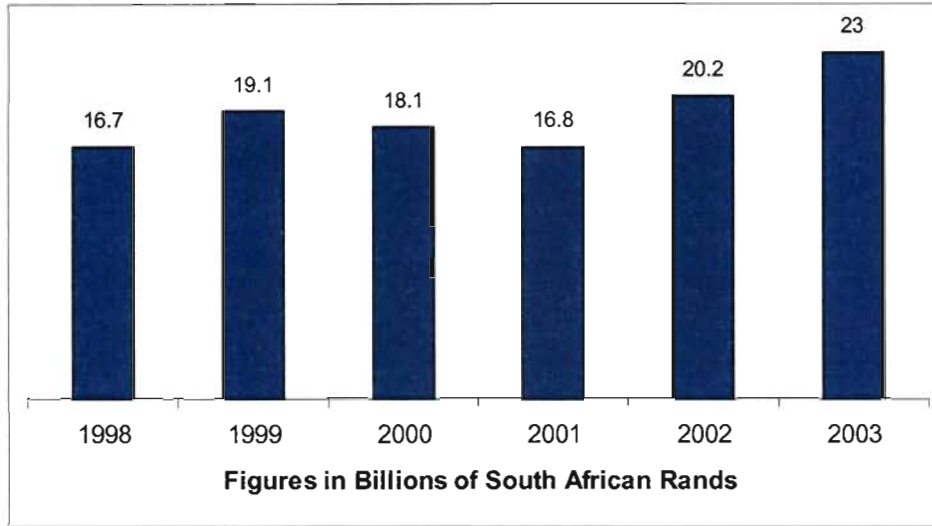
3.10.1 Competitor Analysis

Tiger Brands Ltd operates in the Packaged frozen foods sector. This analysis compares Tiger Brands Ltd with three other supermarkets and grocery stores in Africa / Mid East: Super-Sol Limited of Israel (2003 sales of 6.32 billion Israel Shekels [US\$1.38 billion] of which 99% was Sales), Pick 'n Pay Stores Limited (26.19 billion South African Rands [US\$3.86 billion]), and Shoprite Holdings Limited (24.82 billion South African Rands [US\$3.66 billion] of which 95% was Supermarkets).

3.10.2 Sales Analysis

Tiger Brands Ltd reported sales of 23.04 billion South African Rands (US\$3.39 billion) for the fiscal year ending September of 2003. This represents an increase of 14.2% versus 2002, when the company's sales were 20.18 billion South African Rands. Sales of Spar saw an increase of 21.3% in 2003, from 8.35 billion South African Rands to 10.12 billion South African Rands. For illustration refer to Figure 3.8.

Figure 3.8: Recent Sales at Tiger Brands Ltd



Tiger Brands Ltd currently has 16,932 employees. With sales of 23.04 billion South African Rands (US\$3.39 billion), this equates to sales of US\$200,429 per employee. This is higher than the three comparable companies, which had sales between US\$55,044 and US\$155,241 per employee. Note that some of the figures stated herein could be distorted based on exact classification of employees and subcontractors, refer to Table 3.29.

Table 3.29: Sales Comparisons (Fiscal Year ending 2003)

Company	Year Ended	Sales (US\$blns)	Sales Growth	Sales/ Emp (US\$)	Largest Region
Tiger Brands Ltd	Sep 2003	3.394	14.2%	200,429	N/A
Super-Sol Limited	Dec 2003	1.382	-6.6%	155,241	Israel (100.0%)
Pick 'n Pay Stores Limited	Feb 2003	3.858	39.2%	124,465	Southern Africa (82.6%)
Shoprite Holdings Limited	Jun 2003	3.657	12.9%	55,044	South Africa (90.3%)

3.10.3 Recent Stock Performance

For the 52 weeks ending 4/30/04, the stock of this company was up 35.9% to 86.00 South African Rands. During the past 13 weeks, the stock has increased 4.9%.

During the 12 months ending 9/30/03, earnings per share totalled 7.53 South African Rands per share. Thus, the Price / Earnings ratio is 11.42. Earnings per share fell 7.9% in 2003 from 2002. Note that the earnings number includes a 0.16 pre-tax credit and 0.06 charge in fiscal year 2003.

This company is currently trading at 0.63 times sales. This is at a higher ratio than all three comparable companies, which are trading between 0.20 and 0.35 times sales. Tiger Brands Ltd is trading at 4.32 times book value, refer to Table 3.30.

Table 3.30: Summary of company valuations

Company	Date	P/E	Price/ Book	Price/ Sales	52 Wk Pr Chg
Tiger Brands Ltd	4/30/04	11.4	4.32	0.63	35.90%
Super-Sol Limited	4/29/04	N/A	1.44	0.35	22.61%
Pick 'n Pay Stores Limited	4/30/04	16.3	6.38	0.33	36.03%
Shoprite Holdings Limited	4/30/04	9.6	2.56	0.20	73.21%

The market capitalisation of this company is 14.40 billion South African Rands (US\$2.12 billion). Closely held shares (i.e., those held by officers, directors, pension and benefit plans and those shareholders who own more than 5% of the stock) amount to over 50% of the total shares outstanding: thus, it is impossible for an outsider to acquire a majority of the shares without the consent of

management and other insiders. The capitalisation of the floating stock (i.e., that which is not closely held) is 5.69 billion South African Rands (US\$838.64 million).

3.10.4 Dividend Analysis

During the 12 months ending 9/30/03, Tiger Brands Ltd paid dividends totalling 2.90 South African Rands per share. Since the stock is currently trading at 86.00 South African Rands, this implies a dividend yield of 3.4%. This company's dividend yield is lower than the three comparable companies (which are currently paying dividends between 3.4% and 6.6% of the stock price). The company has paid a dividend for 6 straight years.

During the same 12 month period ended 9/30/03, the Company reported earnings of 7.53 South African Rands per share. Thus, the company paid 38.5% of its profits as dividends.

3.10.5 Profitability Analysis

On the 23.04 billion South African Rands in sales reported by the company in 2003, the cost of goods sold totalled 17.25 billion South African Rands, or 74.9% of sales (i.e., the gross profit was 25.1% of sales). This gross profit margin is better than the company achieved in 2002, when cost of goods sold totalled 81.6% of sales. In 2003, the gross margin was the highest of the previous five years (and in 2000 was as low as -39.8%).

Tiger Brands Ltd's 2003 gross profit margin of 25.1% was better than all three comparable companies (which had gross profits in 2003 between 6.9% and 18.8% of sales).

The company's earnings before interest, taxes, depreciation and amortisation (EBITDA) were 2.17 billion South African Rands, or 9.4% of sales. This EBITDA

margin is worse than the company achieved in 2002, when the EBITDA margin was equal to 11.3% of sales. The three comparable companies had EBITDA margins that were all less (between -4.0% and 4.1%) than that achieved by Tiger Brands Ltd.

In 2003, earnings before extraordinary items at Tiger Brands Ltd were 1.26 billion South African Rands, or 5.5% of sales. This profit margin is lower than the level the company achieved in 2002, when the profit margin was 6.7% of sales.

The company's return on equity in 2003 was 46.6%. This was significantly worse than the already high 82.9% return the company achieved in 2002. (Extraordinary items have been excluded), refer to Table 3.31.

Table 3.31: Profitability Comparison

Company	Year	Gross Profit Margin	EBITDA Margin	Earns bef. extra
Tiger Brands Ltd	2003	<>	9.4%	5.5%
Tiger Brands Ltd	2002	18.4%	11.3%	6.7%
Super-Sol Limited	2003	16.6%	4.1%	-2.1%
Pick 'n Pay Stores Limited	2003	18.8%	0.5%	1.7%
Shoprite Holdings Limited	2003	6.9%	-4.0%	1.7%

Tiger Brands Ltd reports profits by product line. During 2003, the itemised operating profits at all divisions were 1.92 billion South African Rands, which is equal to 8.3% of total sales. Of all the product lines, Regulated Healthcare had the highest operating profits in 2003, with operating profits equal to 42.1% of sales. (However, Regulated Healthcare only accounts for 4% of total sales at Tiger Brands Ltd).

Spar had the lowest operating profit margin in 2003, with the operating profit equal to only 3.4% of sales. This marks the fourth year in which Spar had the lowest operating profit margins.

3.10.6 Inventory Analysis

The value of the company's inventory totalled 2.32 billion South African Rands. Since the cost of goods sold was 17.25 billion South African Rands for the year, the company had 49 days of inventory on hand (another way to look at this is to say that the company turned over its inventory 7.5 times per year). This is an increase in days in inventory from, when the company had 2.00 billion South African Rands, which was only 44 days of sales in inventory.

The 49 days in inventory is higher than the three comparable companies, which had inventories between 24 and 41 days sales at the end of 2003. This company has increased its days of inventory for 3 consecutive years: in 2000, the company had only 26 days of inventory on hand (versus 49 at the end of 2003).

3.10.7 Financial Position

The company's long term debt was 2.27 billion South African Rands and total liabilities (i.e., all monies owed) were 7.53 billion South African Rands. The long-term debt to equity ratio of the company is 0.66.

The accounts receivable for the company were 3.31 billion South African Rands, which is equivalent to 52 days of sales. This is slightly higher than at the end of 2002, when Tiger Brands Ltd had 50 days of sales in accounts receivable.

The 52 days of accounts receivable at Tiger Brands Ltd are higher than all three comparable companies: Super-Sol Limited had 41 days, Pick 'n Pay Stores

Limited had 7 days, while Shoprite Holdings Limited had 19 days outstanding at the end of the fiscal year 2003, refer to Table 3.32.

Table 3.32: Financial Positions

Company	Year	LT Debt/ Equity	Days AR	Days Inv.
Tiger Brands Ltd	2003	0.66	52	49
Super-Sol Limited	2003	0.45	41	24
Pick 'n Pay Stores Limited	2003	0.26	7	26
Shoprite Holdings Limited	2003	0.00	19	41

3.11 MTN Group Limited

MTN Group Limited Formerly known as M-Cell Limited. The Group's principal activities are the operation of telecommunication and satellite signal distribution. The Group operates through its two wholly owned subsidiaries, Mobile Telephone Networks Holdings (Pty) Ltd (MTN) and Orbicom (Pty) Ltd (Orbicom). MTN operates telecommunications networks and provides related services to customers in six countries. Orbicom offers a range of satellite broadcast and data network management services in over 10 countries in Africa. Wireless Telecommunications accounted for 99% of fiscal 2003 revenues and Satellite Telecommunications, 1%.

3.11.1 Competitor Analysis

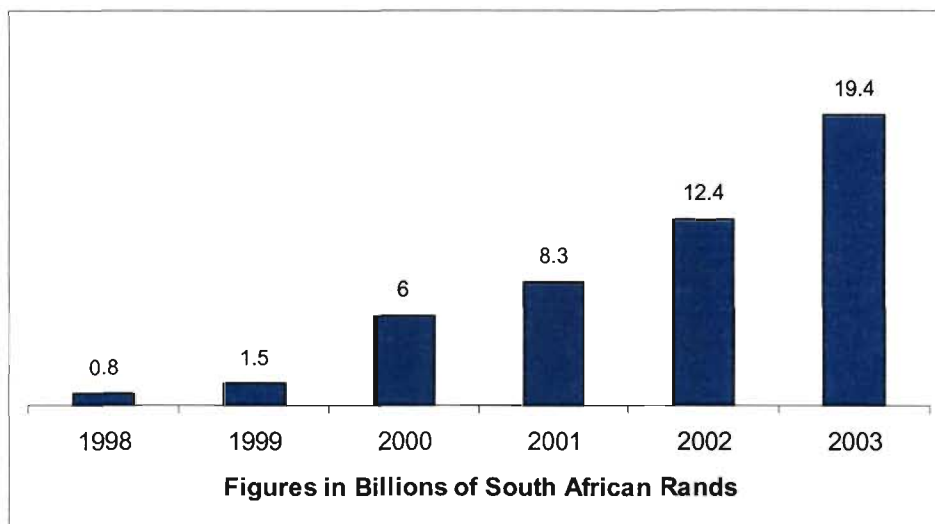
MTN Group Limited operates in the Radiotelephone communications sector. This analysis compares MTN Group Limited with three other telecommunications providers in Africa / Mid East: Jasco Electronics Holdings Limited (2003 sales of 296.85 million South African Rands [US\$43.73 million] of which 68% was

Telecommunications), Allied Technologies Limited (4.06 billion South African Rands [US\$597.46 million] of which 71% was Telecommunications), and Johnnic Holdings Limited (12.14 billion South African Rands [US\$1.79 billion] of which 72% was Telecommunications).

