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INSTRUCTIONS: NOTE!

1. This is a closed-book assessment.
2. The general University of Johannesburg policies, procedures and rules pertaining to written assessments apply to this assessment.
3. Read the questions carefully and answer what is required.
4. Number your answers clearly.
5. Write neatly and legibly.
6. Systematic exposition is a requirement.
7. Where applicable make use of diagrams and practical examples to support your answers.
8. This question paper must be handed in with your answer book. Failing to hand it back will result in your paper not being marked.
9. **You are not allowed to make any notes on the question paper. You may highlight or underline.**
10. The correct use of subject terminology is required.

THIS PAPER CONSISTS OF 16 PAGES.

SECTION B: Read the following carefully and answer all the questions in this section in the examination book. All applications refer to Clover as part of the dairy industry within FMCG

Dairy industry overview

Global overview

Historically, international dairy markets have been characterised by high volatility, largely due to their dependence on external factors such as favourable weather conditions and the macro-economic environment.

The observed cyclical pattern is common in the dairy industry. Demand creates higher prices that producers respond to, where after the increased supply forces prices down again. In the past few years, the cycle has been steeper at times when weaker economic conditions coincided with high milk production, as was the case in the first half of 2012.

This was made clear at the beginning of 2013, when hot and dry conditions in New Zealand led to lower volume produced which resulted in sharp increases in the world price, leading to an all-time high in February 2014. As only six percent of world production of dairy products is traded in the world market, climatic conditions in major exporting countries play a significant role in the determination of world market trends.

Although this price has since come down significantly from these peak levels, the price in the medium term is still expected to stabilise well above the levels experienced before the 2007 price hike. The nominal price is expected to increase over the medium term, due to higher feed prices and a strong demand for dairy products from developing economies.

Locally

Milk production for the reporting period was lower than the prior year comparative, mainly due to on-farm cost pressures. This was exacerbated by an unexpected sharp increase in South African grain prices especially in the second half of the year. Amongst other indicators, the milk/feed price ratio is used to adjust the price we pay for raw milk.

As a result, we implemented a series of farm gate price increases throughout the year which will be recovered through further selling price increases as discussed earlier. Clover actively engages with its producers and robust discussions took place at the latest annual producer meetings in October 2013. Ultimately market forces including supply and demand are the key determining forces in a free market economy.

One clear example of such market forces is the impact that the entry of new players in the South African UHT market has had on this significant category for both Clover and the drinking milk market as a whole.

We constantly take into account our milk market, milk supply, overall market conditions and future sustainability in our decision making regarding farm gate milk prices. Of course, the various factors mentioned above will put additional strain on sales volumes and will remain the key elements impacting the short-term performance of the company.

Trade represents a small share of fresh dairy product consumption in South Africa. Consequently, the production and utilisation of fluid milk exists in a tight balance, resulting in continuous cyclical shifts of the equilibrium price as both producers and consumers respond to relevant market signals.

Its sensitivity to changes in climatic conditions renders milk production particularly volatile. Apart from typical seasonal variation that reflects climatic conditions, continuous changes in the milk to feed price ratio cause fluctuations in milk supply, as producers respond to changes in relative profitability by increasing or decreasing the level of supplementary feeding.

General market consensus is that economic conditions will remain muted for the foreseeable future. In this context we expect industry consolidation to continue and even to escalate in both the primary and secondary markets. We regard supply chain and production efficiencies as two of the industry's most important value drivers which will only be achievable through sufficient economies of scale.

Clover at a glance

Clover Industries Limited ("Clover" and/or "Group"), a branded foods and beverages Group, has enjoyed a long and successful history as part of the development of South Africa's dairy and fast moving consumer goods industry. Clover has been a household name for more than 100 years, and listed on the main board of the Johannesburg Stock Exchange on 14 December 2010.

Today, Clover is a leading and competitive branded consumer goods and products group operating in South Africa and other selected African countries with core competencies in:

- The **production** of dairy and non-dairy beverage consumer products
- The **distribution** of chilled and ambient consumer products.
- The **sales and merchandising** of consumer goods

