



**“Balancing the profitability of a post-regulated industry with government concerns of collusion and vast urban/rural staple food price differentials in Southern Africa”**



**african MICROMILLS**  
DEVELOPED SOLUTIONS FOR DEVELOPING MARKETS

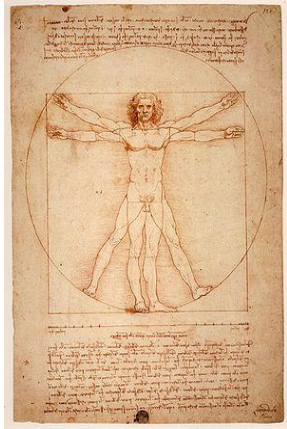


# MILLING AND IT'S HERITAGE

- The **oldest profession** in the world ( with machines!)
- The world's **first industrialists**
- The surname "**Miller**" is the sixth most common surname in the United States
- Other forms of "**Miller**" are Mueller, Muller, Moeller, Muller (German), Moulin, Moulinier, Meunier, Molyneaux (French), Molnar (Hungarian), Melnikov (Russian), Farina, Molinari (Italian), Molander (Swedish), and so on.



# GREAT MILLERS OF THE 1<sup>st</sup> MILLENNIUM



**Vitruvius** was a roman architect and engineer who documented the first non man/animal powered mill. Known as the **Vitruvian Watermill**, It comprised of a vertical water wheel attached to a horizontal drive shaft. Gears were used to carry power to the mills stones by changing the angle of the drive to 90 degrees.



**St. Moling.** "He was a **poet**, a **teacher**, a **psalmist**, a **bishop**, a **soul friend**, a **noble**. Nobly he went unto the angelic resting place on the 17th of June 696, with choiring of the household of heaven, in the eighty second year of his age."



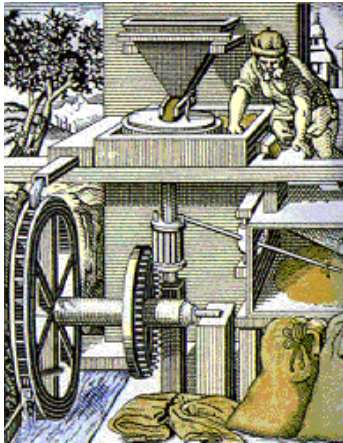


# MILLING HISTORY

## 2<sup>nd</sup> MILLENNIUM

### SOUTH AFRICA

#### Origins of African Milling



Circa 16<sup>th</sup> Century

#### 1873 The Industrial Revolution



1937-1997 Regulated Industry



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**Maize millers** 'in far-reaching price-fixing cartel'

**Pioneer** faces R1.6bn milling fine

**Wheat milling** cartel referred for prosecution

**South Africa's Milling Chamber**  
Says **Four Firms Quit**

## THIRD MILLENIUM WHY ALL THE BAD PRESS?

**The 14<sup>th</sup> century father of  
English literature Chaucer**

**"We know he stolen corn  
and tolls twice."**

**"And yet he has a thumb  
of gold."**

from Canterbury Tales





THE ONLY  
CONSTANT IN LIFE  
IS CHANGE.

