

Four Retail Mega Trends

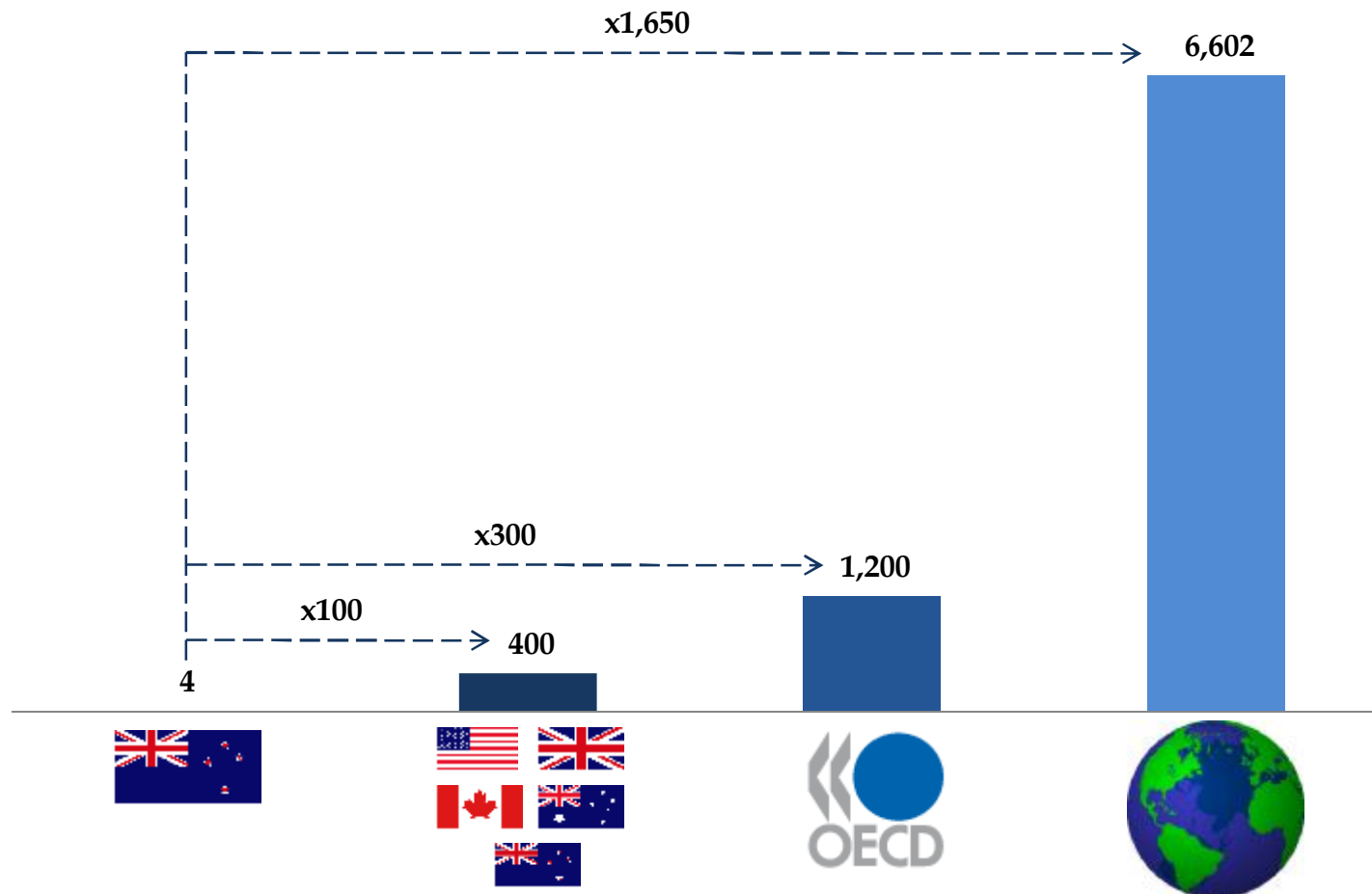
GS1 Connecting the Dots; August 22nd, 2007



WHY LOOK AT INTERNATIONAL TRENDS?

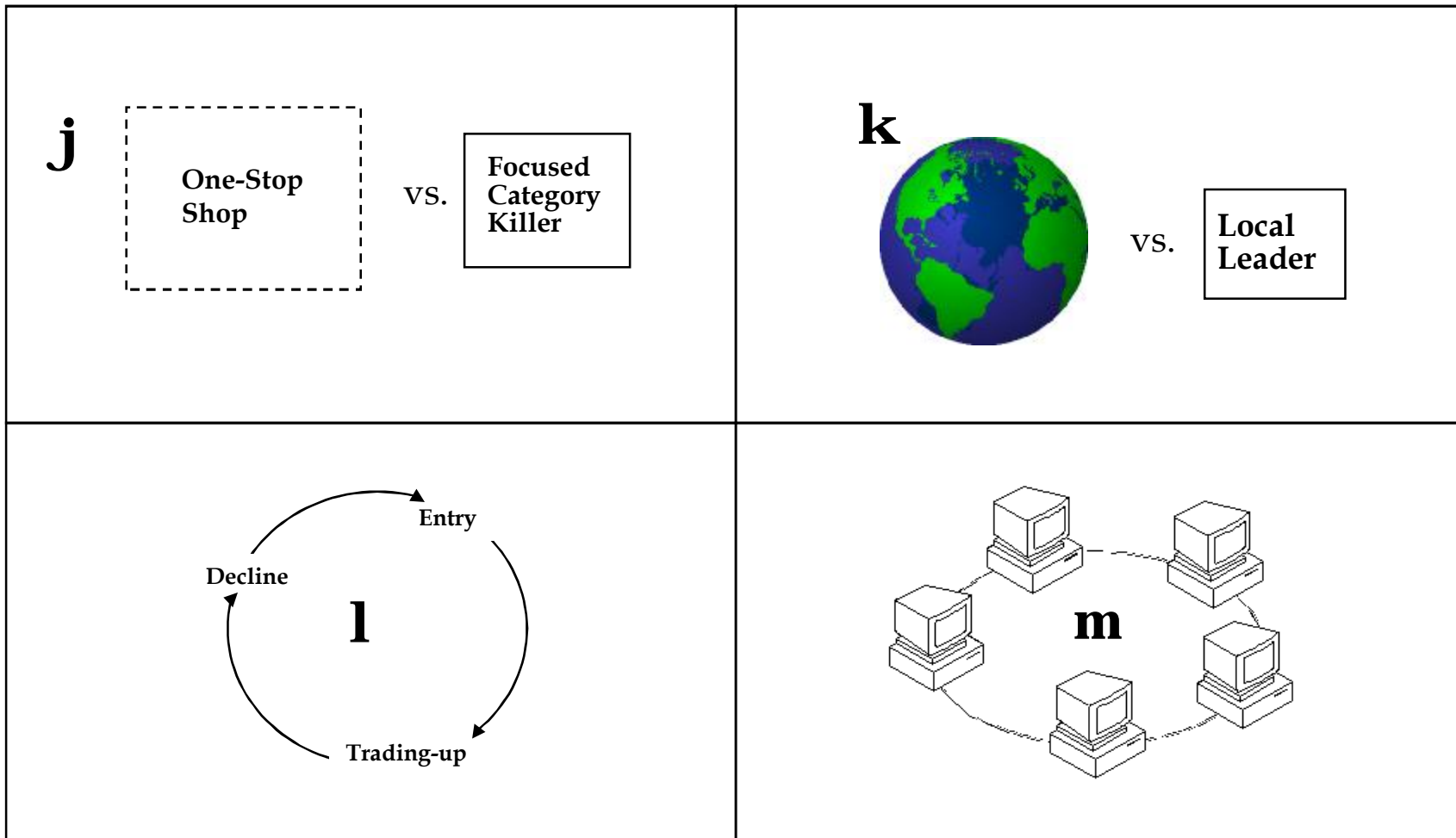
Looking at international trends gives us a much larger pool of ideas and information on which to base our decisions

