TESCO

The Journey to World Class Non-Food

Richard Brasher

Agenda

- Outline top line strategy
- Update on our journey to date
- The next stage for non-food
- The New Sourcing Model
- Q & A

The Journey So Far

- Investment in non -food space
- An improved customer offer
- Increase in non-food capability
- Investment in supply chain
- Investment in retail capability
- Investment in systems

Investment in Space

- We have doubled the non-food footage in the UK
- We have doubled the UK non-food footage internationally
- We have over 100 Extra stores in the UK
- We have over 200 hypermarkets internationally

Improving the Customer Offer

- We have significantly reduced price
- We have doubled the range
- We have introduced good, better, best Tesco brand
- We have developed new brands in Clothing
- We have added new markets

Increased Non-Food Capability

- We invested in the leadership team
- We have invested in buyers
- We have invested in merchandise planners
- We have invested in stock management
- We have invested in training

Investment in Supply Chain

- We now have 5 distribution sites for UK Non-Food
- We now have 2 wharf operations
- We have a separate non-food supply chain team
- We have invested in store warehouse space to manage non-food

Investment in Retail Capability

We have invested in:

- Management structures for both hardlines and clothing
- General Assistant hours
- Warehouse managers
- Routines and processes
- Extensive training top down

Systems Investment

Our Systems Investment has started in:

- Merchandise planning
- Ordering and allocation
- Management information
- Product tracking
- Supplier management

Our Future Plans

World Class Sourcing

↓

World Class Ranges
for Customers

↓

World Class Sales

↓

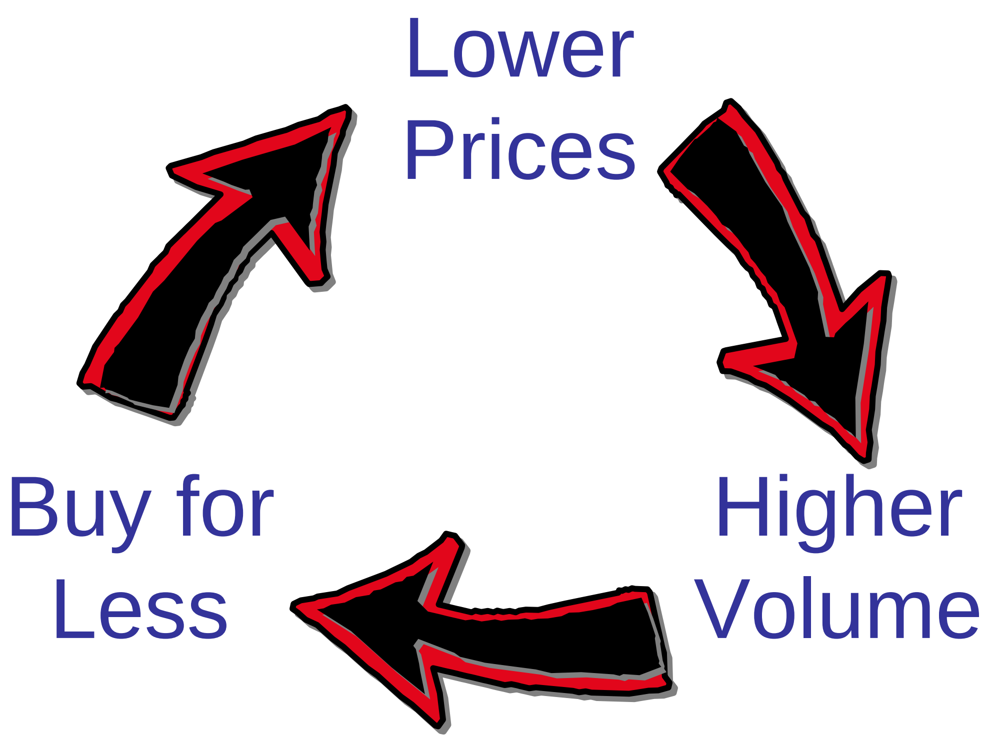
World Class Returns

A World Class Non-Food Business

This will require:

- Listening to customers
- Following the money
- Developing the Tesco brands
- Selling for Less
- Sourcing Direct
- Having an efficient supply chain

Why our Sales Grow



The Price-Volume Virtuous Circle

Three Non-Food Buying Models

Low Risk - Low Rewards = Concessions

Medium Risk - Medium Reward = Brands through agents

Higher Risk - Higher Reward = Own Brand Sourced Direct

Every little helps

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The High Reward Model Requires Investment