The Group produces and distributes (for itself and other FMCG companies) a diverse range of dairy and consumer products through one of the largest chilled and most extensive distribution networks in Southern Africa. The business platform, created and sustained by the dairy business, provides the perfect platform for the Group to reach an extensive section of South African, and selected other African customers and consumers. The Group's business platform spans the breadth of the value chain from production to sales and merchandising, and integrates key value-added support services such as logistics, supply chain management, sales and merchandising. Clover's market penetration coupled with its value-added services offering and high frequency of delivery, positions the Group to exploit attractive opportunities for organic and acquisitive growth. Clover delivers to approximately 14 913 delivery points across South Africa. The Group was converted from a co-operative society into a public company in 2003. Subsequent to the conversion, Clover has evolved into a dynamic, demand-driven branded consumer products business with attractive growth prospects. As part of its evolutionary process, Clover implemented a capital restructuring on 31 May 2010, which was a milestone in its corporate development and resulted in both economic benefits and voting control vesting in the ordinary shares. In addition, the delinking of the ordinary shares from the milk delivery agreements enabled persons other than dairy producers to acquire ordinary shares, facilitating its ability to raise equity capital. As highlighted in Clover's timeline, capital scarcity has historically been a key constraint for Clover's growth and development.

Our Vision, Mission, Strategy and Building Blocks for the Future

We support these with simple value measures and key performance indicators that we track to give a clear indication of our progress. We do not expect to achieve every value measure every year, but by making our targets clear, we believe we have a framework that will help us deliver long-term improvements for the benefit of all our stakeholders.

We have a strong vision and robust values for the business.

Our vision

To be a leading branded foods and beverages group in South Africa and selected African countries, providing accessible nutrition to all consumers.

Our mission

To reach the Group's widely dispersed customers on a daily basis, and to provide trusting consumers with quality products through its extensive network underpinned by its leading dairy business. Care is taken to develop or acquire brands which have the potential to occupy the number one or two position in its chosen segments. It focuses on way better operations across the supply chain including services to the trade, and to deliver sustainable shareholder value by being a responsible corporate citizen and preferred employer.

Business model – overview

The Clover business model extends vertically across the full value chain – from procurement of raw materials, through to marketing to the end consumer.

Supply: Clover has an established and effective procurement capability for all of its raw material and manufacturing requirements, sourced both locally and globally.

Functionally differentiated, branded goods are manufactured at different facilities across South Africa and stringent quality assurance measures are in place to ensure the highest product quality standards. Significant investment is made in research and development and global technology partnerships to ensure consumer relevant and cutting-edge innovation.

Demand: Optimal and efficient route-to-market capabilities are essential in the effective distribution of products to customers and channels for resale to the end consumer. Clover retains the key component of customer relations, but in the main outsources its sales and merchandising function to a dedicated field sales service.

Consumer insight assists in developing consumer relevant branded products and leading innovation to sustain our leading brand positions. Consumer marketing ensures the creation of demand for our brands to drive top-line growth.

Corporate strategy

Clover's corporate strategy is to build onto existing competencies within the Group and to establish a culture of exceptional performance with a view to set a platform for future market expansion. Different companies within the Group have different strategies, all receiving companyspecific support to maximise their potential. Key to all its activities is the expansion of capacities to share in the strong growth in consumption in the segments which it dominates.

Strategic pillars

To simplify and reduce costs in the supply chain by changing the operational model to fit with the business model.

To successfully complete value-enhancing capital projects through proper planning, project management and the tracking of the business case benefit.

To optimise the brand portfolio.

To increase market share through sales and distribution by leveraging off Clover's strong distribution capabilities (Clover's aim is to constantly redesign service offerings to customers and principals in order to increase sales volumes and profitability of the route to market).

To actively support the business in the most effective and efficient manner.

To constantly adapt Clover's human resources capabilities in order to fit its business model.

To actively seek value-enhancing corporate activity.

Clover is focused on the ongoing revision and revitalisation of its marketing strategy by growing its brand basket and successfully maintaining existing brand market shares. This is done through developing new value added products and leveraging from its existing strong brands in the dairy and beverages categories to increase Clover's profitability. New products will either be developed by Clover's in-house Product Innovation and Technology Department or in co-ordination with joint venture-like partnerships, like the recent deal with Futurelife where a healthy, nutritional drink is being developed.

In Clover's quest to grow its range of products, the Group constantly monitors potential mergers and acquisitions and joint venture opportunities with the view to unlock potential synergies in its supply chain. Clover only considers opportunities that would improve its overall operating margins, while maintaining optimal debt equity ratios. Consolidation is necessary in Clover's business in South Africa as cost structures are duplicated over multiple segments of the business. Through future consolidation, several synergies can be unlocked that can reduce overall unit costs.

The growing demand for natural resources will force dairy companies to process products more efficiently through lowering its carbon and water footprint by making use of the latest global technologies in South Africa. In addressing its dispersed factory locations, Clover is evaluating its options to consolidate these factories and install latest technology, enabling it to improve its cost competitiveness, while also achieving synergies in the sustainability of its operations. As some of these technologies are expensive, Clover is constantly reviewing available government tax incentives and grants, to ensure business cases and projects are feasible.