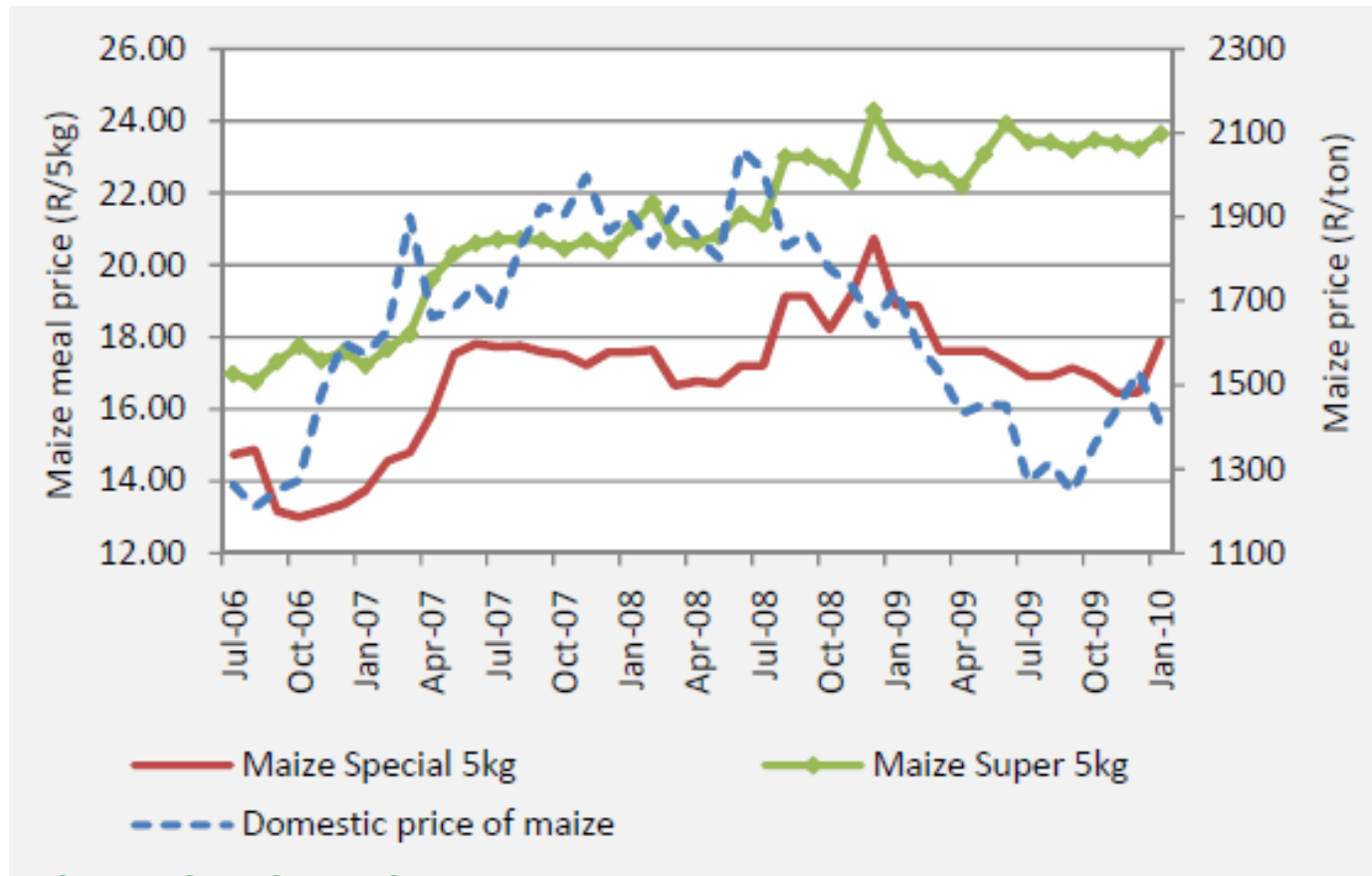
## SOUTH AFRICA 1994



- New Government
- New Objectives
- 1997 The entire maize and wheat value chain **deregulated** with the stated aim of creating a more **competitive & inclusive** business environment