Relative population of select countries and regions
(people; m; 2007)



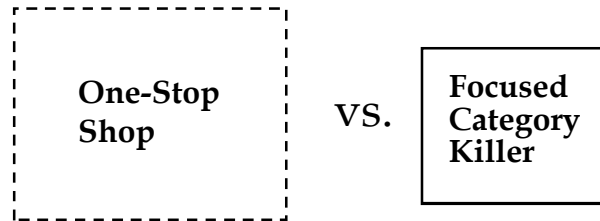
FOUR RETAIL MEGA-TRENDS

Four mega-trends are challenging retailers around the world



RETAIL MEGA-TREND #1

Everywhere you look the one-stop shop battles the focused category killer for sales, with middle of the road stores caught in the crossfire



RETAIL MEGA-TREND #1

Both strategies have strengths and weaknesses

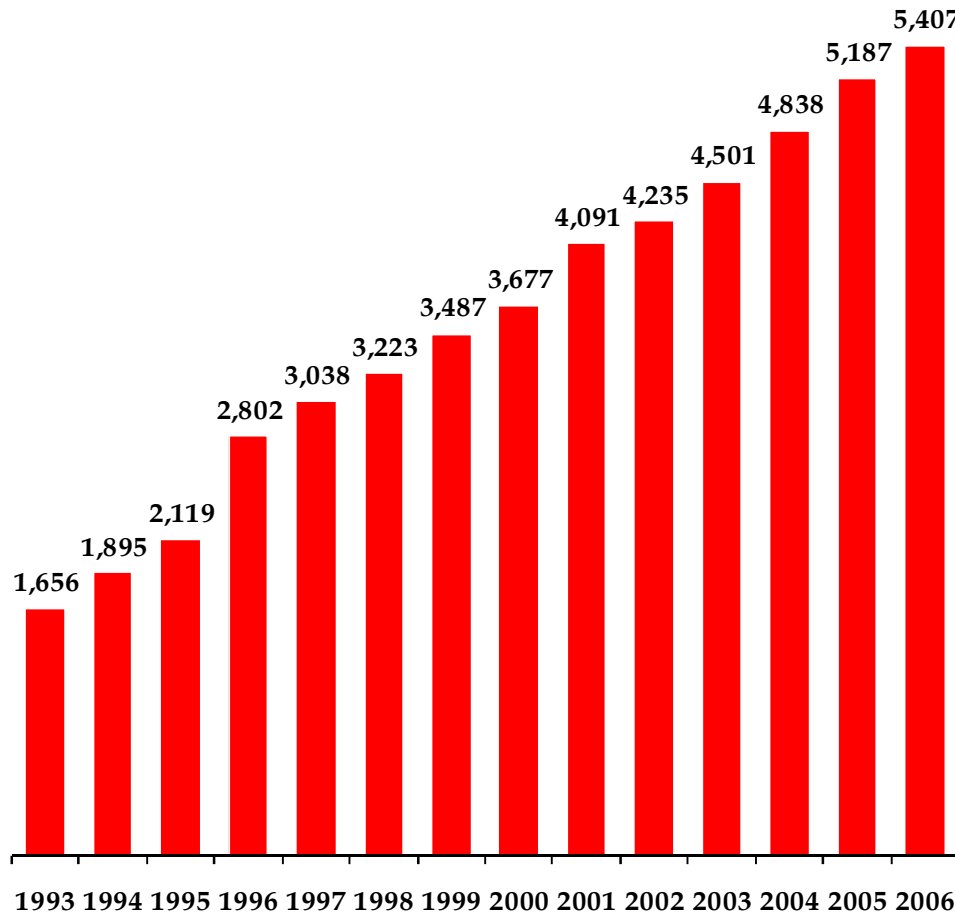
Comparison of two store format strategies
(model)

	One-stop Shop	Focused Category Killer
Strategy Description	<ul style="list-style-type: none"> - Focus on offering as many products and services as possible under one roof in a big box retail site - Offering convenience to consumer of solving more than one errand at once - Generally supermarket or department store operator that continues to expand offer 	<ul style="list-style-type: none"> - Focus on a specific product segment and offer a wide range in a medium-sized box at good prices - Become the destination of choice for the specific product (problem/solution) - Have well trained employees able to offer relevant advice
Strengths	<ul style="list-style-type: none"> - Convenience - Price 	<ul style="list-style-type: none"> - Range - Price
Weaknesses	<ul style="list-style-type: none"> - No depth of range in any one category - No specialised knowledge; employees often low wage / low skill 	<ul style="list-style-type: none"> - Only works for high involvement items - Customer has to make a special trip / additional stop
International Examples	<ul style="list-style-type: none"> - Wal-Mart Supercentre - Carrefour Hypermarket - SuperTarget - Tesco Extra 	<ul style="list-style-type: none"> - PetSmart (pets) - Best Buy (electronics) - Toys R Us (toys) - Borders (books)
New Zealand Examples	<ul style="list-style-type: none"> - The Warehouse Extra 	<ul style="list-style-type: none"> - Noel Leeming - Animates
Likely Losers	<ul style="list-style-type: none"> - Supermarkets - Annoying errand destinations 	<ul style="list-style-type: none"> - Old school, small and cramped independents - Small format, high price, low range specialists

