Retailing Services Seminar 2009

Tesco.com: Growth and returns

Laura Wade-Gery, CEO Tesco.com

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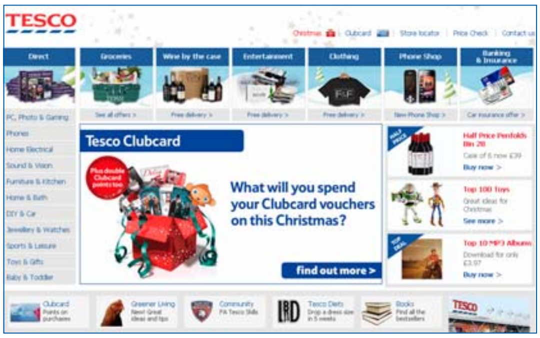
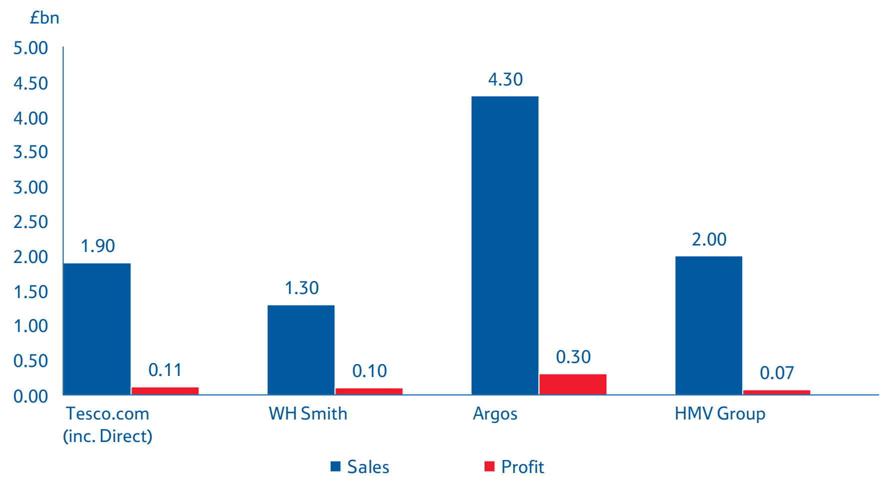
Tesco.com today

- Sales 2008/9 of £1.9bn
- Profit 2008/9 of £109m
- Top 5 most visited retail website
- 3.4 million weekly visitors
- 6 million catalogues twice a year
- 475,000 orders a week
- Serving some of our most loyal customers
- 2,000 home delivery vans
- C 20,000 staff