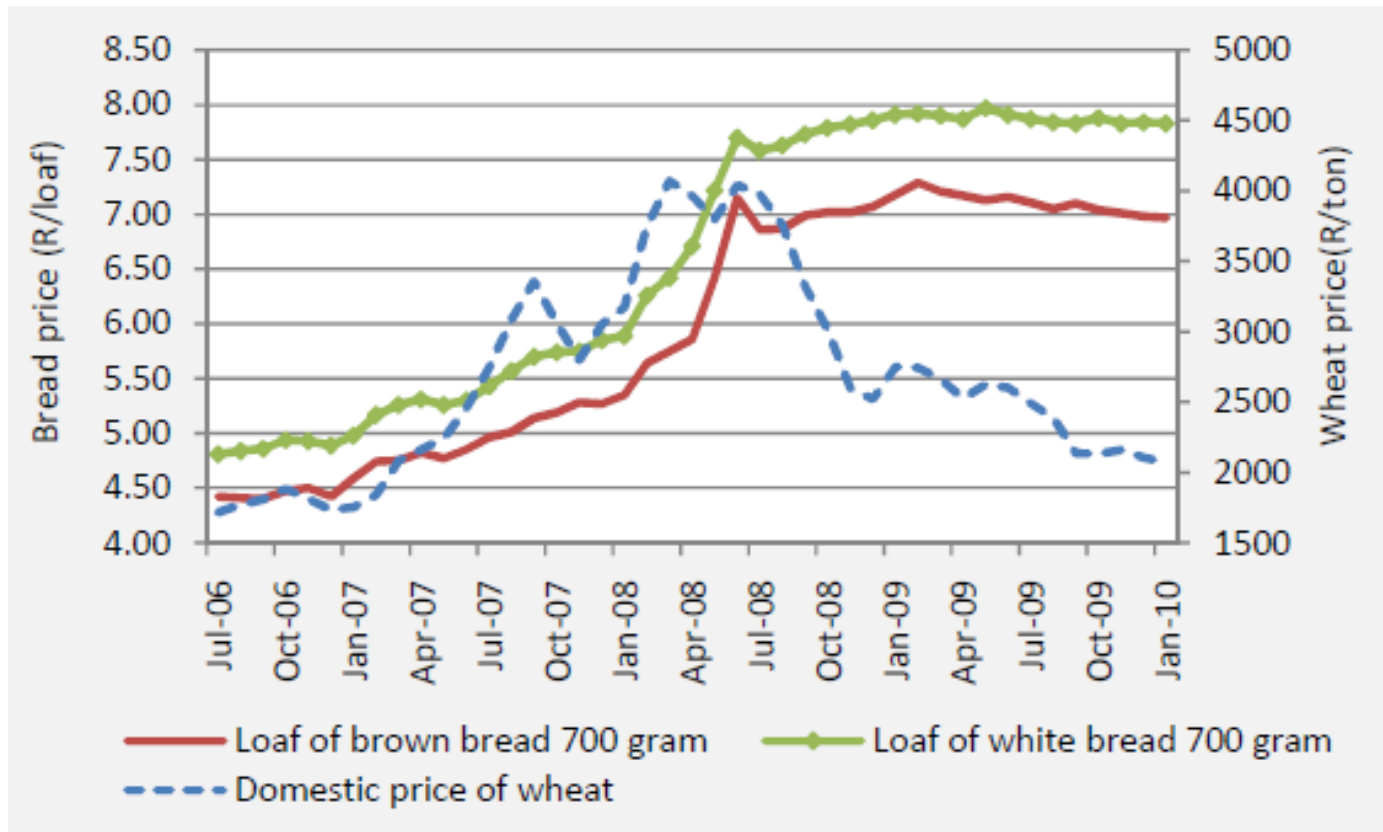
# THE MAIZE MILLING INDUSTRY 2010



\* Source: Stats SA and SAFEX



# WHEAT MILLING AND THE PRICE OF BREAD!



\* Source: Stats SA and SAFEX





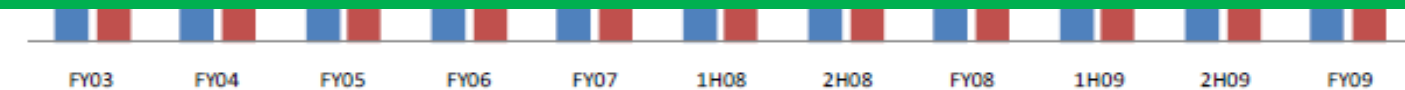
# MILL FINANCIALS

## 2003 -2009

### Operating Margins

■ FMCG ex-milling and baking ■ Milling and baking

**After 13 years of  
deregulation not a lot  
has changed!**



Source: Company data; Alphen Asset Management



# REGIONALLY NOT IN A VACUUM



The World's economic model for the past two centuries came to an end as it became apparent that the model was based on two false assumptions ;

