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what it is and what it does



**Forward with SAB National
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- what we are
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STAR, 19/11/88

Edgars does it in style for shareholders

By Ann Crawley
Edgars' excellent performance for the 13 months to March beat most analysts' expectations, with earnings per share up 56 percent to 141.7c and the dividend up 54 percent to 53.5c a share.

The performance will reinforce the market's perception of Edgars as one of the star performers in the retail sector and the excellent outlook for the company in the current financial year will ensure that it retains its above-average rating. Aggregate merchandising helped to boost sales by 17 percent to R1.3 billion (R129.5 million), which represented real growth of about 7 percent and beat the growth in the CPTA market (clothing, footwear, household textiles and accessories) by about 5 percent.

Performance at the operating profit level showed the benefits of improved asset management as the group chalked up a 46 percent increase to R156.5 million (R131.1 million).

The reflected operating margin of 11.1 percent, up from the previous year's 8.7 percent, but slightly down on the 11.4 percent achieved at the interim stage.

However, seasonal factors, including the discounting of merchandise in the January/February sales, invalidate comparison between two six-month periods.

The outlook for continued improvement in operating margins considerably enhanced by the group's commitment to the development of exclusive electronic-based

Edgars is currently developing should lead to much more efficient stock control and, in turn, to increased sales and better stock-turn. Interest payments provided another fillip to bottom-line performance, with the bill up only 1 percent to R13.1 million (R12.3 million). This was achieved despite the growth in the interest's base that accompanies any increase in turnover.

Financial director Kevin Brewer says the increased use of supplier credit helped to this end. Pre-tax profit was up 41 percent to R117.7 million (R117.7 million). With the tax rate unchanged, the post-tax improvement was up 41 percent to R59.2 million (R53.2 million).

Dividend payment

Earnings were up 56 percent to R41 million (R41.6 million).

The increase in the dividend payment was slightly lower than the market had expected. But this appears to have been due to the fact that analysts did not take into account the earlier warning that dividend cover would be increased again in anticipation of the conversion.

to avoid the bump in dividend payments that would otherwise immediately follow the conversion of the debentures. At this stage it looks as though the debentures will be converted, at the latest, in financial 1990. After their conversion the group will resume its more generous cover policy.

Although there will not be a bump in dividend payments, there will be a bump in performance in earnings per share in the first year of conversion.

The balance sheet at year-end shows a switch in the loan structure, with long-term loans down to R23.4 million from R34.4 million and short-term loans up to R14.6 million from R1.4 million. The switch reflects the utilisation of SAB borrowings on a short-term basis, which is slightly cheaper long-term but carries a low 14 percent interest rate.

By Ann Crawley
At the 13th annual general meeting of SAB Breweries Ltd, the group's 1988/89 financial results were announced. The group's performance for the 13 months to March 1989 was excellent, with earnings per share up 56 percent to 141.7c and the dividend up 54 percent to 53.5c a share.

SAB breweries keeps on treading ascendant path

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1 Introduction

This booklet is to be used by unions organising in South African Breweries subsidiaries. The aim of this booklet is to provide an understanding of SAB which will help in working out how to negotiate with a monopoly of this size.

As such, the booklet is divided into two sections.

The first section looks at SAB, who owns it, how it is structured, how profitable it is, what it owns, etc. This section summarises the essential information about the company. We

have drawn on a report by the Labour Research Service to assist in this section.

The second section deals with SAB as an organisational unit opposed to the trade unions. It looks at two key questions:

- How can unions organise against the monopolies?
- What are the strengths and weaknesses of SAB in relation to the trade unions?

In answering these questions, we hope this booklet will assist in strengthening worker organisation in SAB.

2 What is SAB?

The South African Brewery (SAB), now 93 years old, is a large and extremely rich company. It is the fourth largest manufacturing company in the country and has profitable investments in neighbouring countries such as Zimbabwe and Lesotho, as well as elsewhere in the world.

SAB is essentially interested with consumer goods. That is, it makes and markets things which the public buy and use in their daily lives. SAB produces many different things — ranging from shoes to hotels. Other activities include retailing, beverages, furniture and beer.

SAB is a monopoly company. This means it controls entire markets. It has a near total monopoly in beer, being the only beer manufacturer in the country. It owns also nearly every three, four and five star hotel in the country, and controls most of the furniture manufacturing industry. It makes almost every match in South Africa.