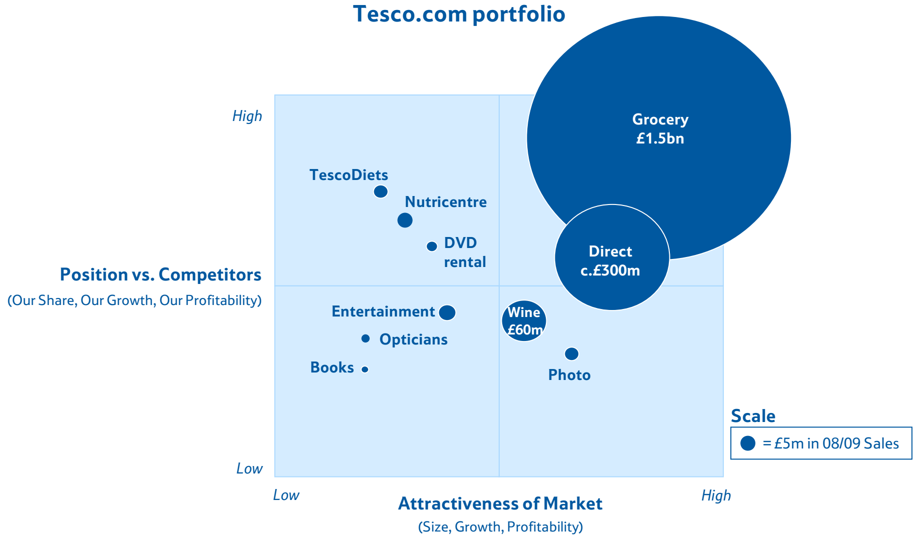
The UK's largest online retailer

....and a sizeable retailer per se

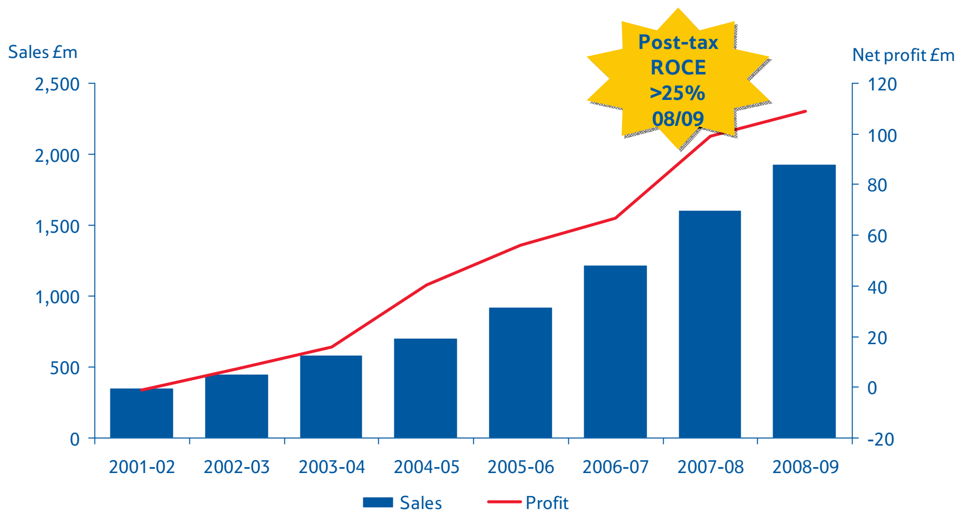


Source: Public statements; Companies House; Analysts' estimates

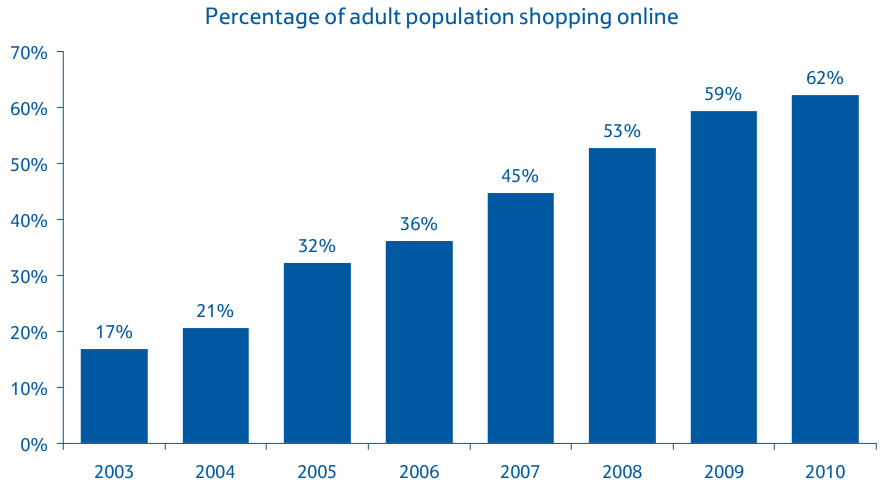
Grocery and Direct are our two biggest businesses today