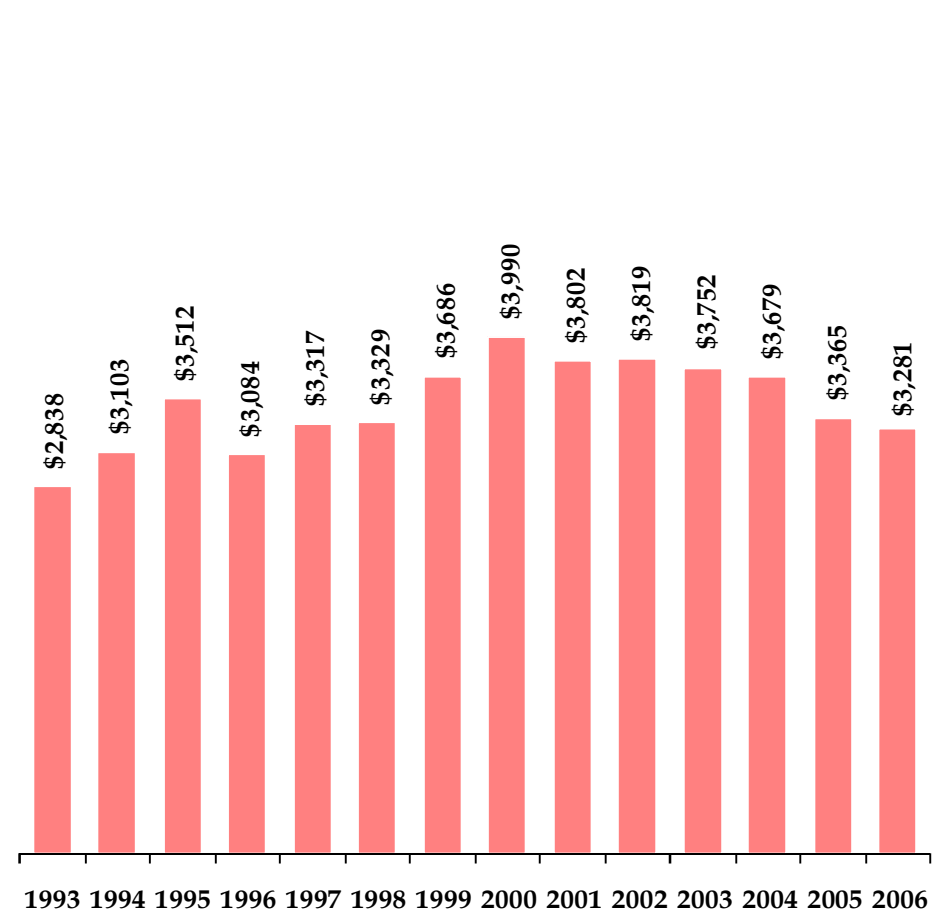
ONE-STOP SHOP EXAMPLE - THE WAREHOUSE

The Warehouse demonstrates the growth of a one-stop shop sales offer through building ever larger boxes, rather than increasing space efficiency

The Warehouse Red Shed average store size
(m², 1993-2005)

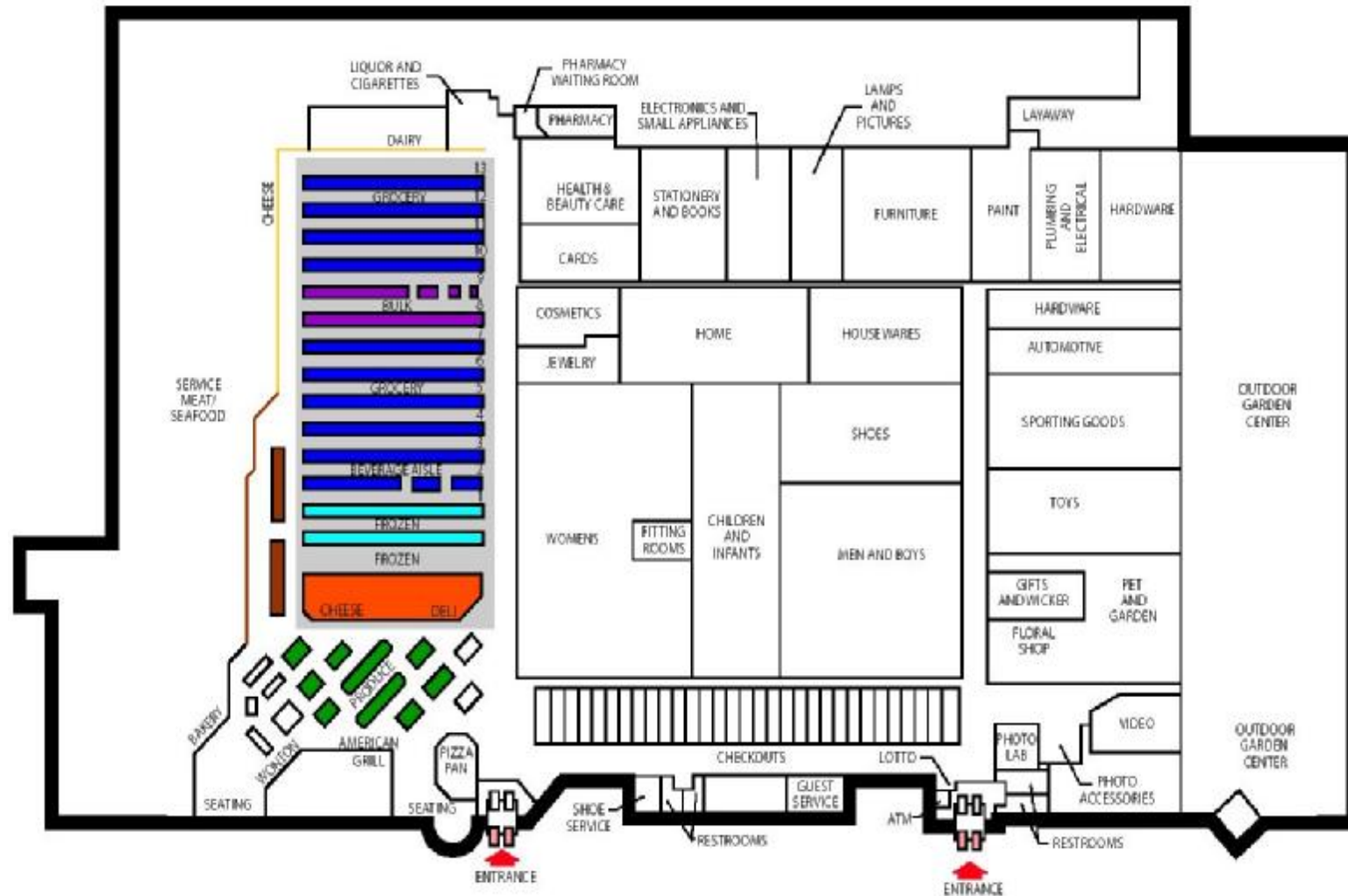


The Warehouse Red Shed sales per square metre
(NZ\$, 1993-2005)