Because of this, SAB is extremely profitable. It has increased its profits every year for the last 20 years in a row.

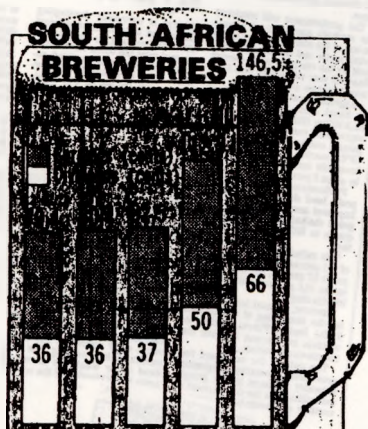
While SAB is a large monopoly corporation, it is a small part in one of the biggest business machines in the world.

The Premier Group, a large food company, controls 35.5% of all shares in SAB. In other words, while Premier does not own the entire company, it owns enough of it to give Premier control over SAB.

Another major share of SAB is owned by SA Mutual, the third biggest corporation in South Africa. But SA Mutual does not have enough shares to decide on company policy. Premier keeps control over SAB.

Similarly, the Premier Group is in turn controlled by the Anglo American Corporation of South Africa. Anglo is effectively controlled by one family — the Oppenheimer family, who also control De Beers. Anglo and De Beers make up one of the 20 biggest companies in the world.

Anglo, Premier and SAB control so much



This drawing shows how SAB dividends have increased between 1984 and 1988

that it is almost possible to survive every day just on the things they produce. Besides controlling the whole world's diamond market, much of the world's uranium and gold and many other minerals, Anglo also has many industrial interests that affect our daily lives. For example, if we wake up every morning on an Edblo mattress bought at Lubners, put on shoes from Select-A-Shoe, dressed in clothes from Cuthberts and Edgars, cook on a coal stove, then eat Iwisa Maize Meal on a table made out of Bison Board, hitch a ride to work in a Ford Sierra, drive past a Southern Suns hotel, read the Sowetan or Star newspaper on the way, then did some shopping at OK Bazaars, took some headache pills made at Adcock-Ingrams, went into the Carlton Centre or Highpoint, bought a book at CNA on paper made at Mondi, drank a beer or a Coke, or took money from First National Bank to pay for an insurance policy at Southern Life ... THEN you will the whole day have been making the Anglo American empire richer.

This is a very profitable empire. Anglo, under which Premier falls, made profits in

1987 of over R1 200-million. It has assets (factories, machines, property etc) worth R10 650-million. De Beers also made profits of R1 200-million. Premier made profits of R108,7-million in 1987 with assets of R2 648-million.

Anglo employs hundreds of thousands of people. Anglo American Industrial Corporation, for example, employs over 200 000 people, while Premier itself employs over 31 000.

Obviously one family cannot run the whole empire. Anglo, Premier and even SAB are run by managers and directors who have a lot of decision-making powers, but within a framework laid down by their bosses in the

controlling company. If, for example, Anglo did not like the way Meyer Kahn was running SAB then they would intervene. But so long as the companies are making good profits for Anglo, the Anglo directors will be happy to let the company directors run things their own way.

To ensure that they get the most out of their directors, Anglo usually give their managers and directors big shares in the company. This is the case with SAB — all the managers and directors have thousands of shares. So the more profit SAB makes, the more money they make.

3 How profitable is SAB?

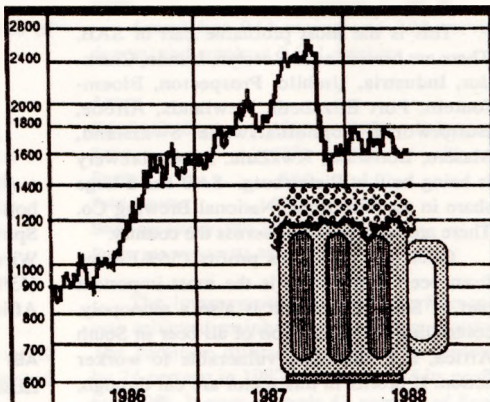
Any way you look at it, SAB is a wealthy and very profitable company:

- Every year for the past 20 years SAB has increased its profits.
- Last year its turnover increased by 24 percent. The amount of goods produced went up from R5 701-million to R7 083-million.
- Its profits increased by 36 percent. Its profits after it paid tax to the government and interest to the banks went up from R216-million to R294-million.
- SAB increased in value by 19 percent. Its assets increased from R3 632-million to R4 328-million.
- The amount SAB paid out to the shareholders in dividends increased by 35 percent. Without doing anything the shareholders got more back per share than ever before. Each share was paid out 50 cents — 13 cents more than the year before. For the executives, for example, this works out at nearly R6 000 per month each, tax free! Premier holds 93 million shares and so earned R46,5-million in dividends.