- That there were limitless resources in nature
- Nature had an infinite capacity to absorb waste



# London

# limitless resources?





# AN INFINITE CAPACITY TO ABSORB WASTE?



© WWF Russia/Sergei Sobolev



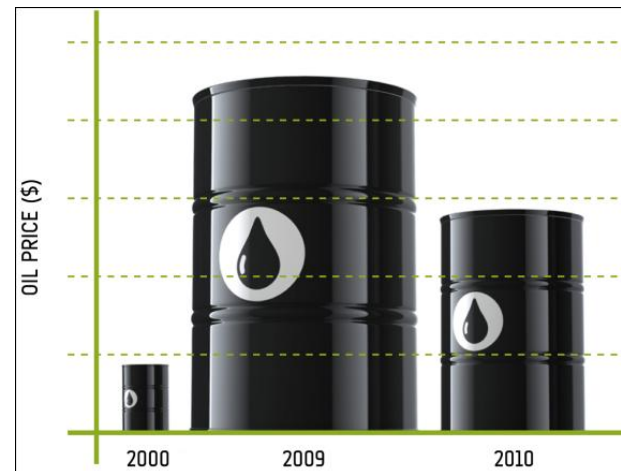
# GLOBAL PARALLEL CRISIS

- Financial crisis, spilling over into economies
- Climate change crisis
- Natural resources crisis – two-thirds of our most important ecosystems – like tropical forests, farm land, fresh water and marine resources – are used beyond nature's capacity to regenerate them