3.11.2 Sales Analysis

MTN Group Limited reported sales of 19.41 billion South African Rands (US\$2.86 billion) for the fiscal year ending March of 2003. This represents an increase of 56.1% versus 2002, when the company's sales were 12.43 billion South African Rands. Sales at MTN Group Limited have increased during each of the previous five years (and since 1998, sales have increased a total of 2,200%). Sales of Wireless Telecommunications saw an increase of 56.3% in 2003, from 12.33 billion South African Rands to 19.27 billion South African Rands.

Figure 3.9: Recent Sales at MTN Group Limited



Most of the company's 2003 sales were in its home market of South Africa: in 2003, this region's sales were 12.43 billion South African Rands, which is equivalent to 64.1% of total sales. In 2003, sales in Rest of Africa were up at a

rate that was much higher than the company as a whole: in this region, sales increased 196.8% to 6.97 billion South African Rands.

During 2003, the company's sales increased at a faster rate than all three comparable companies. While MTN Group Limited enjoyed a sales increase of 56.1%, the other companies saw smaller increases: Jasco Electronics Holdings Limited sales were up 10.5%, Allied Technologies Limited increased 12.5%, and Johnnic Holdings Limited experienced a sales decline of 22.5%. For illustration refer to Figure 3.9.

MTN Group Limited currently has 4,192 employees. With sales of 19.41 billion South African Rands (US\$2.86 billion), this equates to sales of US\$681,860 per employee. This is much higher than the three comparable companies, which had sales between US\$107,436 and US\$327,555 per employee. Note that some of the figures stated herein could be distorted based on exact classification of employees and subcontractors, refer to Table 3.33.

Table 3.33: Sales Comparisons (Fiscal Year ending 2003)

Company	Year Ended	Sales (blns)	Sales Growth	Sales/ Emp (US\$)	Largest Region
MTN Group Limited	Mar 2003	19.405	56.1%	681,860	South Africa (64.1%)
Jasco Electronics Holdings Limited	Feb 2003	0.297	10.5%	107,436	N/A
Allied Technologies Limited	Feb 2003	4.056	12.5%	327,555	South Africa (86.0%)
Johnnic Holdings Limited	Mar 2003	12.143	-22.5%	246,159	South Africa (68.5%)

3.11.3 Recent Stock Performance

The stock price has more than doubled recently: For the 52 weeks ending 5/7/04, the stock of this company was up 116.7% to 27.95 South African Rands. During the past 13 weeks, the stock has fallen 6.5%. During the past 52 weeks, the stock of MTN Group Limited has outperformed (by a large margin) the three comparable companies, which saw changes between -65.9% and 50.9%.

During the 12 months ending 9/30/03, earnings per share totalled 1.84 South African Rands per share. Thus, the Price / Earnings ratio is 15.19. These 12-month earnings are greater than the earnings per share achieved during the last fiscal year of the company, which ended in March of 2003, when the company reported earnings of 1.17 per share. Earnings per share rose 233.3% in 2003 from 2002. Note that the earnings number includes a 0.01 pre-tax charge in fiscal year 2003.

This company is currently trading at 2.39 times sales. This is at a higher ratio than all three comparable companies, which are trading between 0.17 and 0.85 times sales. MTN Group Limited is trading at 2.45 times book value. At the end of 2003, this company's intangible assets were quite sizeable, at 12.56 billion South African Rands, while the total common equity stood at 17.02 billion South African Rands. If these intangible assets were to be excluded, the company's price to book ratio would be significantly higher. The company's price to book ratio is higher than that of all three comparable companies, which are trading between 0.46 and 2.21 times book value, refer to Table 3.34.

Table 3.34: Summary of company valuations (as of 5/7/04)

Company	P/E	Price/ Book	Price/ Sales	52 Wk Pr Chg
MTN Group Limited	15.2	2.45	2.39	116.70%
Jasco Electronics Holdings Limited	40.6	0.61	0.17	-54.38%
Allied Technologies Limited	11.0	2.21	0.85	50.91%
Johnnic Holdings Limited	0.6	0.46	0.22	-65.85%

The market capitalisation of this company is 46.30 billion South African Rands (US\$6.82 billion). Closely held shares (i.e., those held by officers, directors, pension and benefit plans and those shareholders who own more than 5% of the stock) amount to over 50% of the total shares outstanding: thus, it is impossible for an outsider to acquire a majority of the shares without the consent of management and other insiders. The capitalisation of the floating stock (i.e., that which is not closely held) is 11.32 billion South African Rands (US\$1.67 billion).

3.11.4 Dividend Analysis

This company has paid no dividends during the last 12 months. MTN Group Limited last paid a dividend during fiscal year 2001, when it paid dividends of 0.10 per share.

3.11.5 Profitability Analysis

On the 19.41 billion South African Rands in sales reported by the company in 2003, the cost of services sold totalled 8.32 billion South African Rands, or 42.9% of sales (i.e., the gross profit was 57.1% of sales). This gross profit margin is lower than the company achieved in 2002, when cost of services sold totalled 40.9% of sales.

MTN Group Limited's 2003 gross profit margin of 57.1% was better than all three comparable companies (which had gross profits in 2003 between 11.9% and 39.6% of sales).

The company's earnings before interest, taxes, depreciation and amortisation (EBITDA) were 6.21 billion South African Rands, or 32.0% of sales. This EBITDA to sales ratio is roughly on par with what the company achieved in 2002, when the EBITDA ratio was 30.5% of sales.

In 2003, earnings before extraordinary items at MTN Group Limited were 1.93 billion South African Rands, or 9.9% of sales. This profit margin is an improvement over the level the company achieved in 2002, when the profit margin was 4.6% of sales.

The company's return on equity in 2003 was 12.2%. This was significantly better than the 3.9% return the company achieved in 2002. (Extraordinary items have been excluded) , refer to Table 3.35

Table 3.35: Profitability Comparison

Company	Year	Gross Profit Margin	EBITDA Margin	Earns bef. extra
MTN Group Limited	2003	<>	32.0%	9.9%
MTN Group Limited	2002	59.1%	30.5%	4.6%
Jasco Electronics Holdings Limited	2003	N/A	39.6%	9.6%
Allied Technologies Limited	2003	11.9%	9.7%	15.6%
Johnnic Holdings Limited	2003	24.2%	24.2%	7.9%

3.11.6 Financial Position

At the end of 2003, MTN Group Limited had negative working capital, as current liabilities were 6.17 billion South African Rands while total current assets were only 5.31 billion South African Rands. The fact that the company has negative working capital could indicate that the company will have problems in expanding. However, negative working capital in and of itself is not necessarily bad, and could indicate that the company is very efficient at turning over inventory, or that the company has large financial subsidiaries.

The company's long term debt was 3.24 billion South African Rands and total liabilities (i.e., all monies owed) were 10.04 billion South African Rands. The long-term debt to equity ratio of the company is 0.18.

The accounts receivable for the company were 2.73 billion South African Rands, which is equivalent to 51 days of sales, refer to Table 3.36. This is an improvement over the end of 2002, when MTN Group Limited had 71 days of sales in accounts receivable.

Table 3.36: Financial Positions

Company	Year	LT Debt/ Equity	Days AR
MTN Group Limited	2003	0.18	51
Jasco Electronics Holdings Limited	2003	0.01	82
Allied Technologies Limited	2003	0.00	47
Johnnic Holdings Limited	2003	0.03	19

(INTERNET 5)

3.12 Strategy Renewal Periods

From the research reports in this chapter, it has already been established that the sample of companies chosen have enjoyed phenomenal success as evident from their sales growth in the last five years. What is now left to establish is the role that the frequency of strategy renewal has played in aiding the companies in staying ahead of the pack.

To unravel this mystery, information collected, mainly through telephonic and internet queries, was analysed and grouped into three categories i.e. business environment and key success factors of each firm's industry; nature of the company's strategy; and the renewal period or cycle in which the companies revisit their strategy planning processes. See Table 3.37: Strategy Renewal Periods (Page 102).

Table 3.37: Strategy Renewal Periods

<i>COMPANY</i>	<i>BUSINESS ENVIRONMENT AND KSF's</i>	<i>NATURE OF STRATEGY</i>	<i>STRATEGY RENEWAL PERIOD</i>
1. Amalgamated Beverage Industries Ltd	Few firms – largely dominated by ABL. Moderate product changes.	Dynamic	2 yearly
2. Pick 'n Pay Stores Limited	Fragmented industry. Highly competitive. Pick 'n Pay has a major market share.	Dynamic	Yearly
3. Woolworths Holdings Limited	Fragmented industry. Highly innovative. Woolworths a premium retail outlet.	Dynamic	Yearly
4. Sasol Ltd	Only a few major petroleum producers. Industry driven by low cost of production. Moderate to high technological advances.	Static	5 yearly
5. Shoprite Holdings Limited	Fragmented industry. Highly competitive. Logistics important for success. Shoprite a low cost producer.	Dynamic	Yearly
6. Murray & Roberts Holdings Ltd	Highly fragmented – low margin construction industry. Large tenders and volume driven.	Static	4 yearly
7. Impala Platinum Holdings Limited	Few platinum mines. Economy of scales, labour costs and exchange rate are important factors.	Static	5 yearly
8. Alexander Forbes Limited	Highly fragmented and competitive. Many large and small firms. National contracts a key success factor.	Dynamic	1/2 yearly
9. Tiger Brands Ltd	Moderately fragmented and fierce competition. Brand management and retail shelf space important.	Dynamic	Yearly
10. MTN Group Limited	Only three licensed network operators. Fierce competition, high speed innovation and price wars.	Dynamic	1/4 yearly