SAB employs 79 100 workers. From this we can work out what each worker produces for SAB:

Each worker produces:

- R89 545 of good each year (about R7 500 of



This drawing shows how the price of SAB shares has risen over the past three years

goods each month).

- R3 717 of profit each year (about R310 of profit each month).

Productivity per worker was also up:

- Sales per worker increased by 15%.
- Profits per worker increased by 40%.

The directors are making a lot of money out of this.

They get paid a salary of R7 884 per month, or R90 000 per year. This is in addition to the amount they get from company profits — of R6 000 per month.

4 What does SAB own and control?

SAB runs and controls many subsidiaries through which it makes these enormous profits. There are five main sections:

- Beer
- Beverages
- Retail
- Hotels
- Manufacturing

1. Beer division

This is the most profitable part of SAB. There are breweries in Rosslyn, Isando, Chamdor, Industria, Umbilo, Prospecton, Bloemfontein, Port Elizabeth, Newlands, Alrode, Butterworth, Bophuthatswana, Swaziland, Maseru, Botswana, KwaZulu. A new brewery is being built at Pietersburg. SAB has a large share in the Zimbabwe National Brewing Co. There are several depots across the country.

Over half of SAB's profits (56%) came from beer. It therefore is the most important part of SAB. Because it is also a monopoly, controlling the production of all beer in South Africa, it is the most vulnerable to worker action. If profits in this sector are cut through, for example, work stoppages, then the whole of the SAB group will be affected. On the other hand, so long as SAB management can keep the SAB workers happy, then the SAB Group's profits can be protected. This is one of the reasons why the basic minimum is R4,02 per hour. It is also one reason why SAB wants continual production.

Beer division

<u>Results (Rmillion)</u>	<u>1987</u>	<u>1986</u>	<u>%change</u>
Turnover	1 747,2	1 429,5	+14
Taxation	565,2	495,1	+14
Profits	163,3	133,7	+22
Total assets	1 197,2	1 011,1	+18

SAB is planning to increase profits further by building a huge brewery in Pietersburg (creating R250-million) and by expanding the Rosslyn brewery (costing R150-million).

SAB gives a lot of money in sports sponsorships. It claims this is money being spent on the community. But this is mainly advertising for the company, and anyway they claim it back from the government when they pay tax. It spends R14-million per year on advertising, and also claims to spend a lot on social welfare and education programmes.

2. Beverages

Other SAB beverage interests are:

- **Amalgamated Beverage Industries**, which bottles Coke, Schweppes, Fanta, Sprite and Sparletta in seven plants operating in Pretoria, Witwatersrand and Durban. This is nearly half (43%) of the total soft drink market in South Africa. SAB owns 70% of ABI.

ABI

<u>Results (Rmillion)</u>	<u>1987</u>	<u>1986</u>	<u>%change</u>
Turnover	356,6	303,0	+21
Profits	18,1	15,5	+17
Total assets	219,8	207,8	+ 6

ABI minimum pay is R3,82 per hour, which is a lot higher than its competitors. In effect ABI is also a monopoly. This is because they have total control over the markets in their area. The other 'competitors' market the same products in other areas only, so they do not really compete. The only real competitor is Pepsi, which is now black-owned but is running at a loss. It is one-twentieth the size of ABI.

• **Other beverage interests include:**

Maltins and Hops: SAB buys the entire local malting barley crop. It has a joint share in Southern Associated Maltsters in Caledon and Alrode, where barley is turned into malt. It owns SAB Hop Farms in George.

Sorghum Beer: Traditional Beer Investments has breweries in Ciskei, Gazankulu, Lebowa and Venda. When the government privatises the sorghum industry in the rest of South Africa, SAB will get involved. Wages here are R1,79 per hour.