Tesco.com has a history of profitable growth



Customer take-up of online retail continues to grow



Source: Verdict

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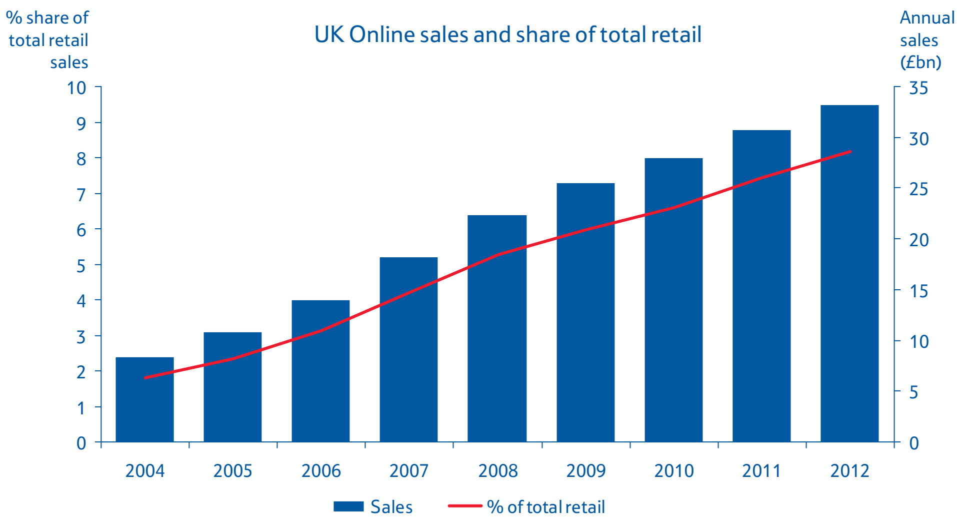
But with online today at only 7% of total UK retail sales there is still huge growth potential



Source: Verdict

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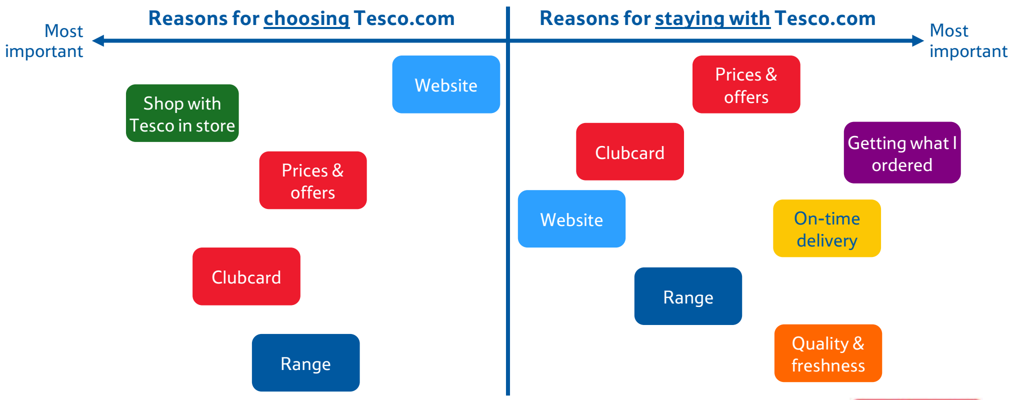
Online customers are our best customers with most of their shopping incremental

- Over two thirds of online sales are incremental
- In grocery:
  - c.30% of customers are new to Tesco
  - The rest spend more overall with Tesco because we capture a higher percentage of their total spend
- In non food, we are extending our reach:
  - The 51% of customers who are not within 15 minutes drive of an Extra today
  - A much wider range than even our biggest Extra

1. Understanding what matters to customers

- Customers mainly ***choose to shop*** with us because of familiarity with our stores, Clubcard and our prices and offers
- When it comes to whether or not to ***stay with us***, order fulfilment, quality and freshness and timeliness become key



2. Prioritising how to build this into the online shopping experience

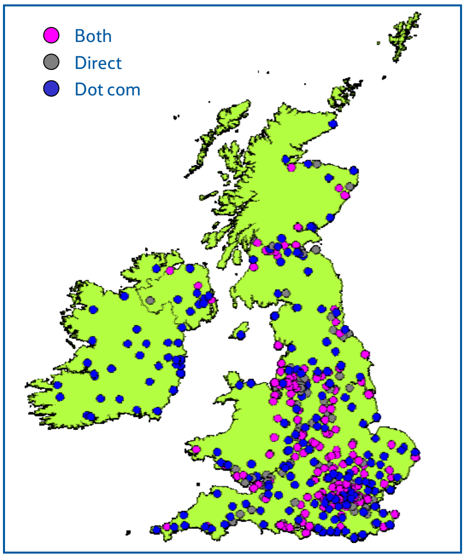
- Priority was to ensure that the service actually worked
- Focus on picking and the supply chain allowed us to satisfy customers and be profitable