ONE-STOP SHOP - THE ULTIMATE CONCLUSION

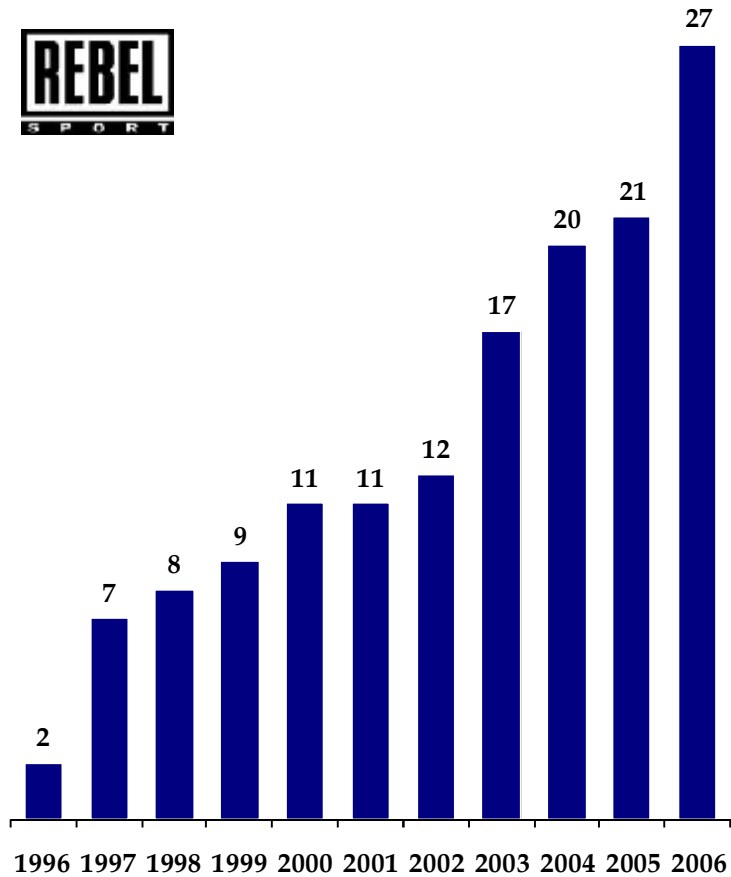
The ultimate conclusion of the one-stop shop trend in the hypermarket, which is effectively a mall under one roof



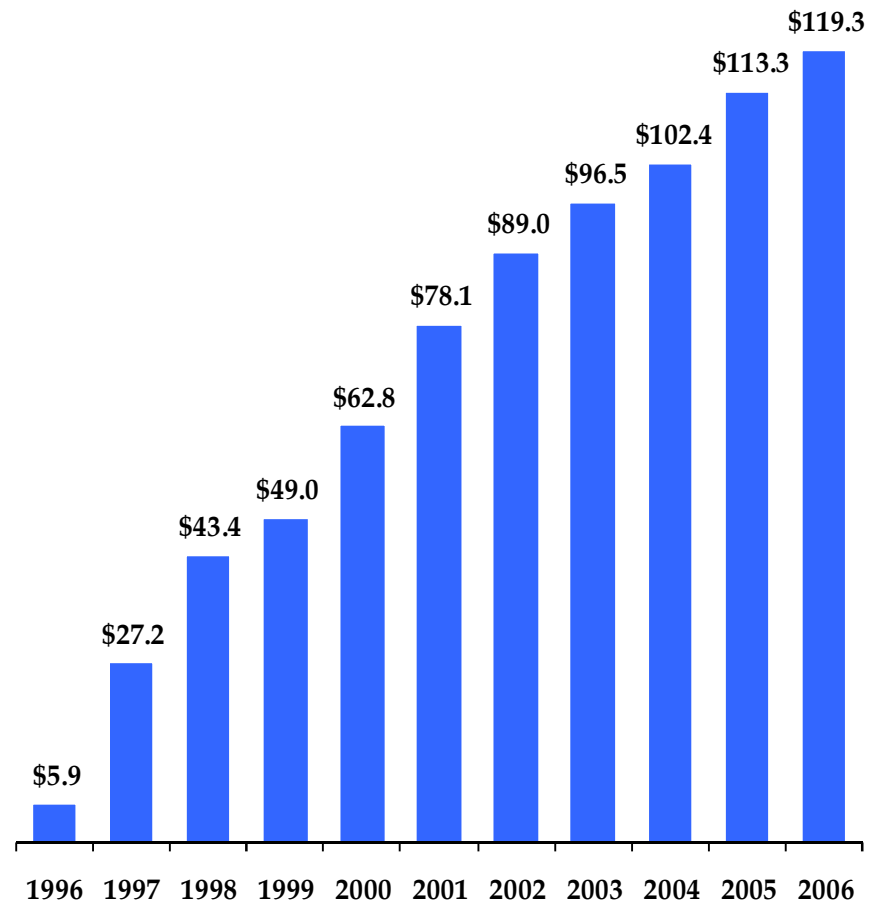
CATEGORY KILLER EXAMPLE - REBEL SPORT

The experience of Rebel Sport demonstrates the ability of a category killer format to succeed in the New Zealand market

Number of Rebel Sport stores in New Zealand
(units, actual, 1996-2005)



Rebel Sport turnover in New Zealand
(NZ\$m, 1996-2005)



RETAIL MEGA-TREND #1 - IMPLICATIONS FOR THE NEW ZEALAND MARKET

This trend has three implications for the New Zealand market

1. Assuming upcoming court action is not successful, we expect two groups to emerge as the leading one-stop shop “hypermarket” retailers
 - The Warehouse with its Extra hypermarket format offering a full range of general merchandise and food (potential for 40+ sites across New Zealand)
 - Woolworths Australia with a supercentre format based on its Australian Big-W format
 - We do not expect Foodstuffs (PAK’nSAVE and New World) to offer a format as global experience suggests cooperative owner/operator retailers can not run discount department stores

2. Category killer formats targeting high involvement categories will continue to grow and thrive
 - Ongoing organic development of new concepts in New Zealand (e.g. Pets)
 - International leaders in specific categories will continue to arrive (e.g. IKEA, Aldi, Costco)

3. Middle of the road retailers without a clear point-of-difference will suffer
 - Old school, small and cramped independents (e.g. some New World stores)
 - Small format, high price, low range specialists (e.g. high street camera stores)
 - “Annoying errand” retailers are especially vulnerable to being “one-stopped” (e.g. chemist)

RETAIL MEGA-TREND #2

The pace of retail globalisation is increasing while at the same time strong local leaders continue to thrive



vs.

Local
Leader

TESCO

vs.



Carrefour 

vs.

GOTO

'The Fresh Food People'
WOOLWORTHS
Bringing food to life.











vs.

FOODSTUFFS
Proudly New Zealand

TOP TEN IN AUSTRALASIA

The top ten global retailers currently have minimal activities in Australasia; we expect this to change, likely through both acquisitions and organic entry

Top Ten Global Retailers Comparison and activities in Australasia
(various, 2006)

Group	Country of Origin	Global Sales (US\$b)	Activities in Australasia?	Potential Entry Path
Wal-Mart		\$349b	No	Buy Woolworths?
Carrefour		\$103b	No	Buy Coles?
The Home Depot		\$91b	No	Buy Bunnings?
Metro AG		\$79b	No	-
Tesco plc		\$69b	No	Launch organically? (cf. US market)
Kroger		\$66b	No	-
Costco		\$60b	Planned	Organic growth
Target		\$59b	Yes (licensed)	Buy out Coles Myer license to Target in Australia?
Aldi		\$47b	Yes	Likely to open in New Zealand shortly
Lidl & Schwarz		\$47b	No	Open Lidl stores following success of Aldi?