Clover is also evaluating government incentives available in Agro processing, to benefit milk producers whilst supporting black farmer development. In line with Government's Broad-based Black Economic Empowerment Initiative, Clover aspires to become a Level 4 contributor from its current Level 6 rating on the existing Agri Sector Codes. The extent to which the Agri Sector codes will be amended in accordance with the new amended BEE Codes released in October 2013 is uncertain.

Respect: We value our employees and treat them fairly and with respect, whilst acknowledging our differences. Our organisational culture is based on integrity by building trust which is necessary for a business to form strong relationships with all stakeholders, enabling us to make better, more effective internal decisions.

Fairness: We are committed to promote fair competition, avoid illegal anti-competitive activities with competitors such as price fixing, terms of sale, allocation of markets or customers or unfair labour practice. We take ownership and are responsible and accountable for our acts and omissions. Our commitment to all our stakeholders is to always exercise our obligations with due care, diligence and skill, while maintaining Clover's business strategy which is economically, socially and environmentally sustainable.

Chief executive's report

During the year under review, South African consumers increasingly had to deal with a weak rand, rising interest rates and high food inflation, which were further impacted upon industrial actions referred to in the Chairman's Review.

Producers were equally hard hit with increasingly high input cost pressures such as fuel, electricity and feed cost.

For Clover, these constraints impacted on the business as follows:

- **Costs:** We experienced strong overall inflationary cost pressures, especially on packaging and ingredient costs (which are dollar based). In addition, we increased the price we pay for raw milk to ensure on-farm sustainability. These cost increases could not immediately be recovered due to a very constrained trading environment and weakened discretionary consumer spend which necessitated a gradual price increase strategy.
- **Lower sales volumes** as a result of further selling price increases;
- **The erosion of sales volumes** due to rising inflation, especially in the non-alcoholic beverages segment; and
- **A milk shortage during the winter** following Clover's rebalancing of its milk purchasing agreements in preparation for its exit from supplying raw milk at cost to Danone Southern Africa on 1 January 2015.

Clover's Margin on Material (MOM) for the dairy fluids product group (mostly UHT and fresh milk which make up the bulk of its raw milk usage) has weakened as a result of Clover's strategy to gradually recover farm gate milk price and packaging cost increases in the prevailing environment to minimise market share losses in the process. The UHT and fresh milk market conditions during the second half of the year required a cautious approach to selling price increases.

Although not unexpected, the tough economic cycle proved an acid test for Clover's strategy to exit bulk commodity markets to invest in and focus on branded and value-added products.

It therefore provides me some gratification to report that the new products and platforms introduced during the prior financial year proved the mainstay in Clover's portfolio during the reporting period.

It is therefore imperative that we continue to differentiate ourselves, entrench our brands as the number one or two contenders in the segment and grow the market share of our products in the years to come.

New products and platforms introduced during the year under review:

- Extended shelf life ("ESL") fresh milk with 18 days shelf life compared to the industry standard of 12 days;
- Prisma packaging for UHT (long life) milk and Tropika fruit juice blend;
- 30 days shelf-life ultra-pasteurised (UP) milk;
- 2 litre carton packaging for the Krush and Tropika brands;
- New formula for Danao in a Tetra Top packaging;
- New processed cheese platform (individually wrapped slices); and
- Clover Amasi (maas).
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Dairybelle has a meaningful presence in the yoghurt market. In addition, the location of its UHT milk production facilities in the Western Cape will provide us with an excellent footprint to improve efficiencies through the more effective utilisation of Clover's raw milk supply in the region.

We expect that the acquisition will take effect later on in the current financial year, once the suspensive conditions have been fulfilled.

In March 2014, Clover entered into a joint venture with Futurelife to jointly launch a new range of functional foods as part of its product expansion plans. In terms of this agreement, Clover will be responsible for the production, sales, distribution and merchandising of these products, leveraging its expertise in dairy and nutrition, supported by its iconic brand. Futurelife will bring its expertise in cereals and functional foods to the table. Futurelife is the fastest growing cereals brand in the country and already sells more product locally than some of South Africa's most traditional breakfast cereals.

It therefore provides me some gratification to report that the new products and platforms introduced during the prior financial year proved the mainstay in Clover's portfolio during the reporting period.