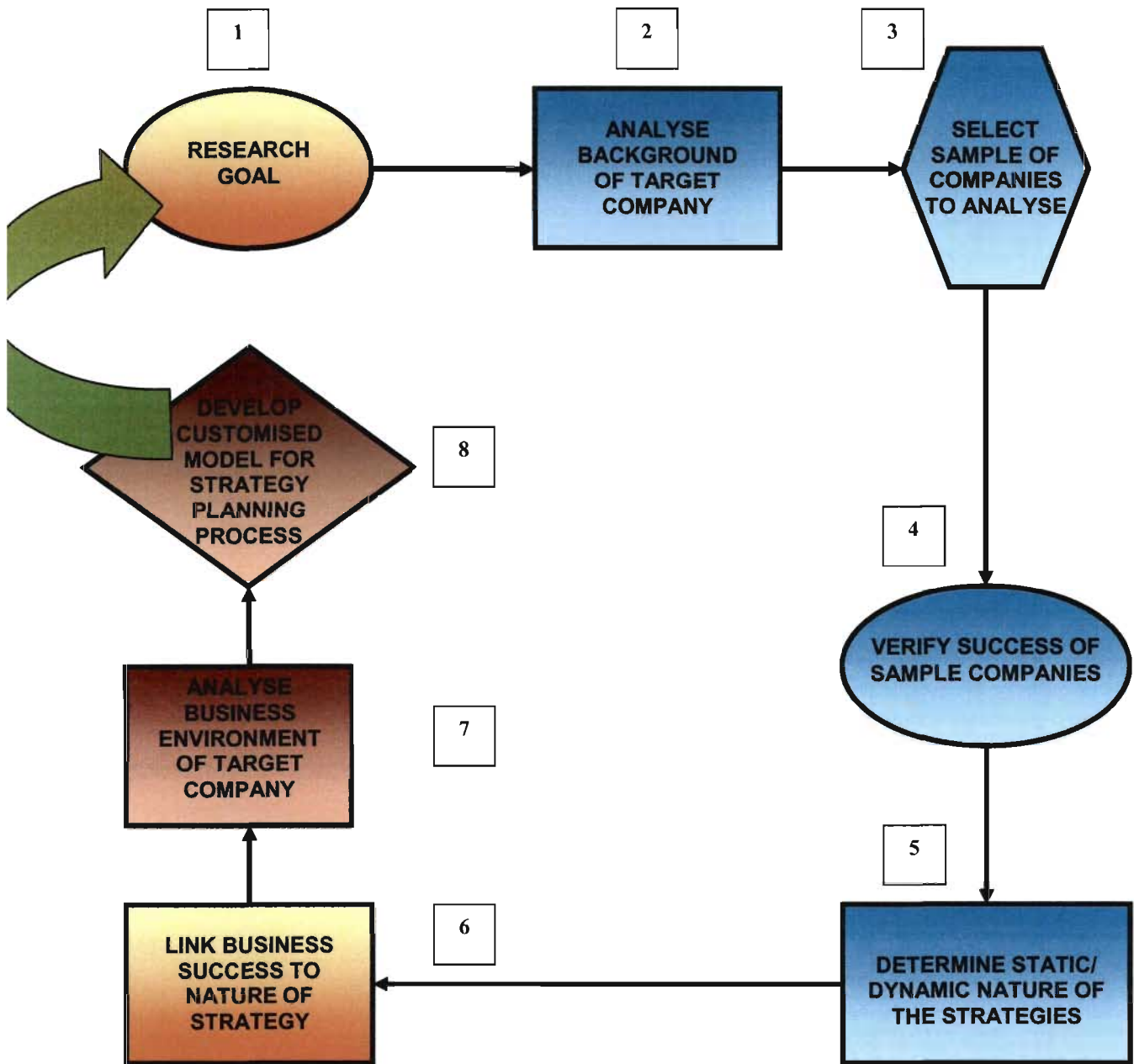
3.13 Strategy assessment model

Following the literature review and the sample case study of the ten South African companies, a model is developed to articulate the methodology to be followed when conducting strategy assessment on the business. The assessment model is a simple step by step approach, comprising of eight steps in the following order of execution:-

1. Determine the research goal.
2. Analyse the background of the company to be researched.
3. Select a sample of other companies for research.
4. Verify the success of the companies in the sample
5. Determine the static/ dynamic nature of the strategies of the companies in the sample.
6. Establish a link between the nature of the companies' strategies and their success.
7. Analyse the business environment in which PPC Cement operates.
8. Develop a customised strategic planning process for PPC Cement.

For a diagrammatic illustration, see Figure 3.10: Strategy assessment model, page 104.

Figure 3.10: Strategy assessment model



3.14 Summary

This section has laid a firm foundation for the following chapter i.e. PPC Cement Case Study. The ten companies, while very different in their line of business, all have a common thread – they operate under the same South African Market economy with PPC Cement. It may happen that their microeconomic environments differ significantly due to their specific industries, but certainly, the macroeconomic environment poses the same opportunities and threats.

Moreover, these case studies do not only set the ground for comparison for PPC Cement, but also serve as living proof that continuously regenerating your business strategy is the basis of success, or at the least, effectiveness. This chapter established the fundamental link between strategy renewal and business success or effectiveness.

In chapter 4, PPC Cement will be studied thoroughly in order to assess their current state of health of the business, internal processes, strategy and other topics which will be essential in reviewing their performance. It is from the case study review (Chapter 5) that a gap may be observed between PPC's current strategy renewal period and the ideal cases as outlined in Chapters 2 & 3.

CHAPTER 4: PPC CEMENT COMPANY LIMITED CASE STUDY

4.1 Introduction

Pretoria Portland Cement Company Limited was established in 1892 as De Eerste Cement Fabrieken Beperkt and listed on the Johannesburg Stock Exchange in 1910. PPC is now a 66,2%-owned subsidiary of Barloworld Limited. PPC Cement is the leading supplier of cement in southern Africa. Its eight manufacturing facilities in South Africa, Zimbabwe and Botswana have capacity to produce 6,4 million tons of cementitious products per annum. The company's distribution network supplies quality branded cements to the building and construction industry, concrete product manufacturers and retail outlets such as builders, merchants, hardware stores and DIY centres. Related products include aggregates from the company's quarries in Botswana and Suremix dry mortar mixes and application systems.

Slagment (33,3% owned) processes and sells slag by-products from steelmaking operations in Gauteng, South Africa. Kgale Quarries (50% owned) in Gaborone supplies aggregate to PPC Readymix and the construction industry in Botswana. The company's cementitious brands include the market-leading "Surebuild" brand in South Africa and "Unicem" in Zimbabwe. In addition to serving the southern African domestic markets, cement is exported to other African countries and the Indian Ocean islands.

PPC Lime (100% owned) is the leading supplier of metallurgical grade lime, burnt dolomite, limestone and related products in southern Africa. It operates one of the largest lime plants in the world at Lime Acres in the Northern Cape province of South Africa. Lime is one of the world's most widely used chemicals. Its major applications include its use as a flux in pyrometallurgical industries (e.g. steelmaking) and as a neutraliser, coagulant or chemical catalyst in gold extraction, water purification, effluent treatment, sugar refining and the

manufacture of industrial chemicals. Hydrated lime is used primarily for water purification and soil stabilisation. Graded and crushed limestone products are sold to the water treatment and metallurgical industries. Dolomite products are sold primarily to the metallurgical industries.

PPC Saldanha (100% owned) is a specialised bulk materials handling facility. It handles raw materials and waste products as an outsourced service to Saldanha Steel in the Western Cape province, South Africa, and is a world first. Afripack (75% owned) manufactures paper sacks for the cement industry; paper bags for the manufacturing and food sectors as well as laminated wrapping materials at its factory in Durban, South Africa. It has been a major supplier of flexible paper packaging products to the South African and export markets since 1933 and has the most modern plant of its kind in South Africa.

4.2 The Kambuku process

The Kambuku process, now in its fourth year of implementation, has embedded the principles and processes of organisational performance management deeply into the everyday routines and behaviours of the organisation. Daily, the employees meet, pool their strength and pursue the goal of improving performance and exceeding targets. By their own reports, they thrive on the challenge.

The implementation of this integrated set of systems to coach, enhance and encourage superior employee performance has delivered measurable and lasting benefits. At the same time, a pool of internal talent is being developed into a highly participative, committed and globally competitive team. These internal skills represent the future of the company.

The winner of this year's PPC Achievers Award is a man with only five years formal education. He was, nevertheless, sufficiently motivated and supported to

propose an eloquent engineering solution to an unsolved production problem. His assistance will result in savings of a million rand per annum. This example, and there are many more, confirms that if they continue to apply the formula for the creation of a fertile environment, employees at every level of the organisation will rise to the challenge of adding value.

An employee perception monitor reveals that more than 90% of the employees report a clear understanding of the targets of the organisation, the operation and their own team. The same number of employees report that workplace communication methods are targets, and are satisfied with a whole range of issues pertaining to climate in the organisation. These results do not surprise. They are the result of three years of deliberate daily effort and coaching at each operation. These efforts have now become the PPC way of doing business and, most importantly, this is one of the ways of creating sustainable competitive advantage.

There is no end in sight with the returns on this investment. The employees have added value for all stakeholders, and as a result have been rewarded by the company gain share scheme for their contribution to performance improvement. The Department of Trade and Industry's Competitiveness Fund has also endorsed the Kambuku process and granted it financial support. PPC enters the new financial year confidently on the solid foundation they have built, and keenly focused on achieving new heights as they strive to be southern Africa's nation-building company.

4.3 PPC Strategy

The company's strategies can be summarised as follows:

- ✚ Focus on core businesses
- ✚ Generate superior cash flow returns
- ✚ Achieve global competitiveness

- ✚ Practice sound corporate, environmental and social governance
- ✚ Build on strengths through synergistic growth

4.3.1 Focus on core businesses

The historical structure of the cement industry in place over many decades, resulted in PPC being invested in minority stakes in several businesses such as Natal Portland Cement, Ash Resources and Slagment. Since the demise of the cement cartel in 1996, these investments could no longer be regarded as core investments and had planned to exit them as they played no role in future strategy and absorbed too much of management's time and attention. During the year they were finally successful in realising acceptable value in disposing of their stakes in Natal Portland Cement and Ash Resources. Their stake in Slagment is currently also under consideration. Apart from unlocking value for their shareholders, this will allow management to search for future growth opportunities where they have a direct involvement in value creation.

4.3.2 Cash flow returns on investment (CFROI)

All three divisions made further progress in improving their CFROI this year. Both Cement's and Afripack's CFROI exceeded the cost of capital and Lime is expected to do so in the year ahead. Maintaining returns above the cost of capital will become more difficult, as the impact of the weaker Rand and the high level of producer inflation will have a somewhat delayed impact on operating costs and the replacement cost of plant and equipment. Approximately 40% of the cost of a new production line is directly or indirectly linked to the exchange rate. The company will need to start replacing and rationalising cement production lines within a few years and it is imperative that acceptable returns are generated in the interim to convince shareholders that the business is sustainable and to encourage their support for the re-investment required. This issue is not unique to PPC but is a problem that faces many of the capital-

intensive industries in the country. Approximately 40 – 45% of delivered cement cost is similarly either directly or indirectly tied to the fortunes of the Rand. Delivery costs of cement over the vast distances of the country account for almost 25% of total cost.

The deterioration in the competitiveness of the harbour and rail infrastructure is a matter for grave concern. The inability of Spoornet to provide a competitive and reliable service has resulted in increasing volumes having to be transported by road at greater cost and a burden to road infrastructure. During this past year the company had to cancel some export contracts and was not able to take up other opportunities due to Railage capacity constraints. While much debate has recently taken place in the media over the rising prices of locally produced commodities, many observers fail to recognise that the economy is more open to international influences than ever before.

The weaker currency, high international fuel prices and sharply rising costs of other imported inputs continue to impact on operating costs. In spite of this, South African cement prices in US dollar terms have declined and are now lower than in 1998 and are still in the lowest quartile globally. The impact of increased transport costs, imported inputs and replacement capital equipment costs, will necessitate real price increases in future to generate appropriate returns.

4.3.3 Global competitiveness

Progress achieved during the year in global competitiveness programme, which commenced six years ago, has helped alleviate some of the cost increase pressures referred to above. Activities and successes can be summarised into the following areas:

- ✚ Equipment operating efficiencies and benchmarking
- ✚ Reduction in operating costs

- ✚ Reduction in overheads and optimisation of information systems
- ✚ Reduction of energy costs through safe recycling of waste materials
- ✚ Optimisation of logistics costs
- ✚ Creating globally competitive people and implementing best operating practices

The implementation of the VBM (VALUE BASED MANAGEMENT) and Kambuku programme continues, as it is the cornerstone of creating globally competitive people. In the modern rapidly changing world, the human intellect is the only sustainable competitive advantage.

Attracting the best people, motivating and retaining them, developing them, releasing their energy and intellect to outcompete competitors, is the real key to success. This is particularly true in South Africa where sadly so many of the people start this race for global competitiveness with historical disadvantages.

Kambuku is therefore focused on developing and releasing the human intellect of all people to continuously enhance their value creation for the benefit of the customers and shareholders, while creating value for themselves, their families and their communities, thereby improving their quality of life. At the same time, the programme addresses requirements for future staffing and employment equity and black economic empowerment plans in an integrated and natural way.

4.3.4 Corporate, environmental and social governance

For many years the company has been at the forefront of sound practices which are increasingly being demanded in terms of good corporate and social governance. Policies and control systems for managing risk, environment, business ethics, black economic empowerment, affirmative procurement, occupational safety, health and hygiene, HIV/Aids, product quality and many others are firmly entrenched as a way of daily operational life in the company.

Where relevant international standards exist, the company has been certified to those standards. In all cases the company's value of caring for the communities and the environment in which it operates is paramount.