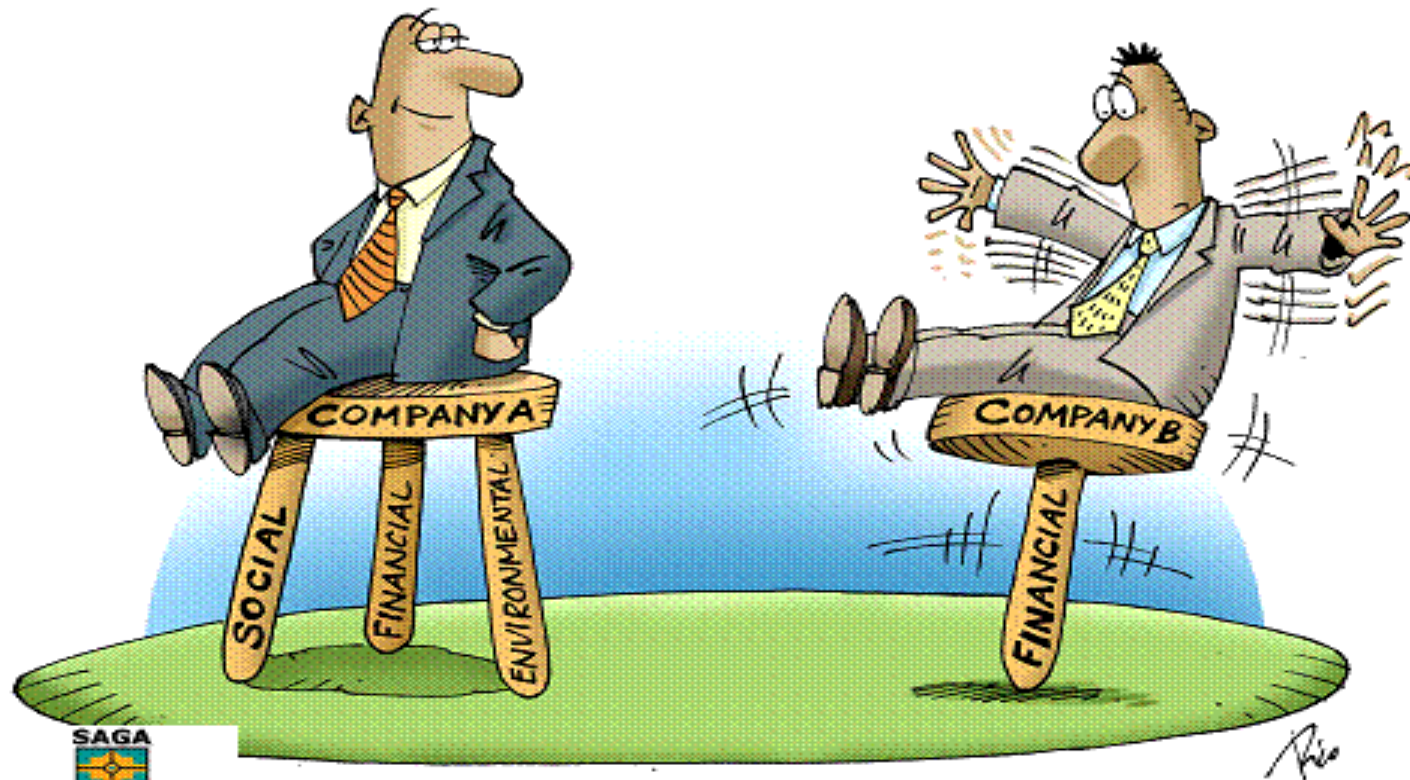
# THE NEW ECONOMY

- Business as unusual
- Making **more** with less
- **Energy** and oil
- Carbon Credits & **Taxes!**
- **Information** , Google
- **The new company**; involves all **stakeholders**.
- **King III** –Corporate governance and sustainability are inseparable;  
**Integrated reporting**, JSE listing requirement from June 2010

