

- ▶ Securing continuity of supply
- ▶ Foreign direct imports and dumping
- ▶ Mergers and acquisitions
- ▶ Transformation through preferential procurement

New markets derived from better partnerships

Altech UEC implemented a four-pronged strategy to ensure sustainability in a global market, which includes:

- ▶ capping local manufacturing volumes;
- ▶ increasing automation to improve efficiency and quality;
- ▶ engaging with contracted manufacturers; and
- ▶ establishing an offshore sourcing and logistics hub for procurement and supply chain flexibility.

During the year, Altech UEC designed, developed and produced a prototype of a brand new product in cooperation with new offshore partners. The hybrid digital video recorder project was completed in a record time, and cost less than 60% of what it would have cost were it to have been conducted with local partners. Altech UEC won a significant export order for the product just two weeks later.

Partners

Partners form an integral part of the success of Altron and its group companies, helping to ensure that the company has access to the raw materials, services, technology and resources required to deliver high-quality products. In addition, partners play an important role in helping the company to meet its transformation targets in terms of the dti CoGP relating to enterprise development and preferential procurement.

The most material issues relating to partners that affect the Altron group differ from one operation to the next, but there are certain issues that are common to all businesses within Altron. These include:

- ▶ securing continuity of supply of materials and resources critical to businesses' operation;
- ▶ mitigating the effect of foreign direct imports and 'dumping' into the markets in which the businesses operate;
- ▶ global mergers and acquisitions affecting supply; and
- ▶ transformation through enterprise development and preferential procurement.

Management of partner relationships

The Altron group has a purchasing and export council responsible for assessing all aspects of procurement throughout the group. The export council takes into consideration aspects such as the procurement criteria specified in the dti CoGP, BBBEE legal requirements, local and foreign content issues as well as any other risks which may be appropriate and which are reported to the Altron risk management committee.

How we manage our relationships with our partners at the level of the material issues identified is described in each of the subsections that follow.

Material issue

Securing continuity of supply

Outlining the issue

The issue of securing continuity of supply can be further divided into two key areas, namely the supply of materials and the supply of energy.

The first of these relates to Altron's ability to provide its customers with reliable, timely and consistent service. Any disruption of supply on Altron's side could severely impact the customer's business, leaving a gap wide open for the competitor to take market share away from the Altron group. For these reasons it is imperative that the operations within Altron secure sound supplier arrangements with more than one supplier.

Supply of materials

Powertech Transformers is reliant on imported resources for a high percentage of inputs such as copper, core steel, transformer oil and insulation, the availability of which is of the utmost importance to the long-term sustainability of this company. In order to mitigate the risk of being dependent on one supplier only, Powertech Transformers continually investigates alternative sources for these raw materials and negotiates supply contracts with reliable new suppliers. For example, during the latter part of 2007 Powertech Transformers assessed a potential new supplier of copper strip and is currently negotiating a long-term supply agreement.

A second international supplier of transformer oil is currently marketing its products in South Africa and has been approved by both Powertech Transformers and its major customer, Eskom. Powertech Transformers has a year-long contract in place with two suppliers of core steel and will negotiate new contracts during the second and third quarters of 2008. Powertech as a group has also incorporated selected production processes into its own operations in order to reduce its dependency on certain suppliers.

Altech Netstar is exposed through its dependence on imported components. When manufacturers make changes to these parts, Altech Netstar has to make related design changes without interrupting its own manufacturing process. To mitigate this risk and ensure that it is up to speed with any planned component changes, Altech Netstar's technology team meets with suppliers and manufacturers on a monthly basis.

Partners *continued*

Supply of energy

As a supplier of electric cables to every sector of the economy, Aberdare Cables is significantly affected by the current disruption in energy supply.

Government's proposed electricity rationing programme will cut usage by 10% in the industrial sector, thereby affecting Aberdare Cables' most important customers. This electricity supply rationing could also result in Aberdare Cables' customers reducing their number of projects and developments, the consequence of which could be a reduced demand for a number of cable voltages and designs.

The electricity crisis received immediate and high-level attention from all senior members of Aberdare Cables' customers team. With its extensive local and branch network, the company is well positioned to provide clients and manufacturing units with assistance and up-to-date information on the electricity supply.