Where moral responsibilities indicate that merely satisfying legislation or standards is inadequate, the company will go beyond those parameters and act according to what the company believe is right. In line with this philosophy, the company has taken the first step toward reporting in terms of the Global Reporting Initiative's Sustainability Reporting Guidelines on economic, environmental and social performance. This structured approach will incorporate annual reporting on the management of these issues.

Many of the company's strategies have to be extremely long term in nature, and consequently environmental and social practices have become a natural part of everyday business life. The company believes that they are part of the corporate and social responsibility and are important to long-term business sustainability and success. This is perhaps one of the reasons that the company achieved its 110th anniversary this year.

4.3.5 Building strengths through synergistic growth

The company has not only prospered and grown for more than a century, but importantly has demonstrated in the last few years that it can hold its own in an extremely competitive industry competing against major international players. Future growth in the domestic economy and an economic recovery in Zimbabwe will present the opportunity for organic growth for which the company is well positioned. The company has developed an international competitive ability through its processes and people that can be judiciously expanded internationally to generate further growth. PPC continues to look for opportunities that will enhance value creation, expand geographic footprint and meet the criteria for affordability, risk profile, potential competitiveness and sustainability.

4.4 Financial review

Revenue rose by 26% to R2 570,2 million (2001: R2 047,9 million), and operating profits including income from associate companies rose by 39% to R645, 8 million (2001: R464, 7 million). These results include Portland Holdings Limited of Zimbabwe (Porthold) which is being consolidated for the first time. They reflect the continued improvement made by all business units, the successful application of VBM (VALUE BASED MANAGEMENT) and the benefits of embracing and challenging global best practices. This is in spite of selling price controls, hyperinflationary input costs and inadequate operating margins in Zimbabwe.

Domestic cement sales volumes rose by 5% reflecting a small increase in the local market share. South African based exports increased 39% with improved tonnages to the rapidly growing markets of West Africa, Mozambique and the Indian Ocean islands. In Zimbabwe, cement sales volumes rose by 12% and exports to neighbouring territories rose by 18%. The lime division experienced a decline of 3% in lime and burnt dolomite sales following the planned Corex plant shutdown at Saldanha Steel. Notably, volumes have since come back strongly following a very successful start up at Saldanha. Progress was made in addressing lime prices, which are currently still 40% below international levels. The packaging division continued to show improvement.

Capital expenditure remained at low levels and continued below the annual depreciation charge as it has done for the last few years. At the same time, operational cash flows have increased in line with operating profits with the result that operational cash flows rose by 26% to R792, 2 million (2001: R628, 8 million). These cash flows were further bolstered by proceeds from the sale of PPC Logistics (Pty) Limited, Natal Portland Cement Company (Pty) Limited (NPC) and Ash Resources (Pty) Limited (Ash Resources) which amounted to R504, 3 million in total. The acquisition cost of Porthold amounting to R435, 7

million comprised net cash payments amounting to R185, 2 million and the issue of 3 719 327 PPC shares amounting to R250, 5 million. No major capital projects were undertaken in the year.

Dividends paid during the year amounted to R523, 9 million (2001: R172, 5 million) which included the special dividend of R5, 00 per share declared last November. At the same time, and as a direct result of these higher dividends, the taxation charge by way of secondary tax on companies increased to R55, 6 million (2001: R16, 6 million). The continuing strong cash flow from operations, and the proceeds from the sale of NPC and Ash Resources, has built the group's cash resources. As this cash can currently be more efficiently invested by the shareholders, the directors have declared a final cash dividend of 400 cents and a special dividend of 600 cents per share bringing total dividends declared for the year to 1 135 cents, an 18% increase over last year.

4.5 International economies

While the recession experienced in the United States and the downturn experienced by other global economies have ended, these economies remain vulnerable. At the same time, the continued fall in international equity markets is indicative of the high level of uncertainty that currently prevails in international markets and could delay any real economic growth.

Locally economic growth is showing promise but a number of concerning fundamentals are returning. The anticipated improvement in gross fixed capital formation (GFCF) began to materialise in 2002 with real GFCF rising by 7,5% in the second quarter of 2002. Pleasingly, private business, public corporations and general government all increased their levels of infrastructural spend.

After 13 quarters of almost uninterrupted decline, expenditure by public corporations increased by a seasonally adjusted rate of 6,5%. The positive

impact of the Coega harbour project and industrial development zone near Port Elizabeth is still to be felt.

Government expenditure also grew by over 6% largely as a result of the spending related to improving the road network, urban renewal and on improving the infrastructure ahead of the World Summit on Sustainable Development. Expenditure by the private sector grew at between 7% and 9% with strong growth in platinum mining infrastructure and in developments aimed at the growing tourist market. Pleasingly there was a significant increase in expenditure on much needed residential housing.

These developments are welcomed as expenditure on long-term infrastructure projects creates jobs, reflects confidence to the international investor community and ultimately provides the country with competitive logistical and societal support services. The capability of government to provide both the finance and organisational capability to deliberate, prioritise and deliver on important infrastructure projects has improved significantly. It is also an important element of the New Partnership for Africa's Development (NEPAD) initiative in that it signals confidence in the region.

The levels of service from the rail infrastructure have systematically declined in recent years. There is an enormous shortage in the availability of railway rolling stock and consequently manufacturing companies and exporters have missed scheduled deliveries and shipments to local and export customers. This has resulted in South African companies increasingly being regarded as unreliable suppliers, which is not conducive to building up long-term relationships with local and export customers. It appears likely that the backlog in replenishing railway rolling stock is being addressed and that it is expected to see an improved situation in the next few years.

Disappointingly, the better performance of the economy over the last three years has done little to reverse the downward trend in formal sector employment or to

relieve poverty. The recent increases in interest rates, driven by the relatively weak Rand and rapid rise in consumer and producer prices placed strains on the economy. The weaker Rand has drove up inflation in 2002 and, while it is possible that interest rates might increase further in the short term, it is expected that interest rates and inflation will turn favourably in 2003 and that the economy will once again move towards targeted levels.

4.6 Appeal Court ruling in favour of PPC

The company has always maintained that the search and seizure operation conducted by the Competition Commission on the premises of PPC and Slagment (Pty) Limited (Slagment) in August 2000 was unwarranted. The company was co-operating with the Commission at the time with regard to a pricing complaint against Ash Resources. The three major South African cement companies (including PPC) had been shareholders in Slagment and Ash Resources for many years and PPC had management responsibility for Slagment.

While the company maintains a co-operative stance towards the resolution of such matters, the circumstances in this instance were such that it had no option but to also vigorously defend its corporate integrity and longstanding reputation. Whereas the High Court initially ruled in favour of the Competition Commission in September 2000, the Supreme Court of Appeal unanimously ruled in favour of PPC and Slagment in May 2002 and so vindicated the company's position.

4.7 Minerals and Petroleum Resources Development Bill

PPC strongly supports the vision of a globally competitive mining industry that draws on the human and financial resources of all South Africa's people and offers real benefits to all South Africans. The company is already well advanced with regard to a number of the requirements of the new Bill and its related charter

including procurement, community and human resources development, details of which are set out later in this report.

The charter for the SA mining industry sets guidelines for empowerment and upliftment within the context of the new Minerals and Petroleum Resources Bill. A target of 26% involvement of historically disadvantaged South Africans in ten years time has been set. The overall objective is the expansion of opportunities for historically disadvantaged persons to enter the mining and minerals industry or benefit from the exploitation of the nation's mineral resources. At the same time, it is government's stated policy that it will allow the market to play a key role in achieving this end.

The processing of licences will in future be facilitated by a score card approach which takes into account the applicants' progress with regard to level of ownership, management diversity, employment equity, human resource development, procurement and beneficiation. While PPC is already well progressed with regard to a number of these requirements, the full implications and measurement requirements of the Bill and its associate charter were still under review at the time of this report.

4.8 Prospects

It remains difficult to predict southern African markets with any confidence. Recent increases in interest rates and inflation are of major concern to PPC and customers. At the same time, the economy is enjoying the benefits of export orientated growth supported by a weaker rand which is not necessarily sustainable in the medium to long term as the economy reverts to targeted levels of inflation and interest rates. Also, the threat of an Iraqi civil war is causing a rise in fuel prices and inhibiting global economies.

Notably, increasing trends in GFCF are evident in all sectors of the South African economy and consequently the company is expecting continued growth in cement sales in the year ahead. Lime and burnt dolomite sales should also reflect similar growth, bearing in mind that the Corex plant at Saldanha Steel was shut down for nine weeks in 2002 for refurbishment. The packaging business will benefit from increased sales and higher capacity utilisation.

In Zimbabwe, Porthold is unlikely to meaningfully contribute to earnings in 2004 as hyperinflation, price controls and the shortage of foreign currency are expected to continue for some time. In the medium term, this business remains well positioned to benefit from any economic improvement in Zimbabwe and from exports.

The share of associate companies' profits will fell in 2003 following the sale of NPC and Ash Resources. Operating costs were negatively affected as the full impact of the weaker rand and higher producer inflation came through. Notwithstanding these developments, improved operating profits were expected in all businesses and the group remained well poised to benefit from any market conditions and opportunities that arose. The strong cash flows should continue and no major capital expenditure is envisaged in 2005.

4.9 Corporate governance

The company is listed on the JSE Securities Exchange South Africa (JSE) and has a secondary listing on the Zimbabwe Stock Exchange. By virtue of its JSE listing, the company currently complies with the Code of Corporate Practices and Conduct forming part of the King Report on Corporate Governance issued in 1994.

In respect of its financial year ending 30 September 2003 and thereafter, the company, under the rules of the JSE is obliged to comply with the Code of

Corporate Practices and Conduct contained in the King Report on Corporate Governance in South Africa published in March 2002 (King II Report). In terms of non-financial aspects, the company will complement these expanded reporting requirements by adopting the Global Reporting Initiative's Sustainability Reporting Guidelines on economic, environmental and social performance. Disclosures in this report relate to the:

- ✚ adoption of business principles and codes of practice, verified by board minutes, established policies, standards and other documentation;
- ✚ implementation of these principles through review of procedures and practices that evaluate adherence to these principles, evidenced by actions of the executive directors, designated policies and directives and supported by appropriate monitoring systems.

4.10 Governance structure and management systems

The company has raised corporate accountability to a level of compliance this year that enabled the company to achieve full compliance with the King II Report by 30 September 2003. A philosophy of balancing disclosures to achieve the most meaningful overall understanding of the company's corporate governance structures, as well as economic (including financial), environmental and social performance has been adopted. Observance of the law in all of the countries in which the company operates is a minimum requirement.

4.11 Board accountability and delegated functions

As a unitary body, the board of directors of PPC seeks equilibrium between enterprise and governance constraints. In addition, the directors believe that the governance principles and practices adopted are appropriate to the company's operations for the benefit of shareowners and are also in the interests of relevant stakeholders. Specifically, the board has reserved to itself the following responsibilities:

- ✚ approval of the strategic plan and rolling forecasts of the group, the setting of objectives and review of key risks and performance areas, especially in respect of technology and systems;
- ✚ appointment of the chief executive officer and maintenance of a succession plan;
- ✚ determination of overall policies and processes to ensure the integrity of the company's management of risk and internal control; and
- ✚ against a background of economic, environmental and social issues relevant to the company, monitoring the implementation of board plans and strategies, as well as the mitigation of risks by management.

While retaining overall accountability and subject to matters reserved to it, the board has delegated to the chief executive officer and other executive directors authority to run day-to-day affairs of the company. The board has also created audit, compliance and remuneration committees to enable it to properly discharge its duties and responsibilities and to effectively fulfil its decision-making process.

Each committee acts within written terms of reference, whereby certain functions of the board are delegated with clearly defined purposes, membership requirements, duties and reporting procedures. Board committees may take independent professional advice at the company's expense when necessary. The committees are subject to regular evaluation by the board in regard to performance and effectiveness. Chairmen of the board committees are required to attend annual general meetings to answer any questions raised by shareowners.