WOOLWORTHS VS. FOODSTUFFS

The New Zealand market is experiencing a battle between an emerging globaliser Woolworths Australia and a local leader Foodstuffs that will have a wide impact across retailing

Comparison: Woolworths Australia vs. Foodstuffs New Zealand
(various, 2006/07)



Ownership	Publicly-listed on Australian Stock Exchange (ASX:WOW)	Three legally separate cooperatives of independent store owners
Group Turnover	A\$42.5 billion (FY07)	NZ\$7.0 billion (FY06)
Number of stores	914 Supermarkets 938 liquor stores 120 department stores 478 petrol stations 342 Dick Smith electronics	176 supermarkets 479 convenience stores 22 Cash & Carry 12 petrol stations
Strategic Direction	<ul style="list-style-type: none"> - Expansion into Asia - Continued acquisitions to strengthen core portfolio - Trans-Tasman consolidation and buying - Continued investment in world class IT and supply chain solutions 	<ul style="list-style-type: none"> - Support membership - Opening liquor stores - Trans-Tasman buying joint-venture with Metcash

GLOBALISATION IS NOT A DONE DEAL

Retail globalisation is not a done deal - there are strong arguments for and against...

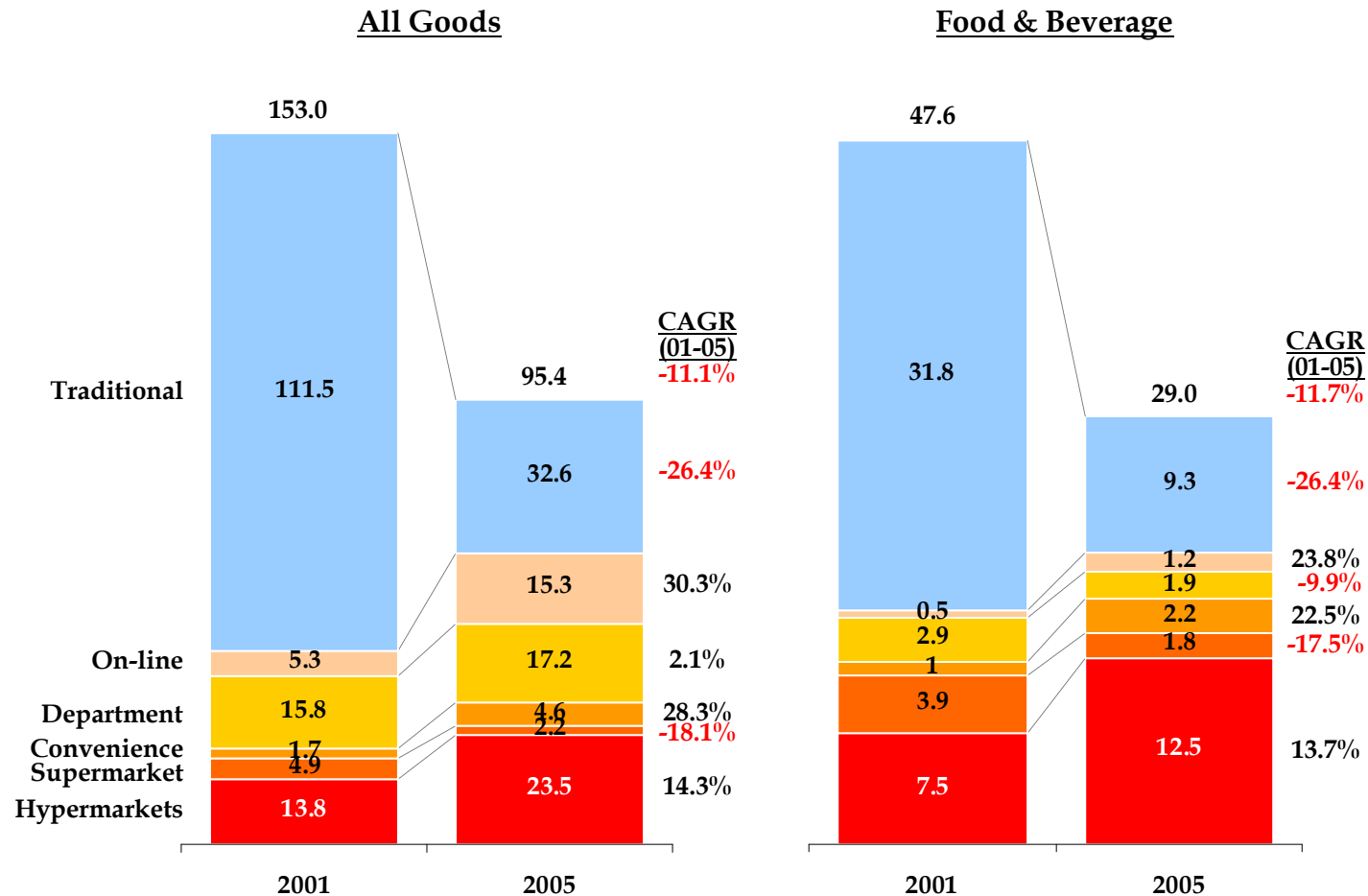
Arguments for and against retail globalisation
(model)

	For Globalisation	Against Globalisation
Buying	<ul style="list-style-type: none">• Strong negotiating power in purchasing global brands	<ul style="list-style-type: none">• Most brands are local
Marketing	<ul style="list-style-type: none">• Deliver on lower prices through larger volumes	<ul style="list-style-type: none">• No familiarity with local tastes
Logistics	<ul style="list-style-type: none">• Leverage superior logistics and management control systems	<ul style="list-style-type: none">• Dis-economies of scale in large organizations• Difficulty in maintaining central control across continents
Financial	<ul style="list-style-type: none">• Need to continue sales and profit growth• Ability to leverage strong balance sheet	<ul style="list-style-type: none">• Political, economic and exchange rate risk
Cultural	<ul style="list-style-type: none">• Bring western management systems to other countries	<ul style="list-style-type: none">• Insensitivity to local customs and practices

CASE STUDY - SOUTH KOREA - RETAIL CONSOLIDATION

The South Korean market provides an excellent example of the consolidation that is happening in markets around the world

Retail sales by channel in South Korea (x foodservice)
(Won; t; 2001 v 2005)