Although Eskom's capital expansion programme is taking shape, it has predicted a limited electricity supply over the next five years. Aberdare Cables is in the process of developing meaningful indicators to measure its effectiveness during this difficult period.

Material issue

Foreign direct imports and dumping

As a local company Altron is committed to the development of the South African economy and supports the government's AsgiSA (Accelerated Shared Growth Initiative of South Africa), Jipsa (Joint Initiative on Priority Skills Acquisition) and Millennium Development goals. It does not support grey imports or the practice of 'dumping'. Subsidies, questionable supply chain stewardship and economies of scale often result in such foreign direct imports being sold at a much lower cost than is currently available on the local market, an issue which adversely affects Altron subsidiaries operating in this environment.

POWERTECH

The threat of low-cost imports to DPM's market share is significant. Unit manufacturing and input material costs in Brazil, Russia, India and China (BRIC) are lower than in South Africa. In addition, certain local market conditions such as skills shortages and unreliable power supply have the potential to negatively affect DPM's competitiveness when compared to these foreign countries.

DPM plans to visit trade shows in BRIC countries to gather information on best practices. They also share knowledge and experience gained with other Altron purchasing managers.

Powertech Industrial's Crabtree business is heavily dependent on its wholesaler distribution channel. This company is engaged in cost-reduction initiatives in its manufacturing processes that include the relocation of certain assembly operations to Lesotho. It is also redesigning certain products to reduce their material cost.

ALTECH

Examples in the Altech group of combating risk include ACS improving its service and quality while investigating ways to reduce the cost of card manufacture and AAD highlighting its key differentiators through a vigorous customer engagement process. These include the fact that it obtains quality products directly from the original source; can offer supply chain and value-added solutions; is registered as Restriction of Hazardous Substances (RoHS) compliant; and that its components are fully traceable. AAD also engages in sourcing lower-cost components and quality finished products in order to remain competitive.

Material issue

Mergers and acquisitions

Relationships with partners and suppliers can be adversely affected if the ownership of partner companies changes as a result of mergers or acquisitions. Such events are outside of Altron's

Power saving = Cost saving

Bytes Document Solutions (BDS), the Xerox operation has experienced first hand how saving energy can translate directly into cost savings for the company. Three years ago, BDS started to instal ECG (electronic control gear) lighting throughout its main building. While the old lighting system used four fluorescent tubes, the new one only uses three but it provides more light. This has allowed BDS to dispose of 25% of its existing lights, and has resulted in cost savings which more than covers the initial investment in the new system. In addition, the initial lighting audit carried out on the new system gave an 18 000 hour guarantee on the fluorescent tubes and a 50 000 hour guarantee on the electronic control gear. To date, virtually none of the tubes or ECG's have failed, meaning further savings for BDS on labour, lamp and ballast costs.

BDS light switches have, for the past 10 years, also been equipped with timers and override switches. The timers switch the lights off automatically at the end of the working day and anyone wishing to work late simply has to use the override switch to turn the lights back on. This has resulted in further significant energy and cost savings.



Altron power saving initiative

Mindful of its responsibility to save energy, the Altron group has implemented Powersave@Altron, a group-wide energy-saving project, aimed at creating awareness, action and saleable solutions. See this report, under the environment section on page 77 for more detail.



Ronel Eksteen, Bytes Business Park facilities manager and Kleinbooi Mashiyé, assistant, at the solar powered security fence at Bytes Business Park.

control but they can affect agreements that were in place before the merger or acquisition took place. New owner companies often have long-established relationships with different suppliers, partners and customers, some of which could be in competition in the market and better positioned to meet the new needs of the customer rather than Altron or its subsidiaries. In such situations, having the best product offering and the latest technology at the most competitive rate becomes more critical than ever.

POWERTECH

Powertech IST experienced two such incidents during 2007. The company developed opportunities at Telkom and Neotel with the Cramer operational software suite, negotiating a position as the local value-added reseller for USA-based Cramer in South Africa. However, Cramer was then acquired by Amdocs, an Israeli-based company that has representation in South Africa. Fortunately, Powertech IST was able to reach a negotiated settlement whereby it can continue to offer its services to Telkom via the Amdocs local entity, ASAJE, and remain the local supplier of Cramer to Neotel.