4.12 Board of directors

Five executive and seven non-executive directors, of whom the majority are independent, collectively determine major strategies and policies.

Effective control is exercised through the executive directors. They are held accountable through regular reports to the board and are measured against agreed performance criteria and objectives appropriate to the current stage of the business cycle and the prospects in each business unit. The non-executive directors are considered to have the skill and experience to bring unrestrained judgement to bear on issues of strategy, resources, transformation, diversity and employment equity, standards of conduct and evaluation of results. In a rapidly changing world, the mix of experience and ability of the directorate is still believed to meet the present and future requirements of the company.

The agenda and supporting papers are distributed to all directors prior to each board meeting. Explanations and motivations for items of business requiring decision are given in the meeting by the appropriate executive director. This ensures that relevant facts and circumstances are brought to the attention of directors who, in any event, have unrestricted access to all company property, information and records.

The company arranges an induction programme for new directors. This includes visits to the main operations and discussions with management in order to facilitate an understanding of the group. Directors are appraised, whenever relevant, of any new legislation and changing commercial risks that may affect the affairs of the company. In certain circumstances it may become necessary for a non-executive director to obtain independent professional advice in order to act in the best interests of the company. Such a director has unhindered access to the chairman, executive directors and the group secretary. Where a non-

executive director takes reasonable action and costs are incurred, these are borne by the company.

Each director is elected by members in a general meeting and must retire by rotation every three years. Executive directors retire from the board at 63 years of age whilst non-executive directors retire at the next annual general meeting following the director's 70th birthday. Fees payable to non-executive directors are recommended by the board and fixed by the shareowners in general meeting.

The curriculum vitae of each director of PPC is published. There are no contracts of service between any directors and the company or any of its subsidiaries that are terminable at periods of notice exceeding one year and requiring payment of compensation. Details of remuneration, fees or other benefits earned by directors in the past years are given. Ten meetings of the executive directors and senior executives were also held during the year in order to assist the chief executive officer to guide and control the overall direction of the business of the group, monitor business performance and to act as a medium of communication and co-ordination between business units, group companies and the board.

4.13 Chairman and chief executive officer

A key aspect of the company's governance philosophy is that no one individual has unfettered powers of decision. Accordingly, responsibility for running the board and executive responsibility for conduct of the business are differentiated. The roles of the chairman of the board and of the chief executive officer are separate. The chairman is regarded by the company as an independent non-executive director, having retired from executive service to Barloworld Limited in 1999.

4.14 The group secretary

The group secretary provides the board as a whole and directors individually with detailed guidance as to how their responsibilities should be properly discharged in the best interests of the company. He is also a central source of guidance and advice to the board and within the company on matters of ethics and good governance. Appointment and removal of the group secretary are matters for the board as a whole. The group secretary is responsible for ensuring that the proceedings and affairs of the directorate, its subcommittees and, where appropriate, members of the company are properly administered. The group secretary also administers the statutory requirements of the company and its subsidiaries in South Africa.

Directors have direct access to the group secretary at all times. Dealings in shares of the company by directors and officers are advised to him and a report is tabled at each board meeting.

4.15 Insider trading

No employee may deal either directly or indirectly in the company's shares without the permission of the chief executive officer or on the basis of unpublished price-sensitive information regarding its business or affairs. No director or officer of the company may trade in the company's shares during the embargo period determined by the board in terms of a formal policy implemented by the group secretary.

A list of persons regarded as officers for this purpose has been approved by the board and is revised from time to time. Periods of embargo are from the end of the interim and annual reporting periods to the announcement of financial and operating results for the respective periods. A register of directors and officers is

available for inspection at the company's registered office in Sandton, South Africa.

4.16 Accounting and reporting

The board places strong emphasis on achieving the highest level of financial management, accounting and reporting to shareowners. Successful harmonisation with International Financial Reporting Standards has been achieved, whilst maintaining full compliance with South African Generally Accepted Accounting Practice. PPC's annual report for 2001 earned a second consecutive award from Ernst & Young for "Excellence in Financial Reporting".

The audit committee comprises a majority of independent non-executive directors. The quorum for a meeting is two independent directors. The head of internal audit and the senior audit partner in charge of the external audit attend all meetings. They have unrestricted access to the chairman and other members of the audit committee. The financial director and any other executives may, at the discretion of the chairman of the audit committee, be invited to attend and be heard. No attendee has voting rights. The audit committee assists the board in discharging its duties relating to the safeguarding of assets, the identification of and exposure to significant risks, the operation of adequate systems and internal control processes and the presentation of accurate and balanced financial statements and reports. It ensures that these comply with all relevant corporate governance disclosure requirements and accounting standards.

The board places strong emphasis on maintaining appropriate systems of internal control. An Internal Control Scoreboard is reported to the audit committee for each business operation annually. All defalcations above R1 000 are also reported. During the year under review two meetings were held. In particular, the group risk assessment process was considered and assurance

obtained from both the internal and external auditors that adequate internal controls and accounting records are being maintained.

Parameters of the audit and of internal controls are discussed between the audit committee and the external auditors as part of the process of each audit. The company requires the external auditors to carry out their audit with due regard for the findings and work of the internal audit function.

To this end, the audit committee encourages consultation between the external and internal auditors and ensures that meetings are held periodically to discuss matters of mutual interest and that working papers, management letters and reports are exchanged so that there is a common understanding of audit techniques, methods and terminology. The audit committee requires that the interim and final results are subjected to an independent review by the external auditors. The chairman of the audit committee presents a report on the interim and final results at the board meeting held to adopt those results. If an independent review is not conducted the audit committee would table the reasons at the board meeting. The committee also considers the assessment, at the previous year-end, of the company's ability to continue as a going concern and determine whether or not any of the significant factors in the assessment have changed to such an extent that the appropriateness of the going concern assumption has been affected.

The audit committee, with the auditors present, reviews the audited preliminary profit statement and the annual financial statements before they are submitted to the board. The facts and assumptions used in the assessment of the going-concern status of the company are presented to the board at the meeting approving the annual financial statements and are minuted accordingly. The audit committee draws up a recommendation to the board on an annual basis for submission to the shareowners at the annual general meeting for consideration and acceptance of the reappointment of the external auditors. It is a function of

the audit committee to ensure that the external auditors observe the highest level of business and professional ethics and, in particular, that their independence is not impaired in any way.

The audit committee has set principles for the use of the external audit firm for non-audit services and approves the relevant fees above certain materiality limits. Fees paid to the external audit firm for non-audit services are disclosed in the notes to the annual financial statements and the nature thereof is described. The board has determined that the audit committee has satisfied its responsibilities for the year under review in compliance with its terms of reference.

The primary function of the compliance committee is to assist the audit committee and the board in assessing risk, legal compliance and their related management and audit processes in order to ensure that these are being adequately identified, evaluated and addressed at the appropriate organisational level. It primarily addresses health and safety, human capital development, employment equity, black economic empowerment, environment, mining, production and engineering issues. During 2002 this committee reviewed the proposed new Minerals and Petroleum Resources Bill and a range of legislation applicable to PPC including commercial property, labour, financial and transportation legislation. The compliance committee is a subcommittee of the audit committee.

The terms of reference are governed by a compliance committee charter approved by the board and the audit committee. The chairman is an independent non-executive director. Other than for external audit, the group has merged its auditing activities under one umbrella referred to as the "Joint Audit Process" (JAP) with the objective of:

- ✚ fostering audit methodologies and recommendations and avoiding
- ✚ duplication;

- ✚ developing a holistic view of the business and its related risks;
- ✚ involving internal and external line specialists, thereby sharing knowledge across the group; and
- ✚ encouraging continuous improvement and adherence to group policies.

All of the committee members attended the meetings during the year under review. The board and the audit committee have determined that the compliance committee has satisfied its responsibilities for the year under review in accordance with its terms of reference.

The company's philosophy is to set remuneration at realistic levels in order to attract and retain the directors and executives needed to run the company successfully. A proportion of executive directors' remuneration is structured so as to link corporate and individual performance. In keeping with modern corporate governance practices, the chief executive officer, Mr J E Gomersall, has resigned from the remuneration committee. He attends meetings but is not entitled to vote. The chief executive officer does not participate in discussions regarding his remuneration.

The board has determined that the remuneration committee has satisfied its responsibilities for the year under review in compliance with its terms of reference.

4.17 Strategic and business risks

An internal audit charter defining the function, responsibility and authority of the group internal audit activity has been adopted by the audit committee. Internal audit is an appraisal function established within the group to independently and objectively examine and evaluate the activities of the group as a service to the board in particular and to management in general. The board requires that the internal audit process takes account of significant strategic and business risks thus ensuring that internal audit plans are appropriately risk focused.

Group internal audit is responsible for:

- ✚ appraising the procedures and management controls of business units throughout the group;
- ✚ assisting the board and management in the monitoring of the risk management process;
- ✚ reviewing systems and operations to assess the extent to which organisational objectives are achieved and the adequacy of controls over activities leading to such achievement;
- ✚ evaluating the reliability and integrity of management and financial information;
- ✚ appraising the utilisation of resources with regard to economy, efficiency and effectiveness;
- ✚ assessing the means of safeguarding assets and verifying their existence;
- ✚ ascertaining the extent of compliance with established policies, procedures and instructions;
- ✚ recommending improvements in procedures and systems to prevent waste and fraud;
- ✚ advising on appropriate systems of controls on accounting and operational matters;
- ✚ drawing appropriate attention to any failure to take remedial action;
- ✚ carrying out any other appraisals, inspections, investigations, examinations or reviews required by the board or management; and
- ✚ co-ordinating with the external auditors and the risk management and compliance functions to ensure that the audit programmes are complementary.

The group internal auditor co-ordinates the internal audit function throughout the PPC group. His duties include, inter alia, liaison with the relevant businesses and their external auditors in order to monitor the performance and recommend improvement of internal audit. He reports to the main audit committee on the effectiveness of internal audit. He has unrestricted access to the audit committee

and its chairman. Subordinate internal audit reports are submitted to the audit committees of the respective business units. Any major issues arising are referred to the main audit committee.

Audit plans are drawn up annually and take account of changing business needs. Follow-up audits are planned in areas where weaknesses are found. Internal audit plans are based on risk assessment as well as on issues highlighted by the audit committee and management and are of an ongoing nature so as to identify not only residual or existing, but also emerging risks. The audit committee approves the internal audit plan.

4.18 Risk management

In terms of a written risk management philosophy statement issued by the chief executive officer and endorsed by the board, the company is committed to managing its risks and opportunities in the interests of all stakeholders. Every employee has a responsibility to act in this manner. An ongoing systematic, multi-tiered and enterprise-wide risk assessment process supports the group's risk management philosophy.

The process ensures that risks and opportunities are identified and evaluated in terms of materiality and probability, where after these are managed at the appropriate level in the organisation. Risk registers are maintained as part of this process. As the company expands into new markets and territories, it is faced with increasingly complex and changing environments.

By applying the PPC risk management processes, and the principles of VBM (VALUE BASED MANAGEMENT), the risk-return trade-off is optimised by focusing on identified risks and ensuring that these risks are systematically managed. Divisional boards and senior managers have carried out an annual self-assessment of risk. This process has identified the critical business,

operational, financial and compliance exposures facing the group and the adequacy and effectiveness of control factors at all levels. Verification of the process is undertaken in alternate years by the risk management department at Barloworld Limited corporate office in Sandton and by the outside consultancy firm, Marsh Inc. The audit and compliance committees have reviewed the risks and risk management processes and advised the board accordingly.

4.19 Third party management

No part of the company's business is managed by any third party in which any director had an interest.

4.20 Employee participation

Encouragement of employee participation is a high priority. The company's diverse nature, allied to its philosophy of operational decentralisation, makes it desirable that each business unit executes this in a manner best suited to its own circumstances.

A process of improved communication throughout the Barloworld and PPC group has increased employee awareness of the group's worldwide business activities and improved personal networking with local and international counterparts. Good progress has been made with the Kambuku project introduced during the 2000 financial year, further details of which are set on page 106.