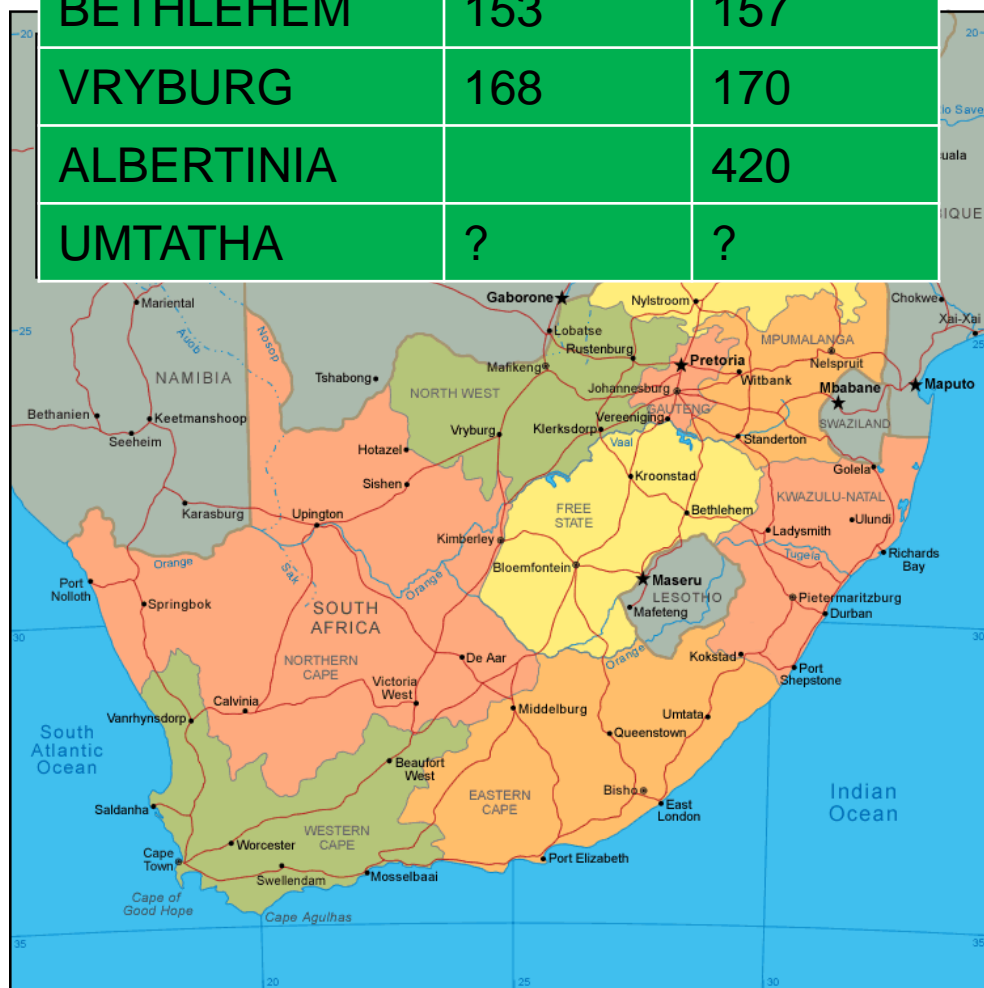




# INTEGRATED REPORTING



LOCATION	MAIZE	WHEAT
RANDFONTEIN	0	0
BETHLEHEM	153	157
VRYBURG	168	170
ALBERTINIA		420
UMTATHA	?	?



GRAIN TRADING  
FREE MARKET  
BASED ON EXISTING  
SILO LOCATIONS



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# RESULTANT PRICE DIFFERENTIALS IN RURAL AREAS

**Table B.2: Maize products**

Maize Products	Jul-09	Apr-10	Jul-10
Maize Meal 12.5kg	54.83	50.36	49.25
Maize Meal 1kg	7.23	6.22	6.15
Maize Meal 2.5kg	14.55	16.32	14.47
Maize Meal 5kg	29.05	25.45	25.93
Samp 1kg	6.68	6.38	6.36
Samp 2.5kg	16.92	12.96	13.34
Average cost per ton ( R)	6096	5571	5458

Source AC Nielson



# SOUTHERN AFRICA IS A LOCALISED MARKET

## SOUTH AFRICA

- Population 50 million
- Rural population of 20 million
- 47% of total population of South Africa lives on less than \$ 50 per month.
- 59.3% of South African poor are rurally based

## SADC

- Population > 250 million
- 60% of population live in rural areas.
- Approximately 45% of the total population lives on 1 US\$ per day.



# SERVICING A LOCALISED AFRICAN MARKET



Obstacles include;

- vast distances
- lack of suitable transport infrastructure
- Double-digit growth in logistics costs.





# GOVERNMENT'S OBJECTIVES & GREATEST DILEMMA!

Ultimate **objective** of Southern Africa's governments:

**Get enough votes to stay in power!**

*(Study: Tschirley and Jayne, 2009)*

- 'The importance of food staples in the budgets of these countries and consumers ensuring adequate supplies of food staples throughout the country, at prices **accessible to the poor**, and gaining political credit for this outcome, makes an important contribution to the government's **ultimate political objective**'





DIFFERENT TIMES  
CALL FOR DIFFERENT  
METHODOLOGIES.