3. Creating a multi-channel shopping experience

	Research	Learn/ Experience	Select	Pay	Acquire	Return
Catalogue						
Web						
Store						
Desk						
Home						
Work						

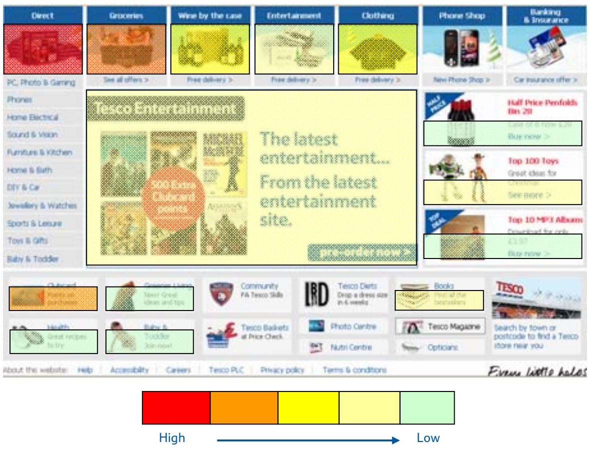
4. Using existing physical assets

- 306 stores nationwide give us 99% coverage
- Maximum 25 minute drive time for stores
  - 55 minutes for dotcom only stores
- Over 250 Direct desks give us around 60% coverage



5. Deploying Clubcard understanding

Website – Heat map – where does the traffic go?



Unique combination of web traffic data AND Clubcard

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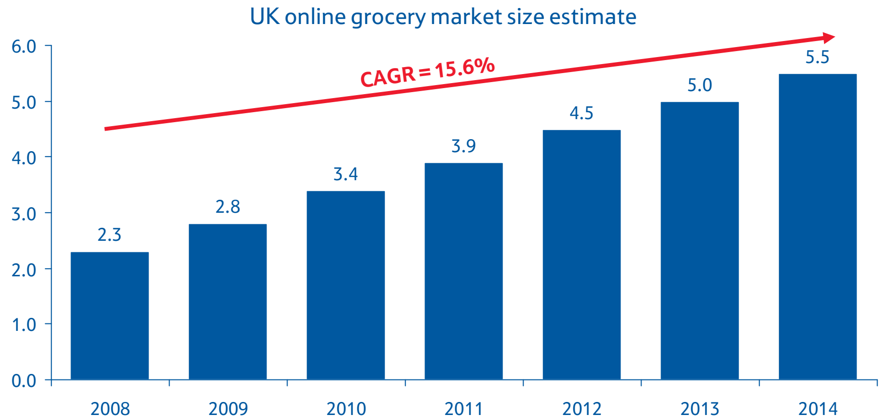
Grocery

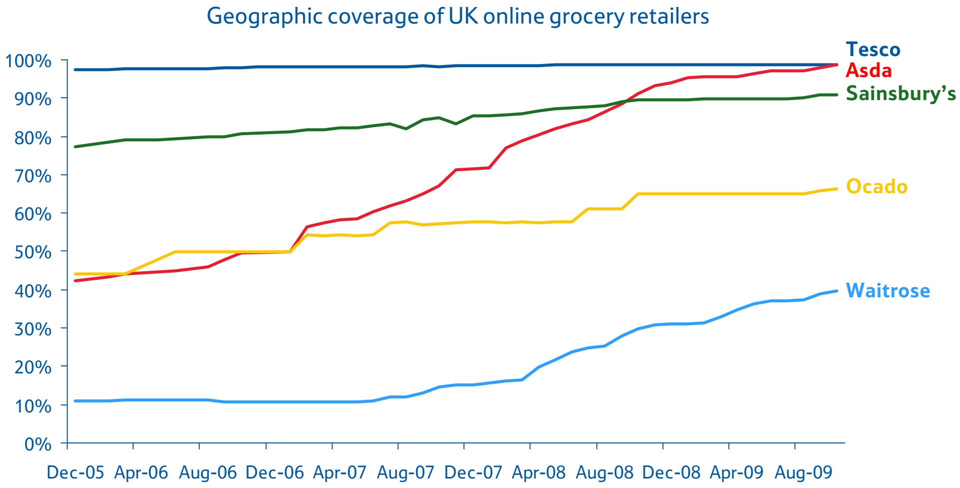
The online grocery market offers plenty of growth