4.21 Communication

The company subscribes to the principles of objective, honest, timeous, balanced, relevant and understandable communication, of both its financial and non-financial matters, focused on substance not form and communicates sensitively and systematically with stakeholders having a legitimate interest in the

company's affairs. In October 2001, PPC commenced non-certificated dealings under the Share Transactions Totally Electronic programme on the JSE. In line with the vision to constantly improve service to all stakeholders, all shareowners were assisted with the implementation processes of the new system.

4.22 Code of ethics

A Corporate Code of Ethics, which outlines the ethical and professional management practices that the group upholds, was adopted in March 2000. Individuals and entities dealing with the group are expected to demonstrate the same level of commitment to organisational integrity. Due care is exercised in delegating discretionary authority to individuals in the group. All employees are advised regarding the group's values, standards and compliance procedures. The group has provided a safe system by which employees can report unethical or risky behaviour.

4.23 Summary

From this case study, it has been demonstrated how PPC Cement is managed, and how they strive to remain a profitable company with social and corporate integrity. Several controls have been put in place to ensure good governance by business unit managers and also directors of the group. The Kambuku process is key to PPC's success in the last four years. This process is focussed on organisational performance and puts an emphasis on the recruitment, development and retaining of high performing employees.

Current success of this strategy is not in question – but rather its adaptability to future changes in the cement industry horizon. The next chapter will evaluate PPC's strategic poise against the possible ideal that can be achieved under fast changing business environments.

CHAPTER 5: EVALUATION OF THE CASE STUDY

5.1 Introduction

A basic business strategy review, at the least, should answer the following three questions:

1. Are the objectives of the business appropriate?
2. Are the major policies and plans appropriate?
3. Do the results obtained to date confirm or refute critical assumptions on which the strategy rests?

Devising the adequate answers to these questions is neither simple nor straight forward. It requires a reasonable store of situation-based knowledge and more than the usual degree of insight. In particular, the major issues which make evaluation difficult and with which the analyst must come to grips are these:

- ✚ Each business is unique. For example, one paper manufacturer might rely on its own timber holding to weather almost any storm while another might place primary reliance in modern machinery and an extensive distribution system. Neither strategy is “wrong nor right” in any absolute sense; both may be right or wrong for the firms in question. Strategy evaluation must, then, rest on a type of situational logic that does not focus on “one best way” but which can be tailored to each problem as it is faced.
- ✚ Strategy is centrally concerned with the selection of goals and objectives. Many people find it much easier to set or try to achieve goals than to evaluate them.
- ✚ Formal systems of strategic review, while appealing in principle, can create explosive conflict situations. Not only are there serious questions as to who is qualified to give an objective evaluation, the whole idea of strategy evaluation implies management by much more than results and runs counter to much of currently popular management philosophy (Moncrief 1999).

5.2 PPC Strategy Evaluation

Of the many tests which could be justifiably applied to a business strategy, most will fit within one of these broad criteria:

- ✚ Consistency: The strategy must not present mutually inconsistent goals and policies.
- ✚ Consonance: The strategy must present an adaptive response to the external environment and to the changes occurring within it.
- ✚ Advantage: The strategy must provide for the creation and/or maintenance of a *competitive advantage in the selected area of activity*.
- ✚ Feasibility: The strategy must neither overtax available resources nor create unsolvable subproblems (Moncrief 1999).

5.3 Industry and competitive analysis

To decide on a long-term direction or a strategy, an organisation must have a keen understanding of the company's strategic situation – the exact nature of the industry and competitive conditions it faces and how these conditions match up with its resources and capabilities (Thompson and Strickland 2003).

5.3.1 Industry's dominant economic features: SA Cement industry

- ✚ **Market size:** R6-7billion annual turnover; at 10 million tons total cement volume per annum.
- ✚ **Scope of competitive rivalry:** PPC has branches nationally, but the competition is regional. PPC has manufacturing facilities in Cape Town, Port Elizabeth, Northern Cape, Gauteng, Northwest and Limpopo. The competition's manufacturing plants are situated in KwaZulu-Natal, Northwest and Mpumalanga. Competition rarely sells outside a 700km radius from own plant due to high costs of transportation per ton of cement.

- ✚ **Market growth rate:** 4-5 percent annually.
- ✚ **Stage in the life cycle:** Mature, PPC has been in operation for more than 100 years and the competition for decades.
- ✚ **Number of companies in the industry:** There are only 4 premium cement manufacturers and an unknown number of blenders and readymix suppliers. The capacity of the cement manufacturers is in the excess of 10 million tons cement per annum. PPC has over 48% of the market share and the three rival firms share the balance.
- ✚ **Customers:** There are hundreds of buyers within the categories of construction, concrete product manufacturers, retailers, hardware stores and households.
- ✚ **Degree of vertical integration:** All four manufacturers are integrated backward into their mining operations. Each manufacturer is also backward integrated to one of its other raw material i.e. slag or flyash. PPC has a 75% stake in its bag supplier (Afripack), who also supplies empty cement bags to the competition. Holcim and Lafarge are forward integrated into readymix for the construction industry. Holcim is the only firm amongst the three that is integrated forward into a construction company i.e. Avenge Constructions. PPC is not forward integrated.
- ✚ **Ease of entry or exit:** Serious entry barriers exist in the form of the availability of quality mineral deposit (limestone) and also capital requirements to construct a new plant of economical size (cost equals R1.6billion). Geographic footprint already established by the current market players makes it expensive to reach the market from any other locations.
- ✚ **Technology or innovation:** The rate of technological advances and innovation is fairly slow. The latest technology employed at PPC is more than 20 years old. The rivals have employed the latest technologies during their recent capacity expansion projects. Newer technology on the horizon also seeks to meet the environmental drives like the Cement Sustainability

Initiative by reducing the consumption of unrecoverable natural resources and also to eliminate air pollution.

- ✚ **Product characteristics:** Highly standardised. Most unsophisticated customers are not able to differentiate the product characteristics between the various firms. Delivered cost is then the most important factor. For larger, more sophisticated customers, consistency in quality of product and availability of product are essential.
- ✚ **Economies of scale:** Moderate. Though PPC is one of the world's lowest cost producers, the competitive advantage comes from the premium price they are able to charge for their products.
- ✚ **Learning and experience factors:** Not a major factor in terms of plant and equipment. PPC has a definite advantage in terms of being able to acquire, develop and retain a productive labour force.
- ✚ **Capacity utilisation:** One of the reasons that PPC is able to gain cost competitiveness, is the fact that they are able to achieve over 110% capacity utilisation in their manufacturing facilities.
- ✚ **Industry profitability:** Moderate to high. The commodity nature of cement makes it costly to absorb transportation costs per ton of product. Most profits are realised from the economies of scale and volumes.

5. 3.2 Competitive Environment: *Porter's Five-Forces*

This is a powerful tool for systematically diagnosing the principal competitive pressures in a market and assessing how strong and important each one is. The five forces will analyse the following:

1. The rivalry among the sellers in the industry.
2. The potential entry of new competitors.
3. The threat of substitute products.
4. Bargaining power of suppliers.
5. Bargaining power of customers.

The rivalry among the sellers in the industry

Since the demolition of the price cartel in the cement industry, the cement manufacturers have had to learn a bit of competition skills. This has been seen through more aggressive branding strategies and also increased advertising. This has been forced by the unpredictable market share and also price sensitivity of the customers.

The steady growth of the market during the last five years has seen most of the firms reaching their capacity ceilings. This has necessitated a subsequent race for capacity expansion. The only problem is that if a firm expands beyond its current demand, they may end up taking some of their rival's would be customers. As was discussed in earlier sections, the growth of cement blenders suppresses the demand for pure cement. This will eventually lead to the manufacturing firms raising their prices to the blenders to limit their market activity.

The potential entry of new competitors

The cement industry operates in a free-market system, where there are no barriers to entry. The Minerals, Petroleum and Resources Development Act passed by the SA Government in 2001, forces all mineral rights owners to use their resources within the next five years or stand to lose them. This will then free up some limestone resources that were held by the firms for future use and encourage smaller firms to come into the market.

The fact that there are only four main cement suppliers in the industry gives a perception that they are enjoying high returns. Another major threat is the current strong Rand/ dollar exchange which makes it cheaper to import cement than to buy locally.

The threat of substitute products

Cement has been around for centuries in one form or another. So far it is the number one binding agent for civil constructions and residential buildings. Cement is also used for other functions i.e. sculptures, decorations, tiles etc. Only in this sector may the use of cement be substituted by other products like steel, timber, glass, clay, etc. This provides for a very small share of the total cement market, therefore, the threat of substitute products is insignificant.

Bargaining power of suppliers

Millions of tons of raw materials and products are transported through the railway. Spoornet being a natural monopoly is able to dictate the prices of Railage unilaterally. This poses a big threat to all cement manufacturers because there is immense capital that went into the construction of loading and offloading facilities. The costs of switching from rail to road transport will not justify the expected benefits.

Similarly, SA has one major supplier of electricity i.e. Eskom. Eskom is another natural monopoly, which has been run on government subsidy for years. For Eskom to bring their efficiencies up to world class standards, they've had to institute a series of sharp price increases which has affected all it's customers including PPC quite significantly.

Another major source of energy for the cement manufacturers is coal. Coal prices are linked to international markets. This commodity being quite in demand internationally has had a profound upward pull on domestic coal prices.

Bargaining power of customers

Since the demolition of the price cartel, the cement firms have come under fire from government authorities seeking to weed-out uncompetitive behaviour. This includes toning the firms' power to institute any significant real price increases. On the other hand, switching costs for buyers are moderate to high.

5.3.3 Industry Driving Forces

Change in industry is a function of many events, some minor and others major. Major events may pose a direct influence in determining the future and direction of the industry – these are the industry driving forces. Amongst a number of driving forces influencing the cement industry, the following are of important note; increasing globalisation of the industry; consolidation of cement manufacturers; long-term industry growth rate; and regulatory and government policy changes.

Increasing globalisation

Globalisation can be either friend or foe for any industry. If not managed carefully, successful companies can move from first to last position in their respective markets when new international competition suddenly crops up out of nowhere.

South Africa is one of the emerging countries that have embraced globalisation whole-heartedly through GATT and other international trade conventions. This means that the country's trade borders are freely open for other countries wishing to conduct trade with South Africa. There is great opportunity for South African companies that wish to sell cement outside of the country's borders. But on the other hand, this also means that other countries may not be restricted from exporting cement to South Africa by means of import tariffs and other protectionist measures.

PPC is in a relatively competitive position in terms of global competition. PPC's low cost and efficient production methods, means that they can still produce cement cheap enough to discourage any competition wishing to bring cement into South Africa. The strong Rand and weaker dollar makes it more difficult for PPC to gain from their cement exports, whilst any further strengthening of the Rand may make the possibility of imports more than just a threat.

Consolidation of cement manufacturers

The local cement industry comprises of a few large firms. But the international cement industry is much more fragmented, with a notable few larger market players. Historically, there have always been a large number of small cement plants, mostly family owned. The last two decades have seen a swoop and rush by the bigger corporations consolidating and also acquiring the smaller players.

PPC, a subsidiary of Barloworld Leading Brands, has seven manufacturing facilities all located in southern Africa. Between Lafarge, Holcim and Cimpor there are only four cement manufacturing plants in South Africa. But they are all international companies with a wider global footprint than PPC can aspire to achieve in the next half century.

PPC is owned by Barloworld who in turn own a variety of unrelated firms, ranging from motor vehicle hire to earth moving equipment to logistics company. This makes PPC a prime target for take-over by the larger international cement giants. Currently Lafarge and Holcim are the 1st and 3rd largest cement manufacturers in the world respectively.

Long-term industry growth rate

Long-term growth in the cement industry determines the overall attractiveness of investment into the industry for newcomers and also further expansion by the current firms. Certain market signals e.g. announcements of infrastructural development, housing, tourism etc. normally leave investors upbeat about the future of the industry.