Appletiser Pure Fruit Juice: SAB owns the whole of APFJ, which also owns part of Ceres Fruit Juices. Sales are growing inside the country. But a plan to export apple juice to the rest of the world has been stopped by sanctions.

Cape Wine and Distillers: SAB owns 30% of CWD. It reported better profits.

Results for other beverages

(Rmillion)	1987	1986	%change
Profits	25,2	16,8	+50
Total assets	184,7	274,5	

3. Retail

There are three main retail groups: OK Bazaars, Edgars Stores and Amalgamated Retail (Amrel).

OK Bazaars

SAB owns 70 percent of OK, which is the biggest chain of retail stores in South Africa. OK aims mainly at the lower and middle income customers, who are mainly black. It has 164 conventional stores, 26 furniture outlets, 7 hyperamas, 2 service stations and six house and home units. There are 23 595 workers at OK.

Despite the ten-week strike from December 1986 to February 1987, OK profits went up last year.

OK

Results (Rmillion)	1987	1986	%change
Sales	2 364,5	2 041,9	+16
Profits	15,1	12,3	+23
Total assets	823,7	716,5	+15
Sales per worker: R101 483			
Profits per worker: R640			

The minimum wage at OK Bazaars is R400 per month, or about R2,22 per hour.

Amalgamated Retail

SAB owns 69 percent of Amrel, which is one of South Africa's largest diversified retail groups selling consumer durables and semi-durables. Amrel mainly sells furniture, footwear, clothing and selected consumer services.

Amrel has 944 stores and 399 service depots, and employs 9 611 workers

Amrel

Results (Rmillion)	1987	1986	%change
Sales	627,1	518,2	+21
Profits	14,0	-1,0	
Total assets	373,5	314,0	
Sales per worker: R65 248			
Profits per worker: R1 456			

The improvement in Amrel performance was achieved mainly by the furniture division. The furniture division improved its turnover by 24 percent in 1987, and increased its profits by 190%. It now controls 11 percent of South Africa's furniture market.

The footwear division made a loss in 1987, but was expected to turn a profit in 1988.

The clothing division made a profit in 1987 after making a loss in 1986.

The consumer service division increased its turnover by 16 percent in 1987. But its profits increased by 43 percent because, among other things, of higher work productivity.

Edgars Stores Limited

SAB owns 61 percent of Edgars. Edgars has 343 stores retailing clothing, footwear, acces-

sories and household textiles. It has three main stores:

- Jet, which employs 1 374 people in 78 stores (1986)
- Edgars, which employs 5 167 people in 166 stores (1986)
- Sales House, which employs 1 274 people in 99 stores (1986).

Edgars

<u>Results (Rmillion)</u>	<u>1987</u>	<u>1986</u>	<u>%change</u>
Sales	929,7	735,1	+26
Profits	40,8	18,3	+123
Total assets	502,4	395,3	+27

Sales per worker: R118 963

Profits per worker: R5 220

4. Hotels

SAB owns 68 percent of Southern Sun Holdings, which is South Africa's largest hotel group. 52 hotels offer 10 300 rooms. It employs 8 815 people. The four and five star hotels are under Southern Sun, while three star hotels are mainly under Holiday Inns.

Southern Sun Holdings also has a 20% interest in Sun International, 50% in Southern Sun timesharing and 50% in the TFC travel group, which made a bad loss.

Sun

<u>Results (Rmillion)</u>	<u>1987</u>	<u>1986</u>	<u>%change</u>
Turnover	272,5	233,4	+17
Profits	1,9	3,1	-39
Total assets	524,9	459,0	+14

Sales per worker: R30 913

Profits per worker: R216

Almost all parts of the company made a loss in 1987. The only reason the company showed a profit was because of its investments in Sol Kerzner's Sun International. But the chairman expects 'a modest improvement in profitability'.

From April 1988 the minimum wage was R350 per month, rising to R500 in October. This is about R2,77 per hour.

5. Manufacture

SAB has three main manufacturing companies: Associated Furniture Companies, SA Footwear and Lion Match.

Associated Furniture Companies (Afcot)

SAB owns 65% of Associated Furniture Companies, the biggest furniture manufacturers in South Africa.