Intellectual capital

Fresh and Ultra Pasteurised milk
Our market share is 2.5% down against the previous year, while the total market is 2.6% down against the previous year, mainly as a result of aggressive pricing by retailer UHT house brands. Clover's Ultra Pasteurised (UP) Milk with a shelf-life of 30 days and Clover's 18 day fresh milk have been well received in the market as a bridge between fresh and long-life milk, buoying volumes and sales in an otherwise tightening market.

UHT milk
As mentioned above, aggressive pricing by retailer house brands saw a 5,3% volume increase in the total UHT market as consumers switched from fresh milk to UHT milk. Clover's market share in this segment decreased by 2% to 17,5% market share. Clover did not participate in the retailers' house brand price war.

As a major participant in the UHT market, Clover cannot ignore the market forces which have enticed many traditional fresh milk consumers to switch to UHT. This in turn drove equally aggressive pricing in the fresh milk segment. The combined dynamics are severely curtailing Clover's ability to put inflationary price increases through and at the same time retain market share.

Cream
Total market volume growth of 4,7% was reported for the year under review and Clover's market share increased by 1,5% to 40,1%.

Maas
Maas was reintroduced in the second half of the 2013 financial year and experienced good sales volumes which helped the fluids segment achieve overall growth. Clover's market share in this category increased from 1,9% to 8,1% and the overall market volume growth for Maas was 5,3%.

Feta Cheese
Clover's own feta cheese market share reduced by 3,6%, but picked up by 6,8% in the Pick n Pay house brand packed by Clover. Overall volume growth for the feta market increased by 4%.

Pure Juices
Overall volumes in the pure fruit juice market decreased by 2,4%. Clover's market share for its premium Krush brand and Quali Juice brand decreased to 44,9%, down from the prior year's 46.2% market share.

During the reporting period, a strong migration from Quali pure juice to Quali nectar was noted.

Iced Tea
The Iced Tea segment experienced strong volume growth, up 12,7% on the prior year. Clover successfully addressed supply problems experienced during the move to a new facility.

Through its venture with Nestlé, which came into effect on 1 August 2013, Clover Waters will soon manufacture, distribute, market and sell Nestlé Iced Tea under the Nestea brand in addition to Clover's Manhattan Iced Tea brand.

The larger entity will compete more efficiently and regain some of its lost market share, which decreased from 28,4% in the previous year to 21.9%.

Dairy Fruit Mix
The overall volumes in the Dairy fruit mix market declined by 9,4% from the prior year. Despite this decline, Clover managed to increase its market share in the Tropika brand to 68,2% against 67,6% in the previous year. This volume decline is mainly due to the price wars in carbonated soft drinks and substitution as a result of the war.

Water
As discussed under Iced Tea above, Clover's joint venture with Nestlé, Clover Waters manufactures, distributes, markets and sells Nestlé's Purelife and will add Valvita and Schoonspruit brands in addition to Clover's Aquartz brand in the future.

The overall market volume for bottled water grew by 8% during the year under review and Clover Waters market share in this segment has grown from 8,0% to 17,70%. This is mainly as a result of the Nestlé Purelife wate that is with effect from 1 August 2013, included in the market share.

Pre-packed cheese
The total pre-packed cheese market grew by 34,9% this year on top of the 30,8% growth of 2013. This is because the traditional bulk cheese market volumes have been replaced by price competitive 800/900 gram bulk pre-packed cheeses. Clover participated in this growth although market share was 6,4% down against the prior year.

Flavoured milk
Market volumes for flavoured milk reduced by 3,3% during the review period. Clover's Super M brand's market share, decreased by 1,4% to 32,3%, mainly as a result of aggressive pricing by competitors.

Fruit Drink/Nectar
A marginal overall volume decrease of 0,9% (being the total market) was experienced during the reporting period. Clover's combined market share decreased by 5,1% during the reporting period as a result of, inter alia, the discontinuation of the Capri-Sun brand.

(All market statistics quoted from Aztec are for the year ending 30 June 2014 for only Shoprite, Checkers, Pick n Pay and Spar and should not necessarily reflect total market representative shares.)

Stakeholders
Clover is cognisant of its responsibilities to all stakeholders in order to ensure its long-term viability. The Group therefore engages whenever relevant with its constituency to identify and consider the impact its business has on its stakeholders.

Dividends
The Board targets a dividend cover over the medium term based on headline earnings per share, which is more comparable to the sector within which Clover operates. A progressive dividend policy will be generally applied whereby dividends are maintained or grown at least by the same percentage as the growth in headline earnings per share, until such time as a comparable dividend cover is achieved.

