



VEHICLE RETAIL, RENTAL AND AFTERMARKET PARTS REVIEW

MATERIAL SUSTAINABILITY ISSUES

Issue

MANAGING ECONOMIC PERFORMANCE IN A CHALLENGING ENVIRONMENT



Sub-issues

- > Achieving appropriate returns
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DELIVERING QUALITY PRODUCTS AND SERVICES



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MANAGING ECONOMIC PERFORMANCE IN A CHALLENGING ENVIRONMENT

The South African economy continues to be challenged with unemployment, poor GDP growth, increasing interest rates and lack of disposable income which constrain the consumer environment, placing pressure on new vehicle sales in the division's passenger and commercial businesses. Despite these prevailing economic pressures, the Vehicle Retail, Rental and Aftermarket Parts division delivered a year-on-year growth in revenue of 9% and maintained operating profit. The challenging market conditions have necessitated strategies to manage employee headcount, constraining the division's ability to recruit new employees and impacting its ability to meet its employment equity targets. Headcount reduced 3,7% during the reporting year.

DELIVERING QUALITY PRODUCTS AND SERVICES

APPROACH

<p>CUSTOMER SATISFACTION SURVEYS AND TRAINING</p>	 <p>Customer experience determines customer loyalty and in turn the levels of annuity income from vehicle servicing, maintenance and parts. Customer satisfaction is measured on an ongoing basis through various initiatives, including customer surveys relating to vehicle sales, vehicle servicing and in certain instances the sale of used cars. Findings are used to improve customer interactions. Training on understanding customer needs and providing excellent customer experiences is provided to sales staff.</p>
<p>QUALITY CONTROLS</p>	 <p>The division's dealerships and in-house panel shops maintain and repair vehicles with replacement parts manufactured by the Imperial group. Of paramount importance, is ensuring the health and safety of Imperial's customers through stringent quality and safety measures, as poorly designed or malfunctioning products could potentially put customers at risk, and result in long-term reputational damage and legal claims.</p> <p>Quality control checks are undertaken to ensure that technicians meet OEM quality and safety standards when servicing and repairing vehicles, and that products meet manufacturing standards and related regulatory requirements prior to being released into the retail environment. Technical competency levels are reviewed on an ongoing basis by OEMs.</p> <p>Some of the parts purchased by the aftermarket parts business are classified as either high-risk or safety critical. For safety critical items, a letter of authority from the NRCS is required before the item can be imported and sold in South Africa. All products distributed by the division must comply with SAE International, an engineering standards organisation which provides technical standards and recommended practices for passenger cars and other vehicles.</p> <p>All product samples undergo stringent forensic testing prior to supplier selection. Other than accessory and consumable products, parts are sold with a warranty and technical teams assess the quality of parts returned. Product claims are monitored and where products receive a substantial number of claims, they are discontinued.</p>
<p>SUPPLIER ASSESSMENTS</p>	 <p>Supplier engagement focuses on improving quality and cost of products and services. For example, value added services may be included in supplier contracts that benefit the division's customers. The division is meticulous in its approach to fulfilling OEM requirements on product presentation and customer interaction.</p> <p>Suppliers of high-risk or safety critical parts are required to sign indemnity forms as per the requirements of the Consumer Protection Act (CPA) which requires due care in the design of products and services to ensure they are fit for their intended use and do not pose unintended health and safety risks. New suppliers undergo stringent assessment and all suppliers of safety critical parts must be ISO/TS16949 accredited, a technical specification prepared by the International Automotive Task Force and the highest quality standard globally.</p> <p>Suppliers are monitored to ensure that their products and services adhere to the division's quality and safety standards.</p>

Performance

There were no material instances of non-compliance with laws and regulations concerning the provision and use of products and services for the reporting period. Service comebacks and recalls on products manufactured by the division remained within acceptable levels, with the reasons for product recall being for issues that were easily corrected. Of the 121 cases lodged with the Motor Industry Ombudsman against the division between January 2015 and May 2016, two rulings were in favour of the consumer and related to workmanship and vehicle defect.



ENSURE COMPLIANCE WITH LAWS AND REGULATIONS

APPROACH

FINANCE, RISK, ETHICS AND SUSTAINABILITY COMMITTEE AND THE RISK MANAGEMENT FRAMEWORK



The division's management is kept well-informed on applicable legislation and regulatory changes, and a robust risk process is in place to ensure regulatory compliance. Regulatory compliance is a standing agenda item at strategy meetings, and is overseen by the finance, risk, ethics and sustainability committee which meets quarterly.

Procedures and processes required by new legislation or regulatory changes are determined at a head office level and then filtered into the relevant businesses.