Penetration of online grocery in the overall market is around 3% but 6.7% of Tesco grocery sales are online

Source: TNS, Tesco analysis

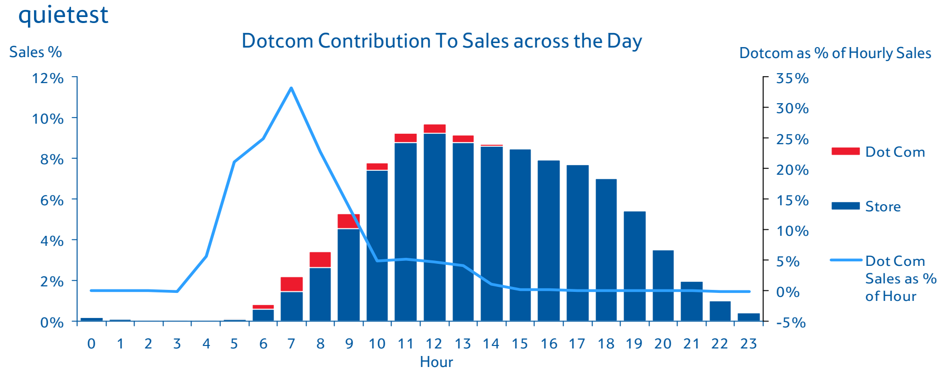
Our competitors have been playing coverage catch up with beneficial effect on their headline sales growth



Source: TNS, Tesco analysis

Our store based operating model has made us uniquely profitable

- Distribution/transport costs are the biggest element in home delivery economics: keep them low through short travel distances
- We leverage our existing assets efficiently by using stores most when they are quietest



The business carries all its incremental costs

But we have now reached capacity in some parts of the country

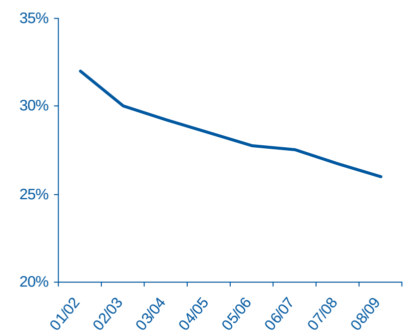
- Dotcom only stores are our response
- Dedicated stores which only service dotcom customers
- Now have two – Croydon and Aylesford:
  - Opening in Greenford next year
- Expect to open roughly one a year for at least the next few years:
  - Perhaps 15% of turnover through this format by 2014
- Starting at scale allows us to be profitable quickly in this new format:
  - Migrate existing customers from surrounding stores
- Additional benefit to the stores because less busy giving more growth potential

We see dotcom only stores as a part of our overall offer

Constant process and IT innovation are key to reducing our operating costs

- Simple principles drive our operating model and process design
- Jobs must be interesting and simple to do
- Technology must reinforce the process
- We work with the flow of human nature

Operating costs as a % of sales



A focus on 'every little helps' allows us to improve the customer experience each year

- Every little helps in practice:
  - Excellent delivery 2
  - Shorter than we'd like
  - Cheaper alternatives
  - Refund the difference

We plan to continue to lead the expansion of the online grocery market through continuous innovation