- **Organisational capability**
- **Systems and logistics**
- **International Sourcing**
- **Supplier Relationships**

Each country has it’s own roadmap

to this destination

UK Direct Sourcing

• Clothing	65%
• Hardlines	7%

The potential both in the UK and in time internationally is significant

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International Sourcing
Christophe Roussel

Tesco International Sourcing

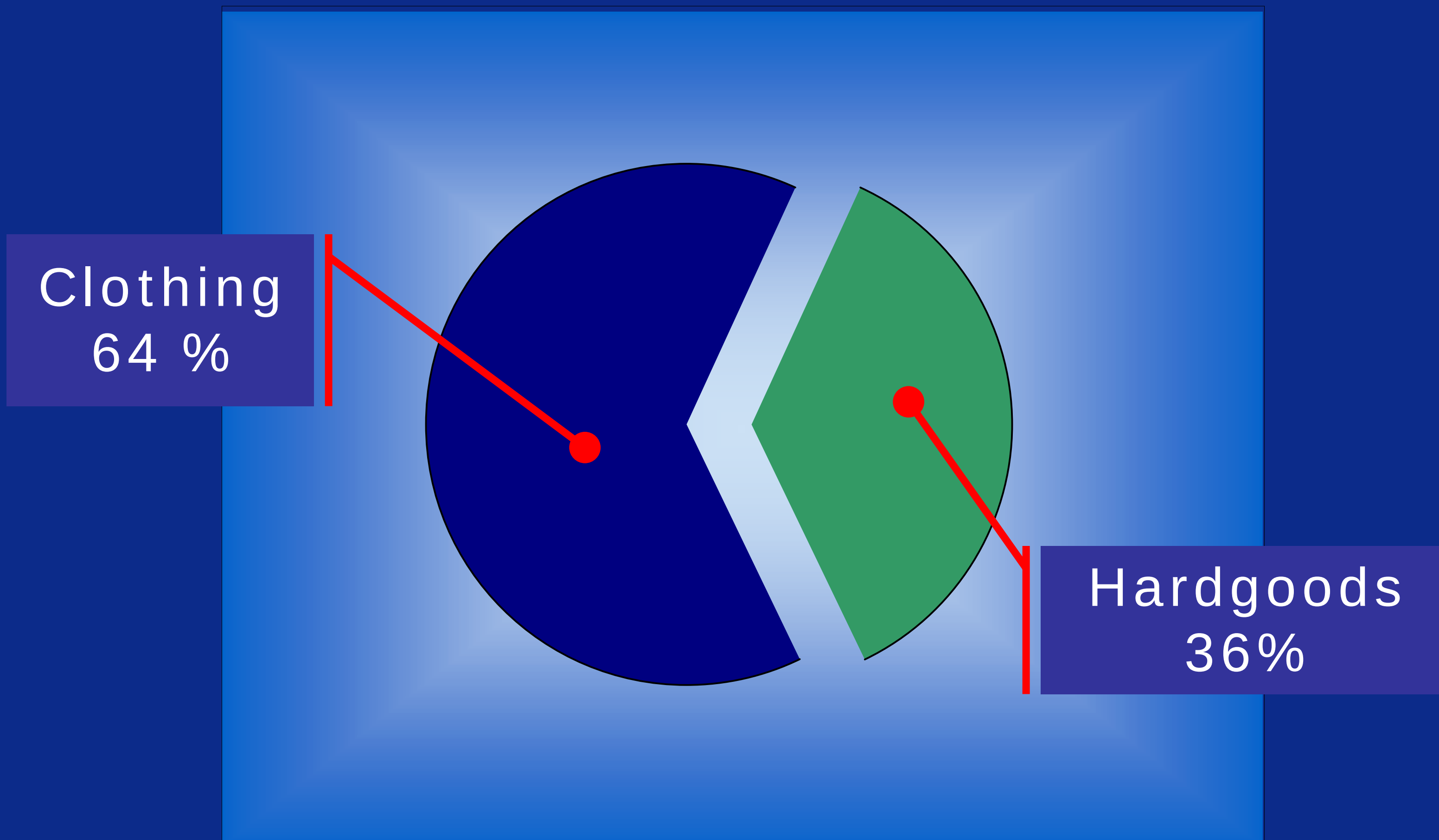
1 - Key Facts

2 - Process

3- Targets

Key Facts

£1 billion at retail



Key Facts

- **1 billion** £ at retail
- **27** countries sourced
- **36 000** orders
- **36** shipping ports across **18** countries
- **13** destinations
- **30 000** containers per year
- **720 000** cubic meters