COMPLIANCE ASSESSMENTS AND TRAINING



Internal audits are undertaken to assess the critical compliance processes and controls within the division's businesses and compliance training ensures that employees understand their regulatory obligations.

Performance

For the 2016 financial year, there were no instances of material non-compliance with legislation, including environmental legislation, for the division.

DEVELOPING EFFECTIVE LEADERSHIP AND EMPOWERED PEOPLE

APPROACH

SUCCESSION PLANNING AND TALENT MANAGEMENT



Succession planning and talent management is covered by the group-wide Organisational Effectiveness Framework. More information on this framework can be found on page 4 of the our people section.

KNOWLEDGE AND SKILLS ASSESSMENTS



Skilled employees are critical in the Vehicle Retail, Rental and Aftermarket Parts division's customer-facing businesses to deliver superior customer service, drive sales volumes and market share in the current challenging economic environment, and to efficiently service and maintain motor vehicles.

New apprentices are hired annually and provided with training to ensure a pipeline of suitably qualified technicians. Ongoing reviews of the division's passenger and commercial service departments are undertaken to maintain an appropriate apprentice to technician ratio. Employee assessments are undertaken to determine competency levels and identify training needs.

TRAINING FACILITIES AND DEVELOPMENT PROGRAMMES



Apprentices receive technical training delivered by OEMs and through the Imperial Technical Training Academy.

Employees working in sales or at management level are developed through OEM training programmes (specifically product knowledge) and Imperial's training interventions such as the three-year Management Development and Dealership Management programmes offered by the Imperial Retail Training Academy. These programmes provide participants with a Bachelor of Business Administration degree, and participants are selected based on individual employee assessments.

The car rental businesses, Tempest and Europcar, provide the following accredited training programmes to enhance business acumen and management skills:

- > Further Education and Training Certificate Generic Management (National Qualification (NQF) level 4) aimed at junior managers.
- > National Certificate Middle Management Development (NQF5) aimed at middle managers to enhance their ability to implement strategic organisational objectives.
- > Further Education and Training Certificate Business Administration (NQF4) to build administrative skills, team commitment, communication and customer service skills, as well as an appreciation of diversity.

Performance

Talent management

Strategic talent reviews were conducted across the division during the year, focusing on the Executive Forum and the future successors for each leadership role. Between one and three successors have been identified per role, with at least one of the identified successors being a black candidate.

During the 2016 financial year, a human resources executive was hired and the division’s human resources practitioners and Executive Forum line managers received training on how to engage effectively with the tools and processes of the newly implemented Organisational Effectiveness Framework. In April 2016, a job profiling project was initiated to identify the top and middle management positions critical to the sustainability and operation of the division’s passenger businesses. The project will provide a job grid of generic profiles and outline clear lines of accountability. This will enhance performance assessment against comprehensive job profiles. The job profiling project will be expanded into the division’s remaining businesses with project completion expected around May 2017.

All 27 of the top executives in the division have taken part in a personal development assessment process followed by in-depth talent conversations. A total of nine senior managers attended an executive development programme at the University of Cape Town’s business school in preparation for future leadership roles.

In addition to formal training, a mentoring programme has been introduced to expose talented individuals to members of management and on-the-job learning. This will further ensure management’s involvement in performance management and that the investment made in training and development delivers the expected returns.

Training and development

<p>R126 million</p> <p>SPENT ON TRAINING AND DEVELOPMENT, DELIVERING 23 HOURS OF TRAINING PER EMPLOYEE (2015: R118 MILLION AND 23 HOURS PER EMPLOYEE).</p>	<p>52</p> <p>EMPLOYEES IN THE CAR RENTAL BUSINESS PARTICIPATED IN NQF4 DEVELOPMENT PROGRAMMES. FURTHER UPSKILLING WILL BE PROVIDED THROUGH A MENTORING PROGRAMME THAT ENABLES PARTICIPANTS TO APPLY THEIR KNOWLEDGE IN THE WORKPLACE.</p>	<p>51</p> <p>PARTICIPANTS ATTENDED MANAGEMENT DEVELOPMENT PROGRAMMES, SUPPORTING THEIR PROGRESSION INTO MIDDLE MANAGEMENT.</p>	<p>368</p> <p>APPRENTICES REGISTERED IN THE IMPERIAL TECHNICAL TRAINING ACADEMY OF WHICH 68 ARE NEW RECRUITS AND 111 QUALIFIED AS TECHNICIANS DURING THE REPORTING PERIOD (JUNE 2015: 401 APPRENTICES REGISTERED OF WHICH 14 WERE NEW RECRUITS AND 109 QUALIFIED AS TECHNICIANS).</p>
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ACCELERATING TRANSFORMATION PROGRESS IN SOUTH AFRICA