# A PARALLEL TRACK NEW MILLS IN SOUTHERN AFRICA.



**Smaller, localized sites does not mean lower standards!.**

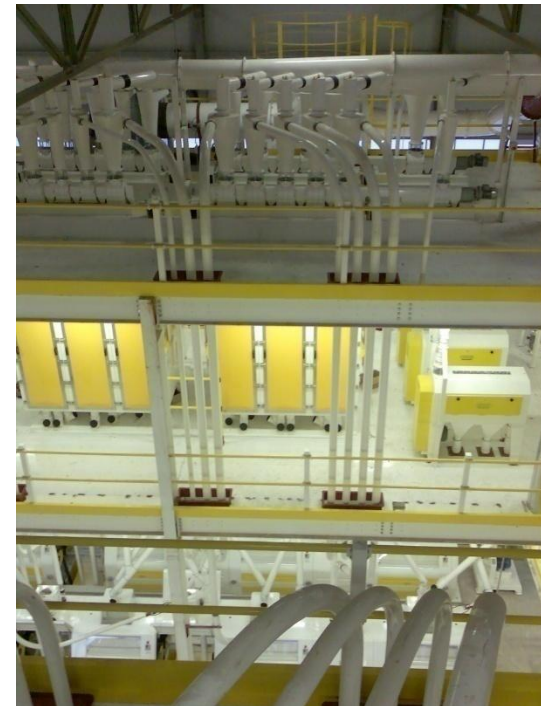


# EXAMPLE OF TYPICAL CAPITAL RETURNS

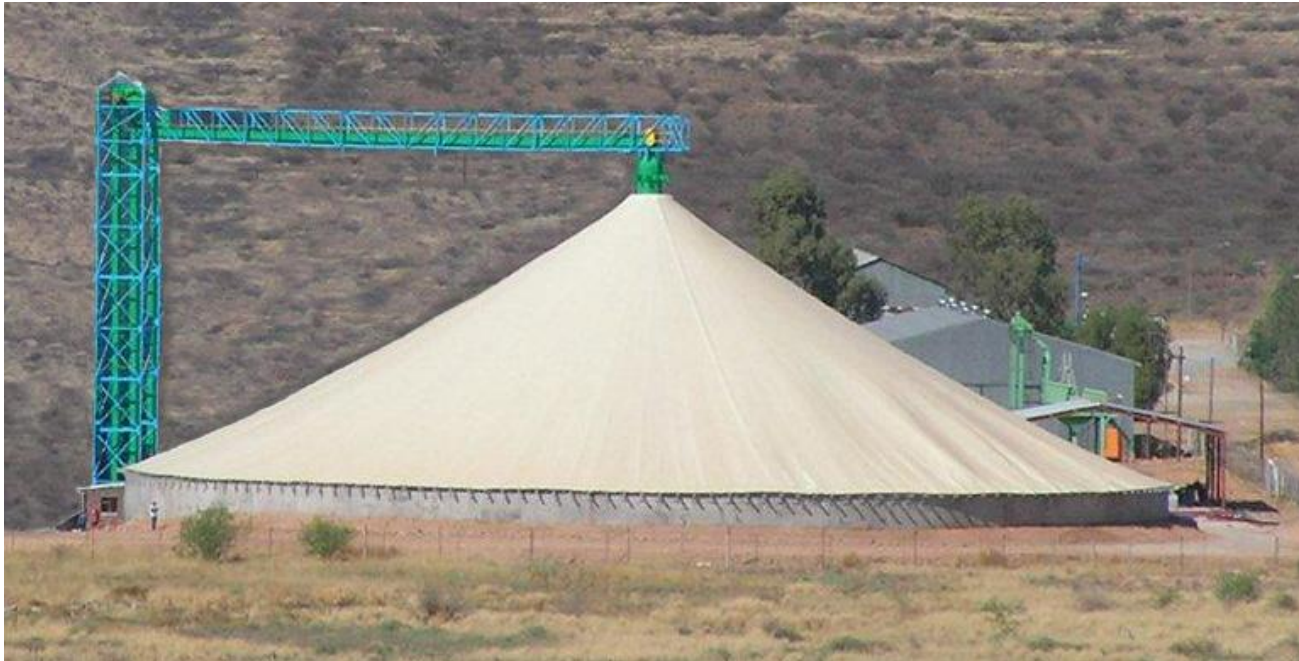
Average Profitability on a localized maize milling operation

Maize	Price per ton Rand (R)	Price per ton Dollar ( \$ )	% Extraction
Maize meal	3000	400	65-80%*
Maize germ	1000	133.3	35-20%
Sales	2250-2600	300-347	
Cost of sales	Per ton Rand (R)	Per ton Dollar ( \$ )	% Sales
Maize	1200	160	
Packaging	150	20	
Delivery	150	20	
<b>Gross profit</b>	<b>750-1000</b>	<b>100-133</b>	<b>33-42%</b>
Admin/wages	300	40	13-11
Loan & interest costs #	200	27	8-7
<b>Nett profit</b>	<b>250-500</b>	<b>33-66</b>	<b>10-15%</b>