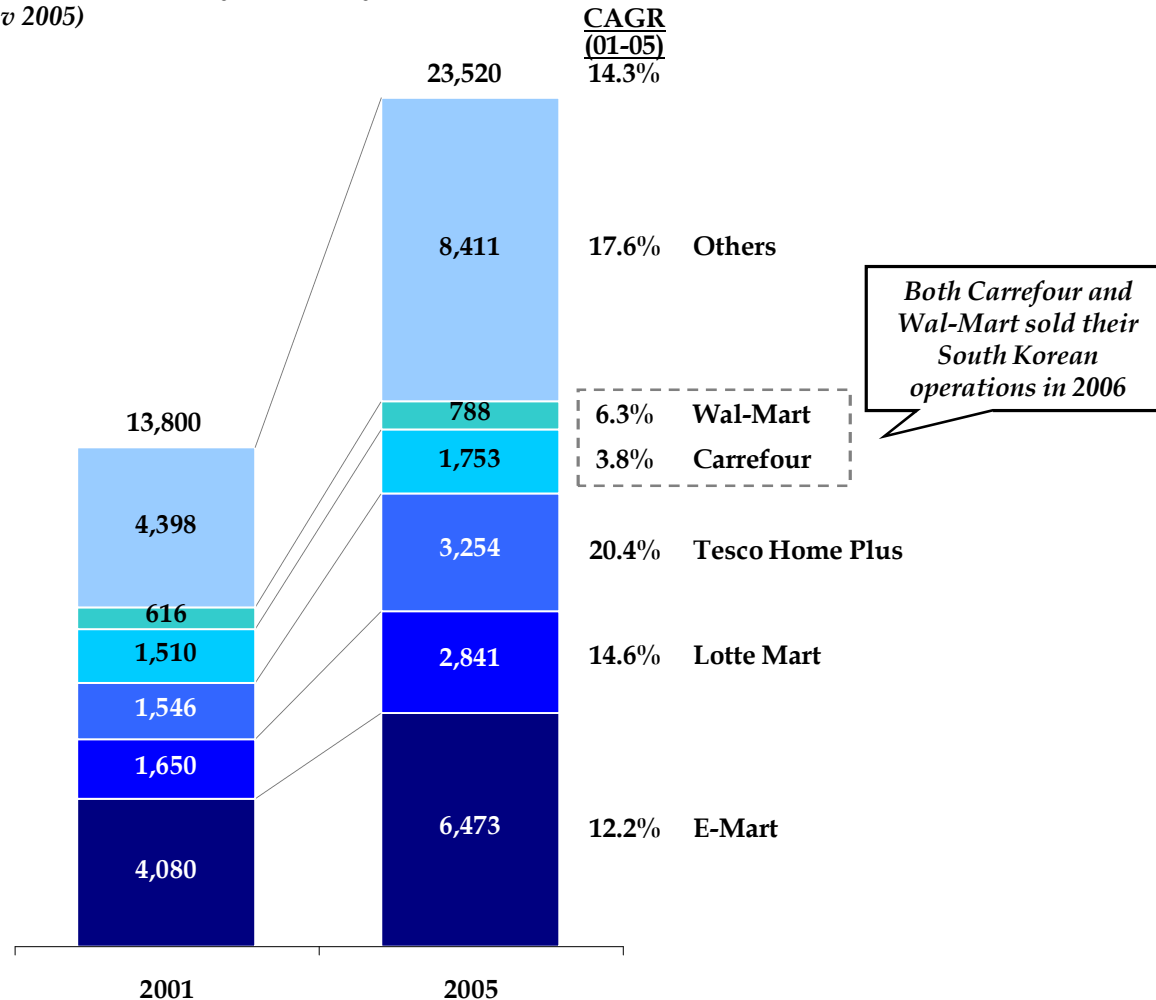
Key Drivers

- Liberalization of foreign retail ownership in 1996
- Asian crisis in 1997
- Introduction and growth of hypermarket
- Changing consumer lifestyles and shopping patterns
- Similar to transition in US/UK in early 20th century

CASE STUDY - SOUTH KOREA - HYPERMARKET CONSOLIDATION

South Korea also clearly illustrates the battle between the globalisers and the local leaders - in the hypermarket sector there are now only three key retailers - E-Mart, Lotte Mart and Tesco

Hypermarket retail sales by company
(Won; b; 2001 v 2005)



Key Drivers

- Skills as a retailer
- Best satisfying Korean consumer demand
- Growing economies of scale driving costs lower
- Highest turnover per outlet gets best sites

Notes

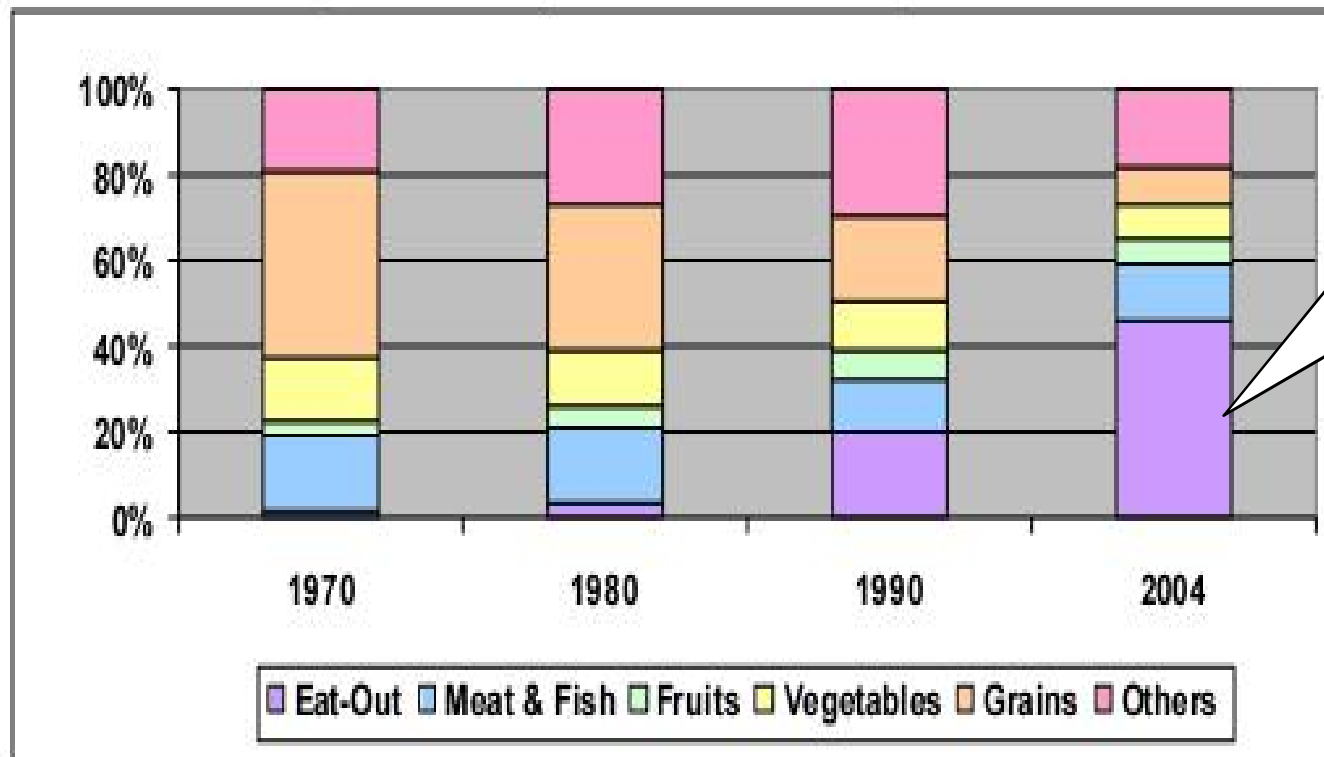
- Does not include these chains supermarket operations sales