From the 1940's, the industry has experienced an average growth rate of about 4%. It is important to note that this growth is cyclical, and can have catastrophic results if a company expands just before a dip in demand. PPC experienced this misfortune in 1984 and had to mothball their R200million plant in Northern Province and only reopened in 1996 when the national cement sales improved.

Government regulatory policies

The topics on the effects of government legislation on business can never be exhausted. In earlier chapters the new Minerals and Petroleum Resources Development Act was discussed. The significant clause to PPC pertains to mineral ownership. According to the act, corporations that used to own their own minerals, no longer own those minerals but only the rights to mining. The government has ruled that all natural resources are the heritage of all the citizens of the country.

Companies that have mining rights have certain obligations to fulfil in order to continue mining. They have to disclose plans on how they intend to share the wealth with previously disadvantaged communities through Black Economic Empowerment, Employment Equity and preferential procurement. Mining companies can no longer keep their mineral reserves unmined for more than five years otherwise they will forfeit their mining rights.

Other legislation that has impacted on the cement industry especially PPC, is the competition commission. The commission has ruled against the joint ownership between PPC, Lafarge and Holcim of their stakes in NPC as being uncompetitive and making room for collusion. Other rulings relate to secondary raw materials that may not be owned by any one particular cement firm. This is to ensure that one firm cannot artificially fix the price of raw materials to drive out or stifle competition. Also, the bigger firms must allow small, medium and micro business to enter the raw materials market. This topic was covered partly in Chapter 3: PPC Cement Case Study.

5.3.4 Strategic group mapping

To examine the cement industry's competitive structure, it is necessary to study the market positions of rival companies. Strategic group mapping is a technique for displaying the different competitive positions that rival firms occupy in the industry. Dividing industry members into strategic groups allows industry analysts to better understand the pattern of competition in the complex industries and to pin point a firm's closest competitors (Thompson & Strickland 2003).

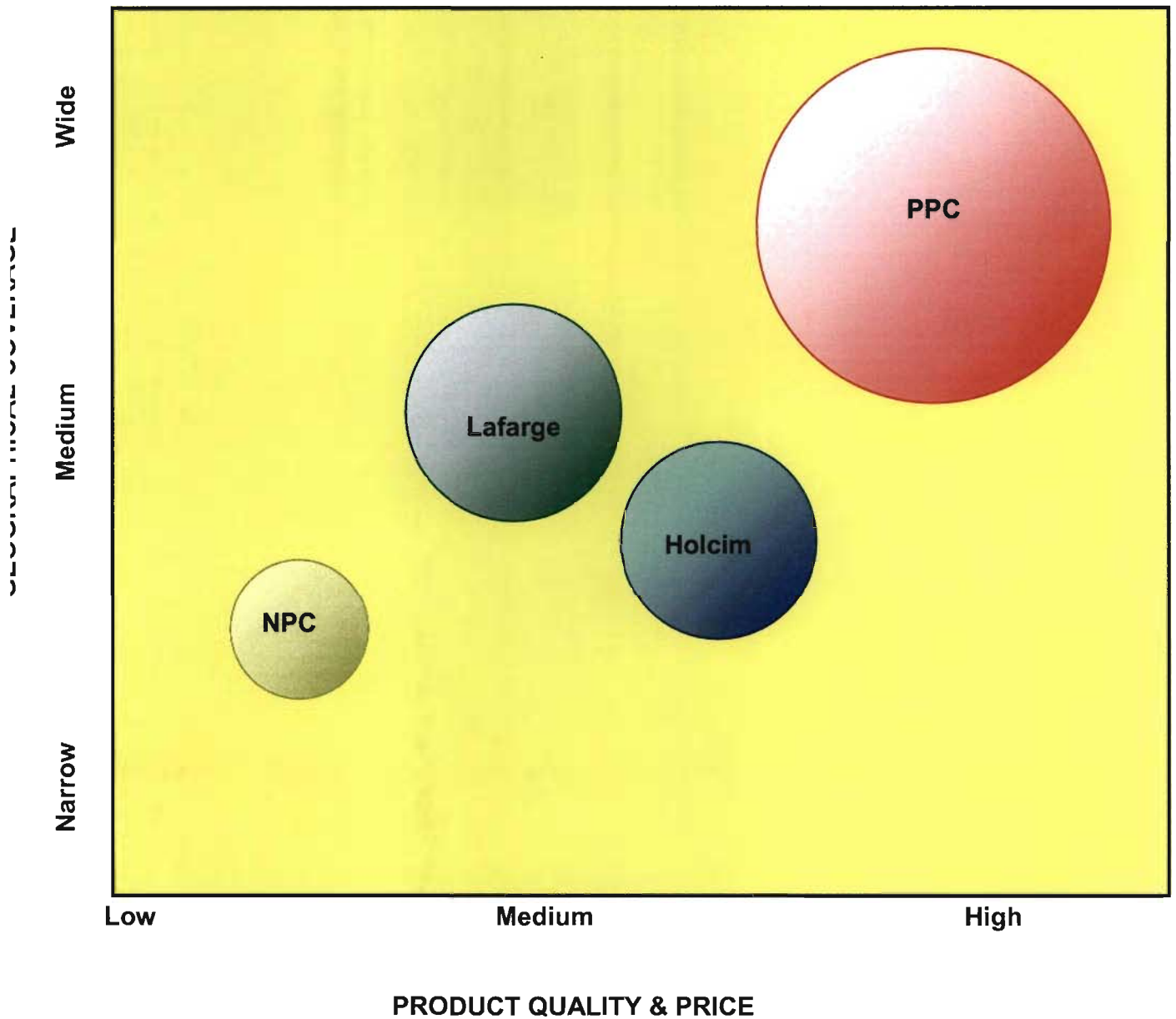
Competitive characteristics. There are certain characteristics that differentiate firms in the industry. In the cement industry, these variables are price, quality, product range and national geographical coverage.

The firms can then be plotted on a two-variable map using pairs of these differentiating characteristics.

All the cement manufacturing firms fall in the same strategy space, therefore will be assigned to the same strategic group.

Circles are drawn around each strategic group, and the size of the circles is proportional to the size of the group's respective share of the total industry sales revenues. For illustration, see Figure 5.1: Strategic group map for the South African cement industry.

Figure 5.1: Strategic group map for the South African cement industry.



The most obvious characteristic that can be observed from this strategic group map is the relative market shares. PPC enjoys over 48% share of the SA cement market in terms of sales revenues. PPC's rival firms i.e. Lafarge, Holcim and NPC share the balance of the market.

PPC, having the most number of manufacturing facilities located all over SA, has the widest geographical coverage of the four cement manufacturing firms.

The quality of cement is measured in terms of purity and consistency of the product. PPC, again is by far the best when it comes to supplying customers with premium cement of consistent quality. This is why PPC is able to charge customers a premium price for the product above the rest of the competitors and still manage to keep demand for their product on record high. To produce cement of this purity level is also costly, therefore it is possible that the rival firms choose to compete in the blended cement sector by choice and at the end of the day may also enjoy the same profit margins as PPC. This is why the next section will profile the objectives and strategies of the competitors – i.e. competitive intelligence.

5.3.5 Competitive intelligence

Successful strategists take great pains in gathering competitive intelligence about competitors' strategies, monitoring their actions, sizing up their strengths and weaknesses, and using what they learn to anticipate what moves rivals are likely to make next.

Currently, all the rivals firms have had an internal expansion and/ or new technological improvements. At the moment this has not had a negative impact on the competitive scope and market share for PPC because the recent market growth has afforded enough for all to share.

All the SA cement manufacturers, except for PPC, have a major global presence. PPC is only a regional player with operations in southern Africa. It is without doubt that the rival firms are poised to use their international clout to attack PPC and move them out of the first position in market share. Table 5.1 summarises the profile of the objectives and strategies of competitors.

Table 5.1: Profile of the strategies of competitors in the SA cement industry

Competitive Scope	Strategic Intent	Market Share Objective	Competitive Position/ Situation	Strategic Posture	Competitive Strategy
Lafarge					
Global	Be the dominant leader	Expansion via internal growth (boost market share at the expense of rival firms)	Well-entrenched; able to maintain their present position	A combination of offence and defence	Striving for low-cost leadership & pursuing differentiation based on technological superiority
Holcim					
Global	Overtake the present industry leader	Expansion via acquisitions	Well-entrenched; able to maintain present position	Aggressive risk taker	Differentiation base on quality, image & reputation
NPC (Cimpor)					
Multicountry	Move up a notch or two in the industry rankings	Expansion via internal growth (boost market share at the expense of rival firms)	Getting stronger; on the move	Mostly defensive	Mostly focusing on a Geographic market niche; pursuing differentiation based on more value for money

5.4 Generic competitive strategies: PPC Cement

A long-term or grand strategy must be based on a core idea on how the firm can best compete in the marketplace – the common term for this core idea is the ‘generic strategy’. From a scheme developed by Michael Porter, many strategists believe that any long-term strategy should derive from a firm’s attempt to seek a competitive advantage based on one of three generic strategies:

1. Striving for overall *low-cost leadership* in the industry.
2. Striving to create and market unique products for varied customer groups through *differentiation*.
3. Striving to have special appeal to one or more groups of consumer or industrial buyers, focusing on the cost or differentiation concerns of a *niche market*.

PPC cement can be seen to be following both the low-cost leadership and differentiation strategies. This is because PPC has reduced job titles from 800 to less than 400 in the last five years and also have instituted very tight cost controls. PPC has also started an annual incentive or gain share scheme based on meeting strict quantitative targets. One of the targets is that the manufacturing factories, depots and sales facilities realise a combined annual saving of over R20million in fixed costs. Amongst other endeavours to drive production costs down, PPC started a suggestions scheme whereby each employee at all levels is expected to come up with at least 4 cost saving ideas a year. The value of each suggestion is evaluated by the head of departments and a nominal fee is paid out to the originator of the idea.

The evidence of differentiation is the fact that PPC is still the only cement manufacturer that sells in the pure cements category, where its rivals have moved out in the past decade. This category accounts for over 20% of the 10million tons SA cement market.

5.5 Grand strategies: PPC Cement

Grand strategies, often called master or business strategies, provide basic direction for strategic actions. They are basis for coordinated and sustained efforts directed towards achieving long-term business objectives.

The 15 principal grand strategies are: concentrated growth, market development, product development, innovation, horizontal integration, vertical integration, concentric diversification, conglomerate diversification, turnaround, divestiture, liquidation, bankruptcy, joint ventures, strategic alliances, and consortia.

PPC's grand strategy can be derived from their vision i.e. to become a significant international supplier of cement, lime and related products by the year 2005. This vision can only be achieved through market development i.e. selling present products in new markets. The company has been planning regional, national and international expansions in the last three years. In 2004 PPC announced a R750million expansion in one of its inland factories. This expansion will add another 1million tons of clinker (a cement primary component) a year. This expansion appears to be in anticipation of the 2010 world cup soccer bid and the subsequent building of stadia and the necessary infrastructural development.

5.6 Summary

To internationalise, PPC has to plan on how to attract other market segments. To do this they have to develop new product versions to appeal to other segments. They also have to establish how to enter other channels of distribution. And finally, PPC has to look at other media for advertising to be able to penetrate international markets. The next chapter will assist in the development and recommendation of a method in which PPC can continually regenerate their strategy to stay ahead of competition.

CHAPTER 6: CONCLUSION AND RECOMMENDATIONS

6.1 Introduction

Whilst the information collected is very accurate, it is important that the reader of this research paper is made aware of limitations, bias, trends and implications. It is apparent that the shorter the strategy renewal period, the less formal the strategy planning process, the fewer the number of persons involved, and the lower the average rank of the strategy team members. This implies highly empowered, less bureaucratic companies where control is delegated to semi-autonomous strategic business units (SBU's). This does not, on the contrary, imply full independence from the corporate headquarters. There is always a certain core strategy that originates from the corporate and assists in guiding the business units towards a common vision – especially in multinational corporations (MNC's).

The opposite is also true, where the 4 and 5 yearly strategy renewal cycles are formal planning processes and are mostly headed by high level executives in centrally controlled companies.