\* Depending on finished product quality required # Calculated on 75% capital cost over 5 years



# LOCALISED GRAIN STORAGE SOLUTIONS

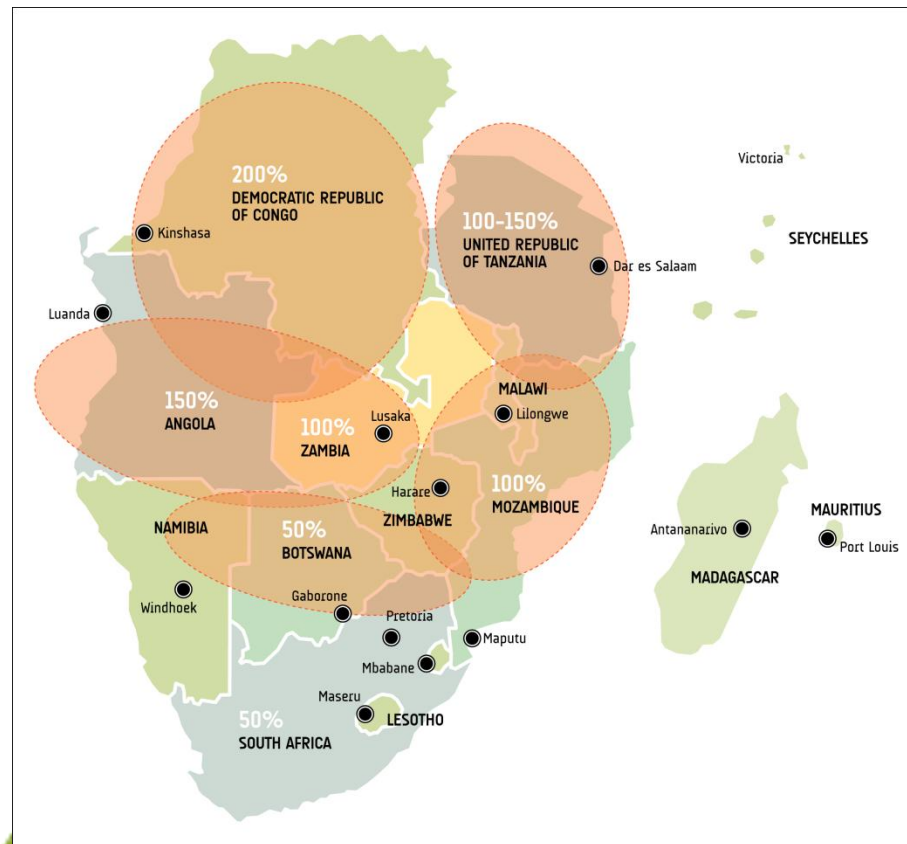


@ a cost of R500/TON(\$72); ROI = 100%





# ROI IN SADC BASED ON CURRENT FOOD PRICES.



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# WITH CHANGE COMES NEW OPPORTUNITIES.

This year, SADC will produce **35.5 million tons of grain**, an estimated **12% increase** over 2009. It consumes 25 million tons of maize, 5 million tons of wheat and has achieved a **20% growth rate** in cereal production over the past 5 years. (SADC Food Security Update – July 2010).

**There are HUGE opportunities for new development in this market.**





# SOUTHERN AFRICA IN PERSPECTIVE WITH IT'S MILLING HISTORY

350 YEARS AGO  
DUTCH

19<sup>TH</sup> & 20<sup>TH</sup> CENTURY  
BRITISH



# THIRD MILLENNIUM LET'S BE MILLERS FOR AFRICA!

- Compound growth rate of 5%
- World's fastest growing population
- World's youngest population
- Emerging middle class
- Healthy urbanisation
- Digital consumers
- Value orientation  
(61% cost of food primary concern)
- Agricultural production to double

NKOSI  
SIKEHE  
IAFRICA  
(AND IT'S  
MILLERS!)



PROVIDING  
INTELLIGENT  
SOLUTIONS FOR A  
DEVELOPING MARKET.

THANK YOU!



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