It has 26 furniture manufacturing companies under Afcot, with depots and showrooms all over the country. It employs 8 361 people.

Afcot

<u>Results (Rmillion)</u>	<u>1987</u>	<u>1986</u>	<u>%change</u>
Turnover	388,5	309,4	+26
Profits	23,8	11,1	+113
Total assets	314,0	290,9	+8

Sales per worker: R46 466

Profits per worker: R2 847

SA Footwear

SAB owns SA Footwear 100 percent. It has seven shoe factories and one wholesaler.

It makes shoes mainly for the lower and middle income group, and controls about 13 percent of the total shoe market.

Profits increased from R0,4-million in 1986 to R3,9-million in 1987.

Lion Match

This is almost a total monopoly on match production.

It owns Interpak, a printing and packaging company, Wilkinson Sword and an electrical appliance division.

It employs 2 100 people.

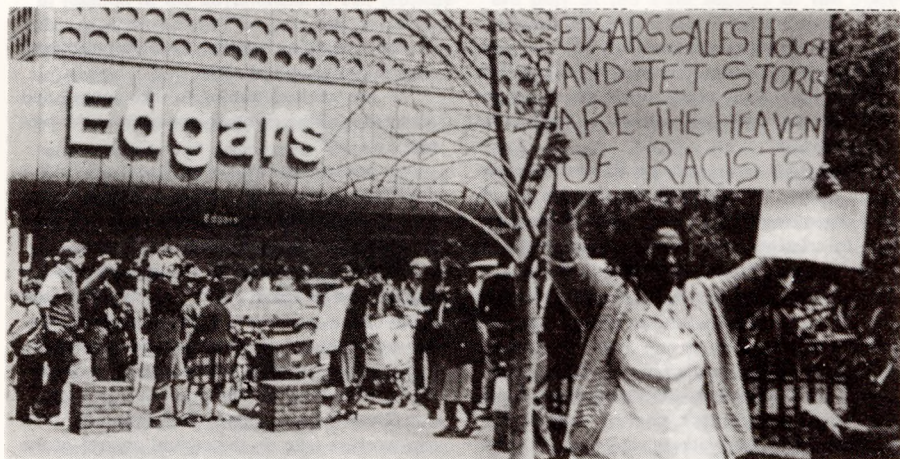
Lion Match

<u>Results (Rmillion)</u>	<u>1987</u>	<u>1986</u>	<u>%change</u>
Turnover	179,2	147,3	+21,7
Profits	9,2	8,7	+5

Turnover per worker: R85 333

Profits per worker: R4 381

5 SAB and industrial relations



SAB claims that it aims 'to strive to reinforce the principles of enlightened and humane employment practices; elimination of discrimination and fostering training and development skills; recognising the employees' inalienable right to organise themselves and to negotiate their conditions of employment'.

The chairman of SAB, Meyer Kahn, says in the company's annual report that SAB deals with industrial relations 'in a decentralised fashion, each operation assuming responsibility for its own affairs and consonant with its own circumstances'. But, he says, the subsidiaries must all follow group policy in this.

There are two main issues here. First, SAB claims an 'enlightened' employment practice, which is not necessarily the case. Second, it will bargain with unions, but only in the way it chooses. It chooses to do so at a decentralised level because then it does not have to set 'group policy' on issues like minimum wages. SAB prefers decentralised negotiations.

SAB says industrial relations have been deteriorating. It blames this on the 'closer

working relationship between certain groupings of organised labour and various community bodies'. It says: 'The absence of appropriate channels of political expression has undoubtedly been an important factor in the politicisation of the trade union movement. This has created enormous problems for management.'

'Some of the protracted strikes exhibited a degree of violence and accompanying radical support strategies which cannot be condoned.'

'The ordinary worker gains little after extensive labour action and the employer suffers unwarranted disruption. One can only hope that a more rational attitude will prevail on all sides.'

In other words, the 'radical' actions like consumer boycotts and solidarity strikes and blackings really hurt during the OK Bazaars and SAB strikes. But SAB management do not see these as 'legitimate' strategies and the grievances involved as real. Rather, they are the product of 'community influence' and the expression of frustration at the 'lack of political channels'.