APPROACH

<p>TRANSFORMATION AND EMPLOYMENT EQUITY COMMITTEES, AS WELL AS EMPLOYMENT EQUITY TARGETS</p>	<p>BEE scorecards are continuously monitored by the division’s transformation committee and are reported quarterly to the finance, risk, ethics and sustainability committee. Scorecards are audited annually by independent verification agencies.</p> <p>Employment equity targets are set annually and performance against these targets is tracked monthly by a central employment equity committee for the commercial and passenger businesses, and individual employment equity committees for the other businesses. Committees are attended by union representatives.</p> <p>The transformation committee reviews all proposed white senior management appointments to ensure that a robust process has been undertaken to first source suitable black candidates. Internal and external appointment ratios have been set to promote the progression and recruitment of black people in the division. Internal promotions must meet a 50/50 ratio, and 70% of all external appointments must be black appointments.</p>
<p>DEVELOPMENT PROGRAMMES AND LEARNERSHIPS TARGETING BLACK EMPLOYEES</p>	<p>The division’s transformation plans include a programme to hire qualified black chartered accountants and develop them for commercial roles at management level, and the Sales Cadet programme which is aimed at developing a pipeline of black sales employees. In addition, learnerships focus on recruiting and training young unemployed black people to build a pipeline of skilled employees at junior levels where staff attrition is high.</p>

Performance

BEE performance

In July 2015, the division sold 51% of two large-scale commercial vehicle dealerships to Lereko Motors which is owned by the Lereko Broad-based Consortium, a 100% black-owned company held by black women and a number of black empowerment entities.

The dealerships sell Isuzu and Hino trucks, as well as parts and accessories. They also provide vehicle service and maintenance. The sale agreement ensures that Imperial facilitates the day-to-day management of the dealerships together with Lereko Motors to ensure an effective transfer of skills over a two-year period, following which Lereko Motors will assume full control of the businesses.

Under the old dti Codes, the majority of franchises in the Vehicle Retail, Rental and Aftermarket Parts division qualify as Level 4 BEE contributors in a nine level model, meaning they score between 65 and 74 points out of a possible 100 points. No franchises score below a Level 6 contributor

rating. The car rental business qualifies favourably as a Level 2 contributor against the Tourism Sector Code and is classified as a value adding supplier.

The amended dti Codes became effective on 30 April 2015 and could potentially drop Level 4 businesses to a Level 7 or 8 rating. BEE requirements around procuring from black-owned businesses are particularly demanding for the division given that 85% of its procured products are imported from OEMs. In addition, the new codes set a minimum requirement of 40% for the enterprise and supplier development pillar which covers preferential procurement, and the development of suppliers and enterprises. Failure to meet this minimum requirement will result in the overall score being discounted by one level. A drop in scorecard rating will have the greatest impact on the division's car rental business constraining its ability to access government tenders. Initiatives are in place and external consultants are engaged to ensure that the division's businesses obtain the best possible scores.

Promoting workforce diversity

Around 53% of the division's 2016 training spend was allocated to black employees (2015: 48%) and 79% of the apprentices employed are black people.

The division achieved its employment equity target at middle management level, with 38% of employees at this level being black people against a target of 37%. At junior management level, the target of 58% was narrowly missed by 2% and at senior management level 28% of senior managers were black against a target of 30%. No progress was made against the 15% target at top management level.

The car rental business is looking at opportunities to in-source certain roles, previously occupied by external service providers, for people with intellectual disabilities. As part of its social contribution and to develop a potential source of candidates, the business provides people with intellectual disabilities who are not Imperial employees, with the opportunity to participate in the General Education and Training Certificate Domestic Service programme. The programme equips participants with the life skills required to gain employment, and to enhance independence and increase social integration. In 2016, 13 individuals participated in this programme.

Looking ahead

Attracting and retaining black talent at management level and as successors for leadership positions will be driven through the group's Organisational Effectiveness Framework, and training and development interventions. Increased focus will be placed on retaining black talent particularly given the consolidation of the Vehicles division.