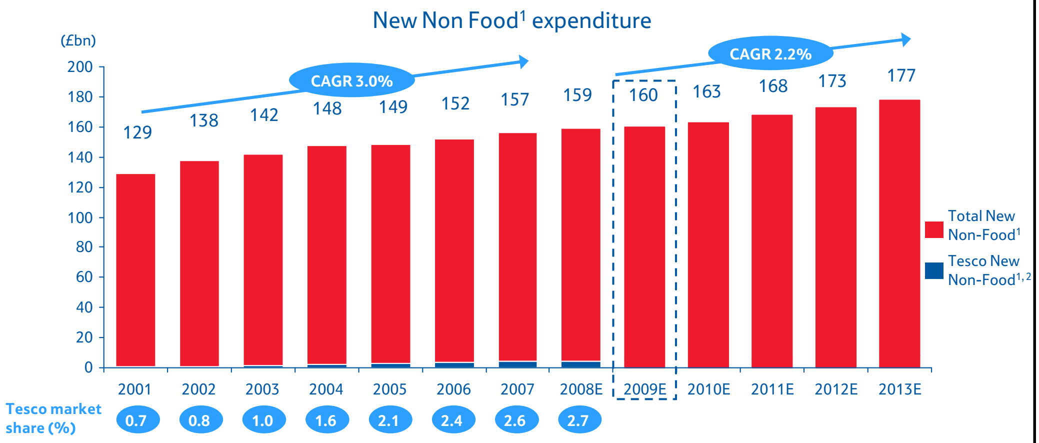
- Systematically tackling the barriers to shopping online and capitalising on the strengths of internet shopping
- e.g. making shopping online more convenient than in-store
  - Predictive ordering
  - Collect in-store or convenient location
  - Shop as you go capability from phones and devices in kitchen
- e.g. opening up to less conventional big basket shops
  - Equally worthwhile for smaller baskets
- e.g. inspiring confidence in product selection
  - Customer reviews and discussions
  - Tech assisted special needs shops, e.g. diabetic

Tomorrow's plan

- Visit our dotcom only store at Aylesford
- To see first hand:
  - This new format
  - Our continuous improvement approach
  - How we tackle big operational improvements
  - Our integrated use of technology
- To meet some of our management team

Direct

The non food market remains a huge opportunity for Tesco[1]



We have a 3% share of the Non Food market (vs. 21% share of the Food market)

Source: Verdict UK Non Food in Grocers 2009 (December 2008), Non Food LTP, Non Food Finance, UK Central Finance
1. New Non Food excludes Health & Beauty and Household; H&B assumed to be 9.3% of Non Food expenditure from 2009-2013; 2013 market size estimated using 2008-2012 CAGR
2. Excludes Dobbies, PFS and Services

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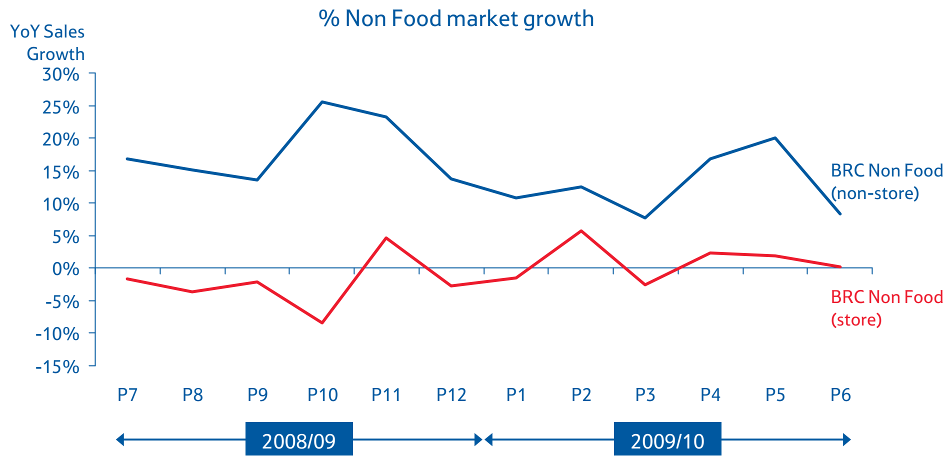
In the non-food market as a whole, online/direct sales are growing faster than stores