6 Organising against the SAB monopoly

This brings us to the question of how vulnerable the SAB monopoly is to trade unions. We need to study SAB a little differently to answer this question. We need to look at SAB as an organisation.

The SAB organisation is interested in two main things — organising for its own wealth and organising for its own power and control.

In relation to its wealth, SAB wants to make as much profit as it can. It wants to save money, and sell as many products as possible for the largest return, while paying as little in taxes as it can.

To do this, it needs power and control — power over the lives of the workers and power against its competitors; control over its subsidiaries, over the workers who work in them, and control the markets. These, in short, are the aims of SAB.

The function of the managers and directors is to achieve these aims. When SAB management sit down at a board meeting to discuss company policy, they consider SAB's strengths and weaknesses, its long term plans and short term needs. They work out ways to strengthen their organisation, while disorganising or weakening that of the opposition, be the opposition another company or a trade union.

They do this in the same way that we look at our trade unions and the tasks facing them in the long term (to bring down apartheid and redistribute the wealth of South Africa) and in the short term (to win higher wages and end the Emergency).

The SAB management treat SAB as their organisation, not as the organisation of SAB workers. Their long-term aim is to increase SAB profits and build a bigger SAB. They will use almost any means to realise this aim — including increasing the exploitation of workers and putting their competitors out of business.

In organising against SAB management, worker goals must be clear:

- Are workers aiming to take control and ownership of the company away from the present owners?
- Are workers also aiming to make SAB a profitable company, but one which redistributes the profits of the workers rather than the Oppenheimer family and the directors?

One thing is clear — that the aims of the workers (to increase wages and increase their share of the profits and control of the company) are opposed to those of the owners (to keep total control of profits and increase the exploitation level of workers).

Given these opposed interests, how then can workers take on the central control of the giant monopoly? First, by studying closely their aims of the managers, their strategies, and the way they organise. This will then reveal SAB's strong and weak points, which will in turn point to organising strategies.

In the 1987 annual report, the chairman of SAB says the most important aim of the company is to continue increasing profits.

The 'basic business philosophy,' he says, 'is to improve both the shareholders' income flow and the value of their investment in a sustainable and socially acceptable manner'.

The objective in this regard is to 'seek to achieve a growth rate in dividends and share price which over time betters that achieved by comparable industries.' It aims to distribute at least 45% of all profits to shareholders every year.

As a monopoly, SAB has many strengths. For example, during a strike by brewery workers it can keep sales going by drawing on beer produced in Zimbabwe by one of its subsidiaries. As a monopoly it can control prices, because there is no competition to offer cheaper products. As a monopoly it can control

money spent on advertising. It can keep costs down to a minimum. It can prevent, by its sheer size and power, any new attempts to produce the same product.

As a monopoly it also has a lot of power in relation to the government. It can pressure the government into, for example, privatising the sorghum beer industry or developing a new economic policy that would help in the sale of alcohol.

But, with all these strengths, these very same points reveal weaknesses.

First, SAB is in the consumer business. This means that the ordinary person in the street, while depending on SAB for its products, will be able to take action against SAB. If the consumers are organised, then SAB can be hurt. This is unlike, for example, a mining company, where the consumers of coal or gold are other capitalists rather than workers or their dependents. So SAB is **vulnerable to consumer action**.

Second, as was shown by SAB strikers, when a monopoly is well organised, **production can be brought to a total halt**. An entire country is without beer, for example, when beer production in SAB is shut down. This is unlike other goods where alternative supplies are available from a competitor. The resulting consumer pressure could be bad for SAB.

In other areas, for example OK Bazaars, SAB is still vulnerable to consumer pressure. So much is spent on trying to attract customers to shop at OK or Edgars or to buy certain shoes that any adverse publicity is scary for the managers. They are almost as scared of getting a bad name and a consumer boycott as they are of a strike. This is because people will simply leave OK Bazaars for Checkers or Pick 'n Pay and always associate OK with bad feelings. This is the case with any part of SAB that aims at what they call the 'lower or middle income market'.