These results cannot be viewed in isolation. It is crucially important to take into consideration the influence of the business environment and industry key success factors. On a continuum between static and dynamic strategy renewal processes, there appears to be two extremes distinguished by the intensity of competition in each sector, speed of technological advances and innovation.

It appears that on an almost natural *laissez-faire* market principle, firms in the more competitive industry sectors gravitate towards dynamic strategy regeneration processes with extremely shorter cycles in comparison to larger corporations in oligopolistic industries where competition is less rife.

6.2 Conclusion

It appears common that for most of the successful companies in South Africa, their strategic renewal processes are of an ongoing nature. It is evident that some of the companies in the less competitive sectors tend to be complacent and unreactive to environmental changes. In this borderless global market place, complacency may lead to loss of market share. PPC Cement, a listed subsidiary of Barloworld leading brand management group, also competes in a less fragmented industry. There are only three other cement manufacturers of sufficient note i.e. Lafarge, Holcim (previously known as Alpha Cement) and Cimpor (holding company for NPC Cement).

These cement manufacturers do not, in essence, only compete with each other. They are also in competition with a proliferation of hundreds of cement blenders and ready-mix suppliers. Both the former and latter buy pure cement from premium cement manufacturers and dilute it with sand and other cementitious additives and sell it at a cheaper price per bag of cement to the retail market.

Whilst this may appear to be a mutually beneficial coexistence, it poses an indirect threat to the premium cement manufacturers like PPC Cement. This sale of 'dilute' cement suppresses the demand for premium cement in the market. In future, the blenders will pose a direct threat if they grow large enough to wield bargaining clout in which case they may demand lower prices for pure cement or with a favourable Rand / Dollar exchange may opt to import pure cement from countries like China at lower costs. Other competing solutions for concrete (a cement product) include steel, wood, glass, asbestos and fired-clay. In retrospect, it now appears that cement companies like PPC Cement in actual fact operate in a highly competitive environment than previously believed.

6.3 Recommendations

Amongst the ten companies in the sample population (Chapter 3), the longest strategy renewal period is 5 years and the shortest is $\frac{1}{4}$ of a year. The most common strategy renewal period in the sample analysed is once yearly.

With the preceding arguments in mind, it is still very important to note that out of the 10 companies analysed, only three companies had strategy renewal cycles longer than 3 years. Amongst the three companies, except for Sasol Limited, at Murray & Roberts and Impala Platinum Ltd recent sales have declined or hit the ceiling.

6.3.1. Strategy Renewal Process

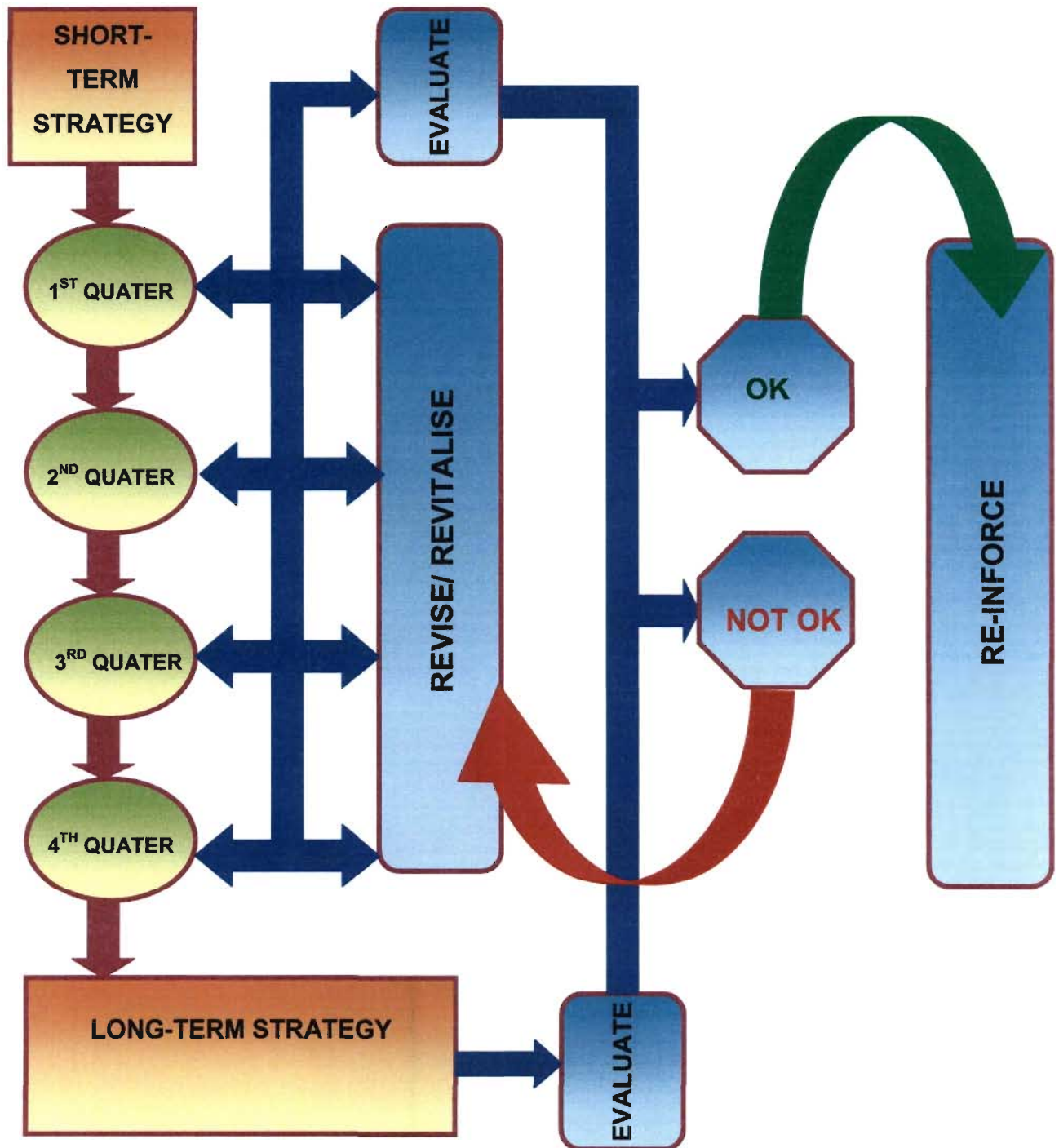
An ongoing business strategy renewal process is recommended for PPC Cement. The only shortfalls for short strategy renewal processes that PPC Cement needs to be wary of are:-

- 1) If the renewal process is too short, employees may not be afforded enough time to absorb and master the current strategy before it is changed.
- 2) There might not be enough time to measure the success of the current strategy before it is quickly re-evaluated and possibly replaced.
- 3) Some markets are cyclical, and may also be subject to FADS - products that rise sharply taking enormous market share and then as quickly fade into oblivion.
- 4) And lastly, a strategy-planning process is an expensive and time-consuming exercise and if done too frequently, the benefit may not justify the cost.

The best continual business regeneration strategy for PPC Cement would be to split the strategy planning and evaluation processes into two parts i.e. short-term and long-term. But then the two processes need to run concurrently. To negate the abovementioned facts, the short-term strategy will be evaluated for

performance and revitalised if necessary at least ¼ yearly, and on the other hand the long-term strategy will be re-evaluated and revitalised at least once yearly - see Figure 6.1: Proposed continual business strategy regeneration model for PPC Cement.

Figure 6.1: Proposed continual business strategy regeneration model for PPC Cement



6.3.2 Strategic leadership as way of business life

PPC Cement has to ensure that their strategy regeneration process is a 'way of life' as opposed to a corporate planning process. The benefits are that the company can stay responsive to the environmental changes by managing their internal processes and continuously scanning the environment.

To mitigate weaknesses and enhance strengths successfully, PPC can use planning, budgeting, organising, controlling and staffing i.e. managing. On the other hand, they can successfully withstand the threats and take advantage of the opportunities by leading, aligning, motivating, directing and inspiring i.e. leadership.

6.3.3 Strategy for a dynamic environment

PPC Cement should avoid the fatal mistake of not aligning their business strategy to the nature of the environment in which they operate. Only companies in static business environments can afford to get bound by relic vision, mission statements, and scenarios predicted half a decade ago. They should also be wary of getting bogged down to systems, processes, budgets, plans and incremental changes.

PPC Cement operates in the fast globalising and ever-changing South African market, in order to stay competitive they need to concentrate on the following:-

- ✚ Pre-empting customer needs
- ✚ Entrepreneurship, innovation and creativity
- ✚ Alliances, partnering and deal-making
- ✚ Divergence and discontinuity
- ✚ Expeditionary marketing

6.3.4 Revitalisation

The era where restructuring was used as a doctrine to solve all business problems has come and gone. Restructuring focused mainly on rightsizing, rationalising, divesting, outsourcing, sharing of services, enterprise resource planning, and continuous improvement. Having conducted the abovementioned business processes successfully, companies are only guaranteed a short-term comparative advantage.

To establish a long-term competitive advantage, PPC Cement needs to focus their resources on:-

- ✚ Learning and knowledge creation
- ✚ Competence building and competence leveraging
- ✚ Exploitation of current competitive advantages
- ✚ Exploitation of market opportunities for the future

6.3.5 Competing for the future

Competing for the future should not be seen as just another 'big hairy audacious goal', but rather a strategy in which the senior management team is concerned both with competitiveness in the current markets, and also in the firm's ability to compete in the markets of the future.

Establishing future competitiveness will, at the least, guarantee PPC's survival in the cement business of the future. This entails more than just the usual R&D or technical departments – which PPC Cement already has. To achieve future competitiveness PPC has to model and prototype:-

- ✚ Capabilities and products of the future
- ✚ Infrastructure and technology
- ✚ Supply chains
- ✚ Monitor and camouflage activities to 'fool' competition

6.3.6 Strategic renewal

Businesses must move away from the stable process of corporate planning to a more aggressive mode of strategic renewal, PPC Cement is no exception. This form of strategy entails full transformation, creation of new markets and new industries which will bring the company new wealth. This will require PPC's executives to reframe their thought processes and develop a new vision for the future.

6.3.7 Change and adaptability

PPC needs to take cognisance of the current drivers of change and adapt their strategy to suite these drivers almost simultaneously as they occur. The only way PPC can thrive is if they innovate faster than they commoditise.

Previously, business strategy was driven by the need to improve quality and the price of products and services was determined by their availability. Currently, strategy drivers are focused on the value generated through product and product surround.

6.3.8 Globalisation and a global mindset

The threats and/or opportunities brought by globalisation of industries are somewhat overstated. PPC has already positioned themselves strategically to cope with the pressures of globalisation. This is driven through their current vision i.e. 'To become a significant international supplier of cement, lime and related products by the year 2005'.

At the time of writing of this research report, PPC was nowhere close to achieving this BHAG. PPC is a world class cement manufacturer, but not yet a significant international company. In order to make this dream a reality, the

challenge ahead of PPC now is how to align their organisational capabilities and most importantly ensure that a global mindset exists amongst its management and employees as all levels.

6.3.9 Value-driven leadership

Value-driven leadership basically refers to the notion that all endeavours that the business embarks on should present an overt benefit for all the stakeholders. Very often businesses believe that 'the customer is king' and in the process neglect the other stakeholders – most often their employees. PPC is not far from achieving the ideal value-driven management through their commitment to VBM (value based management). Value based management has seen PPC Cement more than double their share price within four years and also establish a lucrative incentive and gain-share scheme.

Value-driven leadership goes further than just a profit sharing scheme, but it requires that PPC stand back and take stock of the value that each of their business systems actually contributes to the bottom line. This will include, but may not be limited to, engineering, IT, human resources and finance systems.

6.4 Areas for future research

Further research on the topic of 'continual business strategy regeneration' will be beneficial in the plight to further substantiate the hypothesis that ongoing, responsive business strategies bring success to companies. Further research may also be conducted on peripheral phenomena e.g. 'specific strategies for dynamic and static industries' and also 'making strategy a way of life – rather than a conscious, mechanistic planning and review process'.

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