CASE STUDY - SOUTH KOREA - GROWTH OF FOODSERVICE

South Korea also illustrates how growing incomes and a demand for convenience are driving the growth of foodservice (on-trade) faster than food retail (off-trade)

Growth of foodservice and food retailing in South Korea
 (% of total household food expenditure; 1970-2004)

Figure 2. Composition of Food Expenditure



Appears to describe household expenditure only; inclusion of business and tourist expenditure in food away would push it to over 50% of total food expenditure

Rapid growth of food away (purple) to 45% of food expenditure occurring in traditional Korean restaurants which are not a hotbed of carbonated soft drink consumption

Source: Korean Government Statistics (Jan. 2006)

RETAIL MEGA-TREND #2 - IMPLICATIONS FOR THE NEW ZEALAND MARKET

This trend has four main implications

- 1. Trans-Tasman integration is gathering speed rapidly and for all intents and purposes Australasia will be one market**
 - Retailers without a Trans-Tasman portfolio will be disadvantaged**
 - We expect further mergers and acquisitions by Australian retailers into New Zealand**

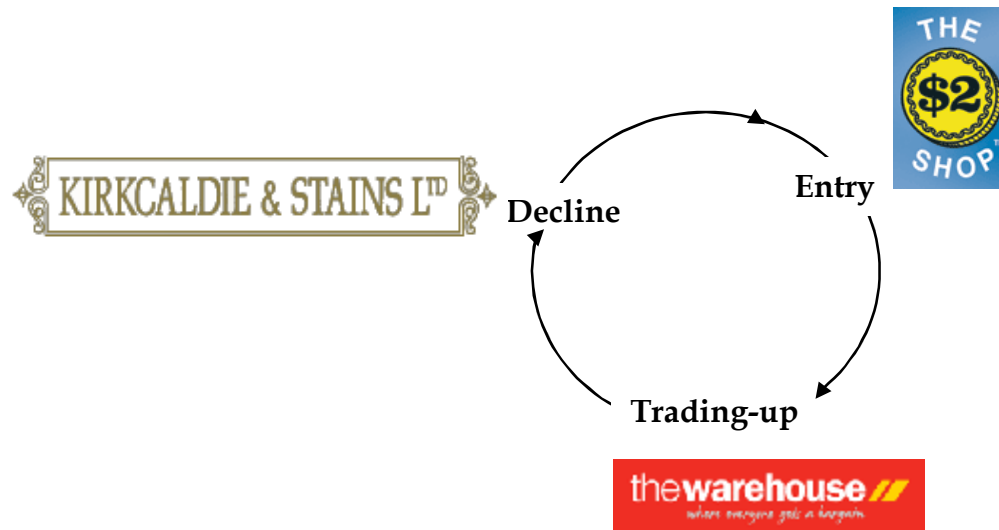
- 2. We expect more global retailers to enter the New Zealand market**
 - While the small size of the New Zealand market and its distance from the major markets of the world has historically shielded it from being a significant focus of global retailers, this is becoming less true as other markets become saturated**
 - Global retailers already in the Australian market are the most likely entrants in the short-term**

- 3. Global retailers may also make further acquisitions in Australia with implications in New Zealand**
 - Most major retailers are vulnerable (e.g. Wal-Mart buys Woolworths)**
 - Australasia is an attractive market as it is high income / low risk but low growth (unlike much of Asia)**

- 4. To survive, domestic retailers must have world class store formats and systems**

RETAIL MEGA-TREND #3

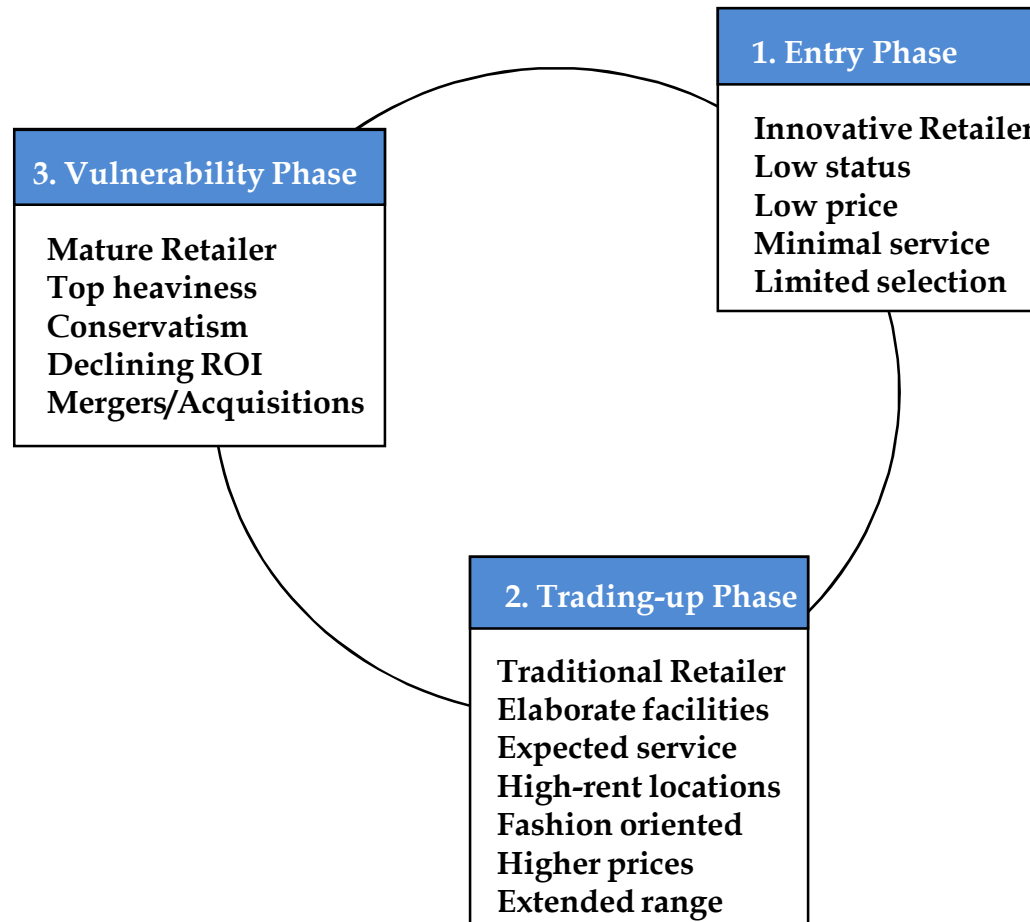
Only change remains constant in retailing