Other parts of SAB, however, are aimed at a more upper middle or upper class market. These people usually do not support worker action or feel grievances the way lower income people do. Such a market is the hotel

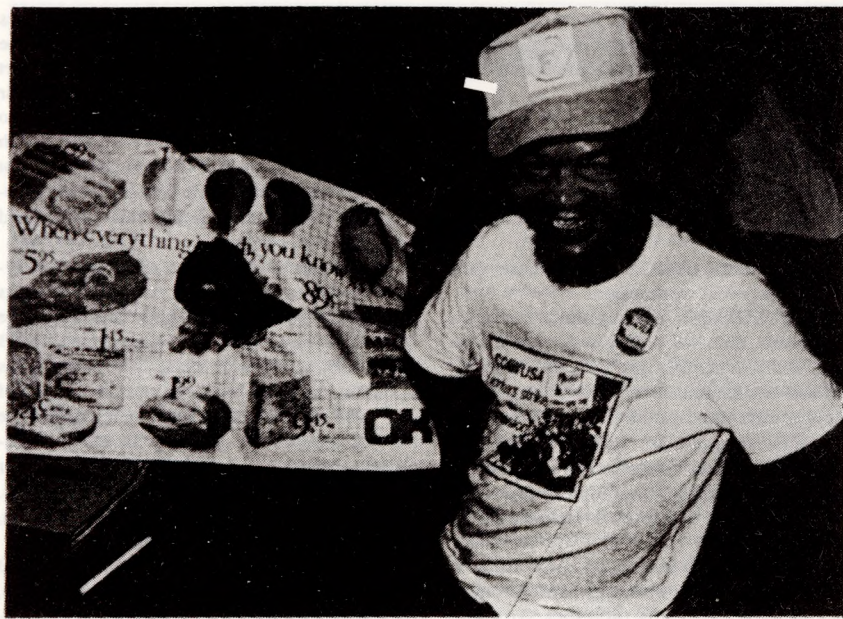
operations. Holiday Inns and Southern Suns cater for more wealthy people. So the same reliance on customer action would not hurt SAB. There they are still worried about their image, but in the eyes of their customers who are part of the elite sectors of the South African population. But if those customers got bad service as the result of a strike or a go-slow, or other types of action, then SAB would worry.

SAB gets around these problems to a certain extent by keeping all its operating parts separate. While the liquor trade depends on the hotel trade (and the other way around), SAB runs them as separate parts. The same applies to the manufacture of shoes and the running of the retail section. SAB aims to separate these out for many reasons. One of the effects, however, is that if there is a dispute in the beer division, it does not affect any other division. Also, while R4,03 can be paid in one division, another division can pay R1,80.

This helps SAB to keep workers divided and weaker; and also helps its customer image, which is so important. It appears to the customer that there is still a 'free choice' between different products, while in reality they are all from the same place.

Finally, as a monopoly SAB is scared of the progressive movement. One of the common accepted political demands being made is for the redistribution of the wealth of South Africa.

In the Freedom Charter and elsewhere there is a demand to 'nationalise the banks, mines and monopolies'. As a monopoly SAB is definitely a potential target, something which worries the SAB managers and owners. As such, they will oppose any progressive politics, while pretending to be enlightened. Also, they will support the government while claiming in their annual report to be 'non-political'. For example, at least one of their directors, Mike Rosholt, is on the State President's Economic Advisory Council. Others do advise the government and may at times sit on government commissions and councils.



7 Conclusion

SAB is a very powerful monopoly. It makes large profits and can afford large wage increases. While being a strong organisation it has several weak points for unions to consider:

1. It depends on consumers for its survival. Most of its consumers are in the lower and middle income groups, and most are black. This makes it vulnerable to consumer boycotts and bad publicity.

2. Some products — such as beer, matches, cooldrinks in some parts of the country — controlled by the SAB monopoly can be shut down entirely by a strike.

3. SAB only wants decentralised negotiations with the unions. If central negotiations took place some of SAB's subsidiaries would have to increase wages and give better working conditions immediately. This would harm

profits.

4. SAB badly wants to keep its record of unbroken profit increases up. This will please its Anglo masters and other shareholders, and is worth a lot of prestige on the Stock Exchange.

5. SAB has extensive overseas investments. Because of this it is vulnerable to sanctions moves which could stop SAB money and products going overseas, such as happened with Appletiser.

6. SAB also has interests in very competitive parts of the market (such as OK Bazaars). SAB thus is weak in relation to its competitors when there is industrial or consumer action against it. Market share is very important and anything that affects it will be seriously considered.



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