Direct is a key part of capturing additional market share

Source: BRC

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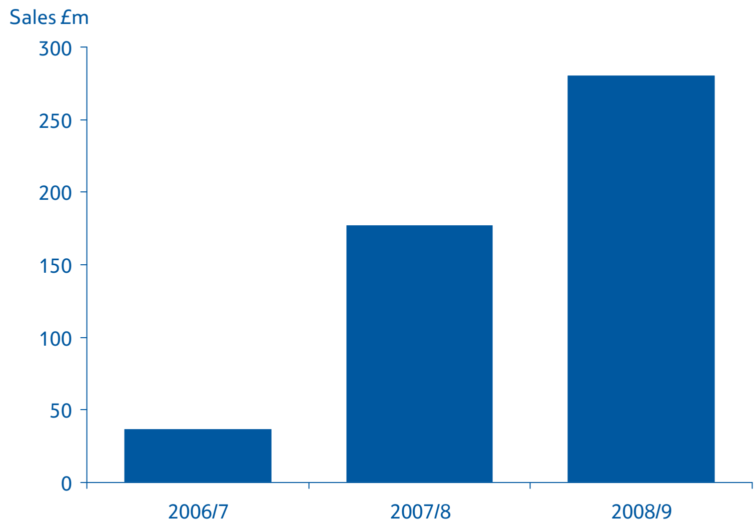
Our growth has been strong



In some categories we are already a material part of their sales – and a much higher proportion of the growth

Direct as a proportion of category sales

> 50%

- Indoor Furniture
- Outdoor Furniture
- Gardening
- White Goods

> 10%

- Computing
- Nursery
- DIY
- Audio Visual
- Sport

<10%

- Photo & Printing
- Small Domestic Appliances
- Homeshop
- Toys
- Pet Accessories
- Personal Electrical
- Games
- Branded Telecoms - Internet Phone
- Home Utilities
- Accessories
- Dining
- Car Care
- Branded Telecoms - Hardware
- Cook
- Batteries & Bulbs
- Stationery
- Baby Hardlines
- Personal Care
- Photo Processing
- Seasonal Home

Our multi-channel approach is key to success

TESCO direct Catalogue Shop

Catalogue shops are a new part of Direct and our overall non food business

- Catalogue range held in stock in warehouse within the store
- Brings extensive non food range to small stores
- Allows reconfiguration of existing space to create enhanced non food shopping trip
- Trial currently in 6 Homeplus and one Superstore
- Will extend to more Superstores and Extras next year

We launched our new online clothing business very recently

- Clothing market is the third biggest online category
- The word “clothing” has been the most searched for term on the Tesco website
- 2,600 lines available in total
- 1,000 lines exclusive to online including some brands

And have relaunched our Entertainments sites

- Tesco is the 2nd biggest stores entertainment retailer
- Online growing rapidly, in both physical and digital formats
- Buying physical and digital content together is what customers want to do
- Strong relationship with studios and licence holders has brought exclusive content
- Competitive prices, great range, search and service, all with double clubcard points!

We've got a clear agenda going forward to grow and improve the business

- Bigger range
- Increased website merchandising capability:
  - Including greater personalisation using Clubcard and web data
- Greater customer interactivity
- More closely integrated operations
  - Particularly fulfilment and transport

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International

International markets offer significant new growth

- Small grocery home shopping businesses today in Korea and Republic of Ireland
- Developing a full operating model for international roll out from next year
- Czech Republic grocery home shopping next year
- Future countries to be selected on:
  - Internet penetration and propensity to shop online
  - Population coverage from our existing stores
- Non-food offers additional potential:
  - Both using the UK website
  - And in-country

In summary. Our online business is:

- Large
- Rapidly growing
- Competitively advantaged as a multi-channel offer
- Profitable
- Low capital intensity
- High returning