THE WHEEL OF RETAILING

Retailing is a dynamic industry that undergoes constant change with new retail concepts constantly replacing the old

The Wheel of Retailing
(model)



NEW ZEALAND EXAMPLES

The history of retailing in New Zealand fully supports this idea - new retail concept are constantly being introduced

Examples of new food retailing concepts launched in New Zealand
(select examples, 1950-2005)

1950s-60s	1970s	1980s	1990s	2000s
Foodtown	3 Guys	The Warehouse	Tai Ping	Star Mart
Four Square	Shoprite	PAK'nSAVE	Vegie World	BP Connect
Self Help	Deka	Countdown	Bin Inn	Warehouse Extra
Super 7	Write Price	Kmart	Cost U Less	and maybe Aldi
IGA	Key Stores	Big Fresh	The \$2 Shop	...
G.H.B.	Ben's Bargain Bins	Cargo King	Foodworld	

RETAIL MEGA-TREND #3 - IMPLICATIONS

The constant evolution of new formats has three implications

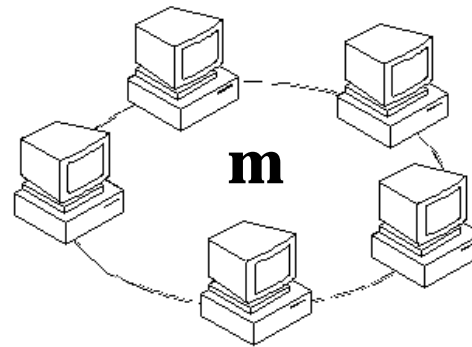
- 1. New formats will continue to appear and experience strong growth**
 - Successful formats or positions in other markets likely to succeed here (e.g. Dan Murphy from Australia)
 - Technology often a key driver of change (e.g. digital camera vs. film developing)
 - Align with likely winners early in the growth cycle

- 2. Price formats will attempt to move up-market with mixed success**
 - Creating new, stronger competitors for existing players (e.g. The Warehouse vs. Noel Leeming)

- 3. Old, tired formats will disappear**

RETAIL MEGA-TREND #4

Information technology is separating the winners from the losers



USES FOR IT IN RETAIL

Leading retailers are investing in information systems to reduce costs

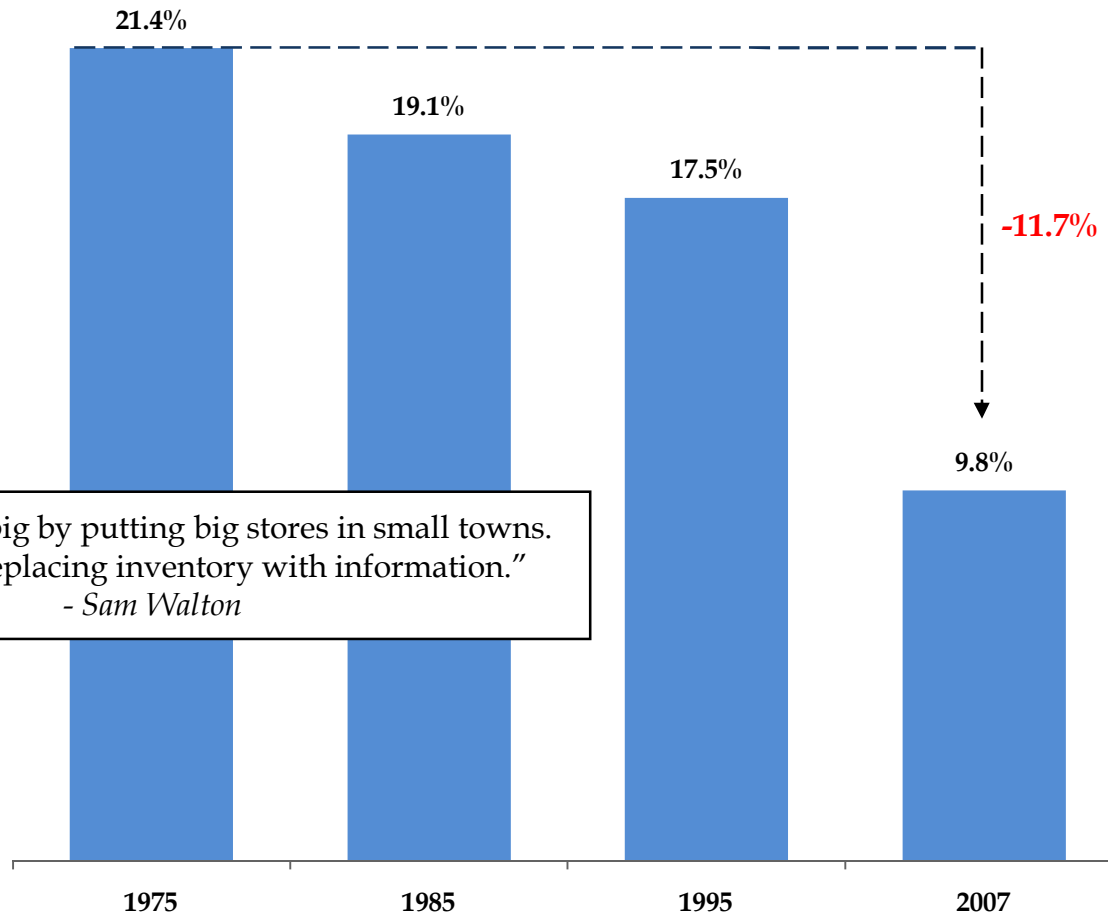
Uses for information technology in retailing
(model)

	Examples	
Increase Sales	Localized store assortment Customer loyalty marketing Reduced out-of-stocks	
Reduce Costs	Inventory	Cooperative forecasting and replenishment Cross-docking Pay-on-scan Continuous replenishment
	Labour	Predictive labor scheduling Computer aided ordering Self-scanning checkouts
	Support	Vendor system integration Electronic data interchange Electronic payment and dispute resolution Electronic item file updates

REDUCING INVENTORY AT WAL-MART

Information technology has allowed global leader Wal-Mart to decrease its inventory levels from 21.4% of sales in 1975 to 9.8% of sales in 2007, freeing up working capital

Wal-Mart: Inventory as a percent of sales
(Inventories at cost/net sales; FY1975-FY07)



"People think we got big by putting big stores in small towns. Really we got big by replacing inventory with information."
- Sam Walton

RETAIL MEGA-TREND #4 - IMPLICATIONS

The growing importance of information technology has two implications

- 1. Retailers will continue to become more technologically sophisticated**
 - Constant tension between in-house (possible competitive advantage) and outsourced (lower price) solutions**

- 2. World class retail information technology requires a massive investment of time and money**
 - It is unclear whether smaller players can continue to compete in the long run**
 - Also a key support of the globalisation trend**

- 3. High potential for transformative change (e.g. RFID eliminating checkout operators)**

IN SUMMARY: FOUR RETAIL MEGA-TRENDS

In summary, we believe four mega-trends are challenging retailers around the world