MINIMISING THE ENVIRONMENTAL FOOTPRINT

APPROACH

<p>WATER CONSERVATION AND WATER RECYCLING</p> 	<p>The division consumes water both in its manufacturing plants and to wash cars prior to retail and rental. Europcar and Tempest alone wash on average 70 000 vehicles a month. Finding ways to reduce the division’s demand on municipal water sources, particularly given the scarcity of water experienced in South Africa over the past year, enables business operations to continue despite water restrictions, reduces operational cost and also frees up water supply for communities. Traditional car washes can use up to 200 litres per car. Four car rental dealerships in South Africa have implemented Eco Wash, a virtually waterless car washing system that uses one litre of water.</p> <p>The division also invests in water recycling plants at manufacturing sites and converts wash bays at dealerships and car rental depots to specially-designed wash bays that collect used car wash water, which is then treated using non-hazardous chemicals and pumped back into water tanks for future use. The water savings associated with a converted wash bay average around 30 kilolitres a month. The wash bay conversion project was started in 2012 and continues to be an important initiative as converted sites are realising water consumption and cost savings.</p>
<p>ENERGY EFFICIENCY MEASURES</p> 	<p>In response to the instability of electricity supply experienced in South Africa over recent years, the division has installed generators, particularly in the manufacturing businesses, to secure electricity during power outages.</p> <p>To manage the consumption of energy, the division invests in the use of energy saving light bulbs, solar power and light sensors to switch lights off if an area remains unoccupied for a length of time. Reduction in fuel usage is also a focus to reduce both energy consumption and costs.</p>
<p>WASTE MANAGEMENT</p> 	<p>Waste from the division’s passenger businesses is collected by Pandae Green Solutions, a company within the Imperial group which specialises in waste recycling, sorting and disposal. Pandae Green Solutions ensures that waste disposal regulations are adhered to.</p>
<p>CARBON DIOXIDE (CO₂) EMISSIONS</p> 	<p>Operational practices within car rental are focused on reducing the fleet’s carbon emissions. The fleet’s procurement policy is based on the principles of Euro 5 vehicle specifications and selective procurement practices that take into account the technological improvements achieved by vehicle manufacturers to increase fuel efficiency and reduce carbon emissions. This will hold the car rental business in good stead with regards to the introduction of a carbon tax in South Africa.</p>

Performance

During 2016, the division invested in four wastewater recycling plants at operational sites and the O.R Tambo International Airport car rental depot was fitted with an Eco Wash system as a pilot project. Should the pilot project realise the intended objectives, the division will roll out the system to all major airports in South Africa.

The division has continued with its drive to change light bulbs to energy saving light bulbs across all its sites which number over 500 premises. The division’s Imperial-owned sites are undergoing infrared audits to understand where energy is being lost or wasted, and to monitor the surface temperature of electrical appliances. Concerns raised by the audits are corrected within two weeks of receiving the final report from the auditors, and audit recommendations are implemented to ensure that the division’s sites are as energy efficient as possible.

Given the frequency of power outages in the 2015 financial year, compared to no outages this year, the division’s saving in electricity purchased in real terms for 2016 is larger than the 2,3% reflected in the table on page 17.

ENVIRONMENTAL PERFORMANCE

	2016	2015	2014
ENERGY			
Road fuel usage (kilolitres)	17 281	17 383	17 981
Non-road fuel usage (kilolitres)	58	68	0
Purchased electricity (megawatt hours)	59 151	60 683	60 032
WATER			
Water purchased from municipalities (kilolitres)	564 103	566 141	491 177
EMISSIONS			
Scope 1 emissions (tonnes of CO ₂)	44 505	45 058	47 443
Scope 2 emissions (tonnes of CO ₂)	55 512	60 393	65 637

Looking ahead

The cost to convert a wash bay is high, averaging between R250 000 and R300 000 for a bay. While the division is committed to the wash bay conversion project, the current economic environment does place constraints on the rate at which these projects can be undertaken. In the passenger business, the division has set a deadline of December 2016 to complete the wash bay conversions at all Imperial-owned premises.

Given the water restrictions in Swaziland, car rental is investigating the feasibility of installing the Eco Wash system in its branch locations over the short term and at its airport operations in the medium term.

Targets for fuel and electricity usage will be set across the division. Not only will these targets assist the division to monitor and measure its environmental performance, but it will also support management’s drive to reduce operational costs of which fuel expense is a major contributor.

ONLINE CASE STUDIES

EMPOWERING BLACK INDIVIDUALS THROUGH ENTERPRISE DEVELOPMENT AND LEARNERSHIPS

Gage Car Hire assisted previous employee, Petrus Masele, set up his own courier business.

CONTRIBUTING TO ECONOMIC DEVELOPMENT IN GA-RANKUWA

Jurgens Ci outsources the assembly of complete tyres including balancing, to an entrepreneur in the Ga-Rankuwa community.

LOWERING THE ENVIRONMENTAL FOOTPRINT OF MAGNIS TRUCKS

Initiatives including photovoltaic systems, water treatment plants and the responsible disposal of waste are implemented across Magnis Trucks dealerships.

 More information from a group-level perspective can be found in the following downloadable sections of the Sustainable Development Report:

- > *Aligning Imperial's human capital resource to its strategy, promoting workforce diversity, and training and development in our people section.*
- > *The group's contribution to society including regulatory compliance, accelerating transformation progress in South Africa, corporate social investment and road safety in the demonstrating social value section.*
- > *Environmental management in the minimising our environmental footprint section.*