



John Ustas
Sharp focus

BEVERAGES

Life beyond the strike

What an introduction to a country. For ABI MD John Ustas, the strike at the soft-drink company's five manufacturing plants has presented some new management challenges.

But Ustas, who moved to ABI from Coca-Cola's Atlanta head office in July last year and began wage negotiations a brief two months later, has faced the situation head-on.

"It's consuming, for sure — it occupies 90% of my time," he says. "It would be easier if it was not for the levels of violence that have characterised this strike. Ensuring the safety of our workers has become my primary objective."

The strike (see *Features* January 8) is a distraction management could do without. ABI, which turned over US\$1,3bn last financial year, or R9,8bn at current exchange rates, accounts for about a quarter of SAB Ltd's annual turnover. It has seen its margins decline every year for the past five years.

In a recent trading update, SABMiller advised that lager sales volumes had declined by 4% in the three months ended December 31 2009 and soft-drink volumes had fallen by 5%. Prior to that, soft-drink volumes fell by just 2% in the

six months from March to September.

"The recession meant that 2009 was a difficult year," says Ustas.

While volumes are down, input costs, in particular labour and sugar, are up.

"We gave a 10,5% wage increase last year, but could not recoup this as volumes were down."

Price increases are an obvious solution. But the company has limited these to an average of 5% across the board.

The only solution, Ustas says, is to increase productivity. "We have to focus on this. Whenever you give an 8% or 10% increase, I want a commensurate increase in productivity."

The other focus for the year is on growing the business. There is potential in this market, Ustas says. South Africans each consume 300 soft-drink "servings" a year. In Mexico the average is over 500.

Prior to his stint in Atlanta, Ustas was CEO at Coke's bottling subsidiary in India and before that head of a similar operation in Norway.

In particular, he believes his experience gained in India will be useful: "Growth has to come from the townships and India is pretty much a township."

The opportunity, he says, lies with

setting up local distributors, understanding and grappling with cash flow and crime problems faced by small entrepreneurs and developing entrepreneurial expertise.

But first, the strike needs to be resolved. Food & Allied Workers Union general secretary Katishi Masemola says: "The determination of the workers to hold on surprises me. A key thing for workers is that they don't return to work empty-handed. We are waiting for ABI to improve their last offer — even marginally. That becomes the signal that it is time to return to work."

ABI, however, believes its offer of 8,3% is fair and says it is "ready for the long haul".

Operationally, the company appears able to continue indefinitely. Less than a third of its 3 800 employees are on strike, all manufacturing plants are running and deliveries, ABI says, are taking place as normal.

Analysts are watching the strike closely, but don't believe the longer-term consequences will be severe. "Industrial action is something you deal with," says BoE Private Clients analyst Barbara Price-Hughes. "But this year companies are likely to be pushing back a little harder to get closer to inflation — last year many settlements were well above inflation," she says.

The head of equity research at Macquarie First South Securities, Julian Wentzel, says: "While we have some concerns about the above-inflation increase, we are in daily contact with management and are satisfied that operations have not been badly affected."

The biggest losers appear to be the workers. "Assuming ABI settled on the union demand of 9,5%, workers would have to work for 73 months before they made up the income they have lost," says Jaco Kleynhans, spokesman for the trade union Solidarity. "Strike action has to be effective to work," he says. "it should be no more than two to three days."

The strike has inevitably distracted management from achieving other objectives, but there are unintended benefits, Ustas says. "The management team has never been more focused or worked more closely on the operational side of the business. There are no PowerPoint presentations being made here right now."

Sasha Planting