In line with this policy, a dividend of 16 cents per share was declared by the Board on 15 September 2014, which brings the total dividend for the 2013/14 financial year to 32 cents per share which is R58,4 million.

Africa expansion
The weakened local exchange rate has to some extent protected the market from opportunistic imports and conversely had a positive impact on some of our foreign subsidiaries, with especially Botswana performing well with increased revenues on the back of larger volumes as well as exchange rate gains.

Our expansion into selected African markets remains a work in progress and although we remain committed to drive Clover's entry into new markets, local and immediate opportunities which became available following the termination of our restraint of trade with Danone Southern Africa as referred to in the Chairman's review took priority during the review period.

Outlook value creation
This outlook value creation incorporates Clover's short, medium and long-term initiatives.

Short term
Despite some of the most challenging trading conditions in recent history, we will continue to deliver on our targets which include volume and market share growth, the reduction of overall costs, especially in the supply chain.

As demonstrated by the success of our new platforms in difficult economic conditions, the successful execution of our expansion plans for new value-added products and platforms is imperative. This will allow us to leverage our iconic brand and production capacity as well as expanding our business further into sub-Sahara Africa.

The investment over the past few years in new packaging equipment will allow for innovative products and concepts to be introduced over time.

This will however require some investment in the shorter term as the launching of new products, platforms and concepts requires marketing support.

Management will continue to deliver against the Group's strategy of identifying and consolidating long-term growth opportunities that will ensure a sustainable return on investment.

The discontinuation of the Danone services will have some financial implications on Clover, which will be managed by a combination of reducing costs, replacing some of the lost business with other third party services and Clover's own growth. However, in the short term there may be a delay in replacing the lost fee income.

For a number of years certain retail groups have indicated that they would like to perform their own distribution services to their own stores, which is currently performed by Clover. If they persist, this could lead to a further loss in fee income for Clover, but could be managed more easily than the exit from the Danone services as the direct costs associated with not servicing an entire channel are easier to eliminate. Where the full costs cannot be eliminated, services will be offered to other third parties, for example in rural areas. Nothing to this effect has happened yet, but there are constant discussions with some retail groups in this regard. Similar to the cessation of services to Danone, there could be a lead-and-lag effect in the short term should this materialise.

Some important initiatives in the year ahead include:

Continued research and development of new products.

Re-entry into the yoghurt and custard market.

Maximising our collaboration with the trade – which is dependent on further IT system development.

Continued focus on safety, health and the environment, especially with regards to emissions, waste and water consumption.

Clover is also actively reducing its environmental footprint. These efforts don't only relate to our own operations but also extend to our supply chain partners who, by nature of their supply to Clover, have a significant environmental impact.

Medium to long term
Consumer spending is expected to increasingly come under pressure, which along with inflationary cost pressures will see further market consolidation. The executive team is focused on maintaining an optimal balance between short-term profits and achieving longer-term growth opportunities which will sustain and improve Clover's market position on the sub-continent.

Source: www.clover.co.za accessed 1 August 2015.

QUESTION 41 [10]

Identify and discuss the generic building blocks of competitive advantage as describe in the theory. To what extend is the generic building blocks of competitive advantage evident in Clover (according to the available information).

QUESTION 42	[10]
Identify and describe the different organisation cultures according to the organisational culture model. Where in the model would you position Clover? Motivate your choice in detail.	

QUESTION 43	[20]
Identify one industry positions in the dairy industry as part of FMCG and one company situation that is present in Clover. Explain the position/situation under the headings listed below (use examples in your explanation and do this in table form). Remember you must identify the industry position and company situation before you complete the table:	
• the key success factors for the FMCG industry and key performance areas for Clover,	(4)
• specific strategy choice on business and corporate level for Clover,	(4)
• the risks of the FMCG industry in general and the risks for Clover specific,	(4)
• four sustainable competitive advantages of Clover,	(4)
• the direction Clover should choose on the SPACE-chart, and	(2)
• the market position of Clover.	(2)

QUESTION 44	[30]
Compile as complete as possible a SWOT-analysis from the information available for Clover. Do this in table form.	

QUESTION 45	(10)
According to the theory two factors have created the new competitive landscape. Briefly explain the content of these two factors. What meaning does this new competitive landscape have for a company like Clover in the near future (your own opinion)? Is there any evidence in the chief executive's report that these two factors played a role in the events that preceded the report?	

QUESTION 46	[10]
Briefly explain the roles of leadership when implementing strategy. To what extent are these leadership roles present in Clover's top management	

The end of the paper.