Powertech IST also developed opportunities at Eskom and many other smaller industrial clients as the local value-added reseller of the MAXIMO asset management software suite from MRO, another USA-based company. MAXIMO was acquired by IBM which has representation in South Africa. However, the local IBM entity fortunately does not have MAXIMO skills and it was agreed that Powertech IST would continue to be a value-added reseller for the product.

Material issue

Transformation through preferential procurement

Altron recognises the power of preferential procurement and the development of small to medium black-owned enterprises to bring about meaningful transformation within the company and the broader ICT industry. The issue of preferential procurement has a direct bearing on

Power supply crisis – risks and opportunities for Altron

Opportunities

- ▶ Increased demand for backup power, gensets, battery systems and solar systems
- ▶ Co-generation opportunities for alternative power supplies/sources
- ▶ Demand-side management systems and products to reduce consumption
- ▶ Upgrade of substations and network investment in infrastructure.

Risks

- ▶ Production interruptions
- ▶ Slower demand due to reduced new development activity and lower GDP
- ▶ International perceptions
- ▶ Effect of electricity increases on inflation and therefore the macro economy.

Partners *continued*

the long-term sustainability of Altron's operations. As part of the broader transformation agenda, preferential procurement guided by the Altron group's internal charter, Transformation Vision 2012, which acts as a blueprint for achieving set targets for sustainable transformation across all of the dti CoGP. In developing the framework, Altron has considered national guidelines, sectoral empowerment charters and applicable legislation.

No business can survive without access to customers and in the past it has been particularly difficult for small black-owned businesses to break into the corporate market. Large companies often have onerous procurement procedures that make it extremely difficult for new businesses with little experience to get onto preferred supplier lists. By reducing the barriers to entry, preferential procurement by large companies such as Altron plays a vital role in helping these businesses to gain access to large customers that will help them to grow.

ALTECH

During the year under review Altech Netstar spent 66% of its procurement spend with black-owned small, medium and micro enterprises (SMMEs). During the year ahead it will concentrate on procuring goods and services from more black female-owned suppliers wherever possible.

ACS uses BBBEE-rated suppliers wherever possible, and makes extensive use of Altron's Everest Supplier Rating List, which monitors the BBBEE status of supplier companies to the Altron group on a monthly basis. Similarly, AAD continually assesses the BBBEE status of its suppliers and replaces non-compliant companies with those that are compliant.

POWERTECH

DPM recently underwent an Empowerdex evaluation and was awarded a Level 3 contributor (AA rating), which represents a significant improvement from the Level 5 rating attained in an earlier evaluation. DPM's affirmative procurement is currently at 13.66% but it is actively working towards meeting the Altron target of 30% for 2009. As DPM's own system for extracting BBBEE information on suppliers is onerous and prone to error, in future DPM will utilise Altron's Everest system to extract this information.

As part of its strategic preferential procurement objectives, each Powertech IST divisional head has the responsibility not only to select suitable BBBEE suppliers for local procurement, but also to assist current suppliers in achieving the targets set out by the dti. Unfortunately the nature of Powertech IST's business is such that a large portion of its equipment needs to be imported and, as such, it monitors its preferential procurement performance based on local procurement according to the discretionary procurement principle. Based on this measurement, Powertech IST currently spends around 12% of its procurement budget on BBBEE companies and the objective is to increase this to 25% in the next two years.

BYTES

Bytes scores particularly high when it comes to preferential procurement. Over 50% of its R1.2 billion procurement spend is on empowerment purchases, the majority of which are sustainable in the long term. With the advent of the new dti CoGP, Bytes has evaluated its BBBEE position and set tough five-year targets (see table) and will focus particularly on increasing procurement from black female-owned SMMEs.

Bytes	2006 Score	2007 Score	2008 Target
Procurement	7.5	11.9	15
Enterprise development	10	15	15



Pambili Document Solutions is an enterprise development company in the BDS supply chain.

Training at Bytes People Solutions.