Tesco International Sourcing

1 -Key Facts

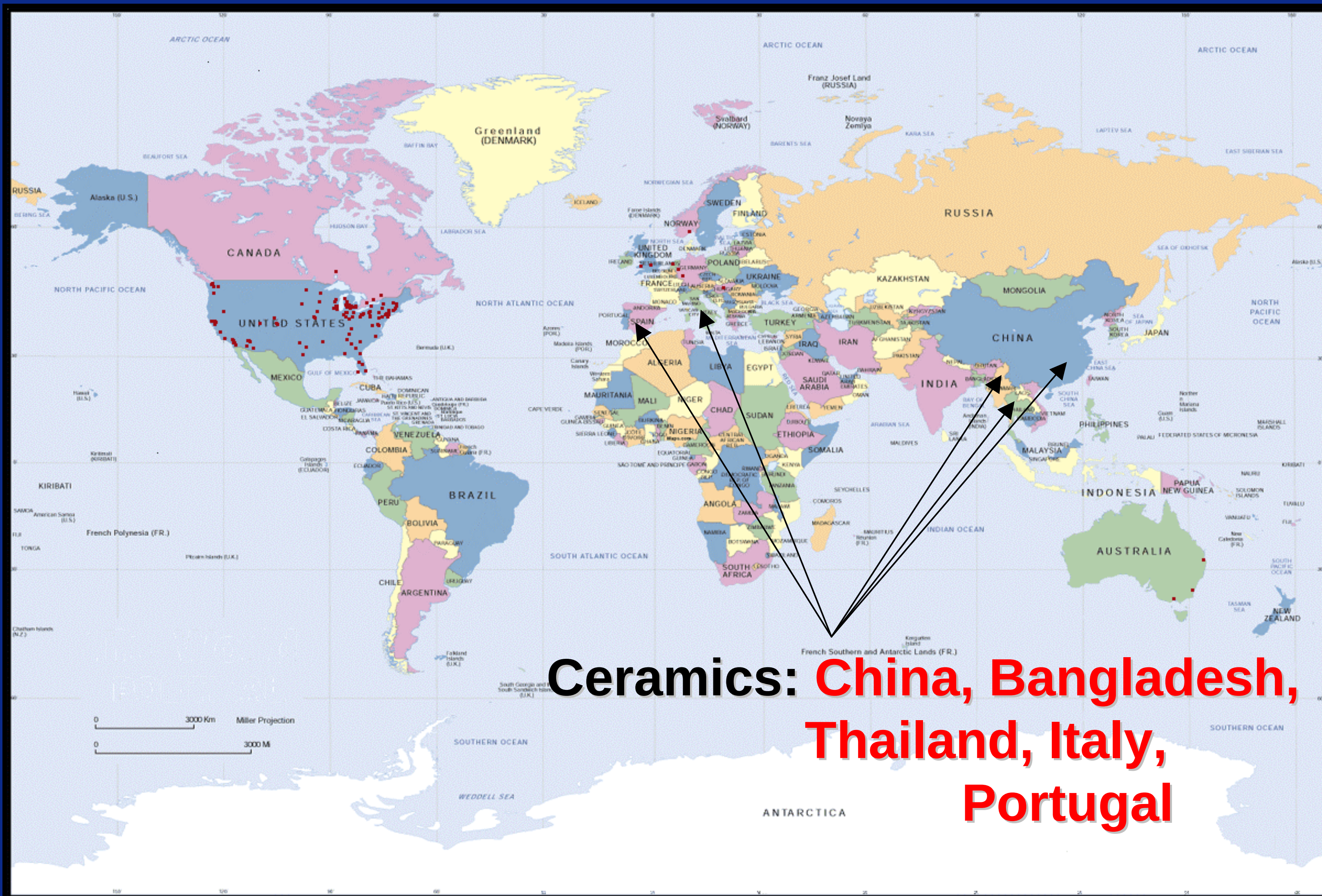
2 -Process

3- Targets

Sources are worldwide

Home Textiles: **China, India Pakistan, Turkey, Portugal, Brazil**

Sources are worldwide



Ceramics: China, Bangladesh, Thailand, Italy, Portugal

Every little helps

Sources are worldwide

Furniture: China, Vietnam, Indonesia, Italy, Scandinavia, South Africa

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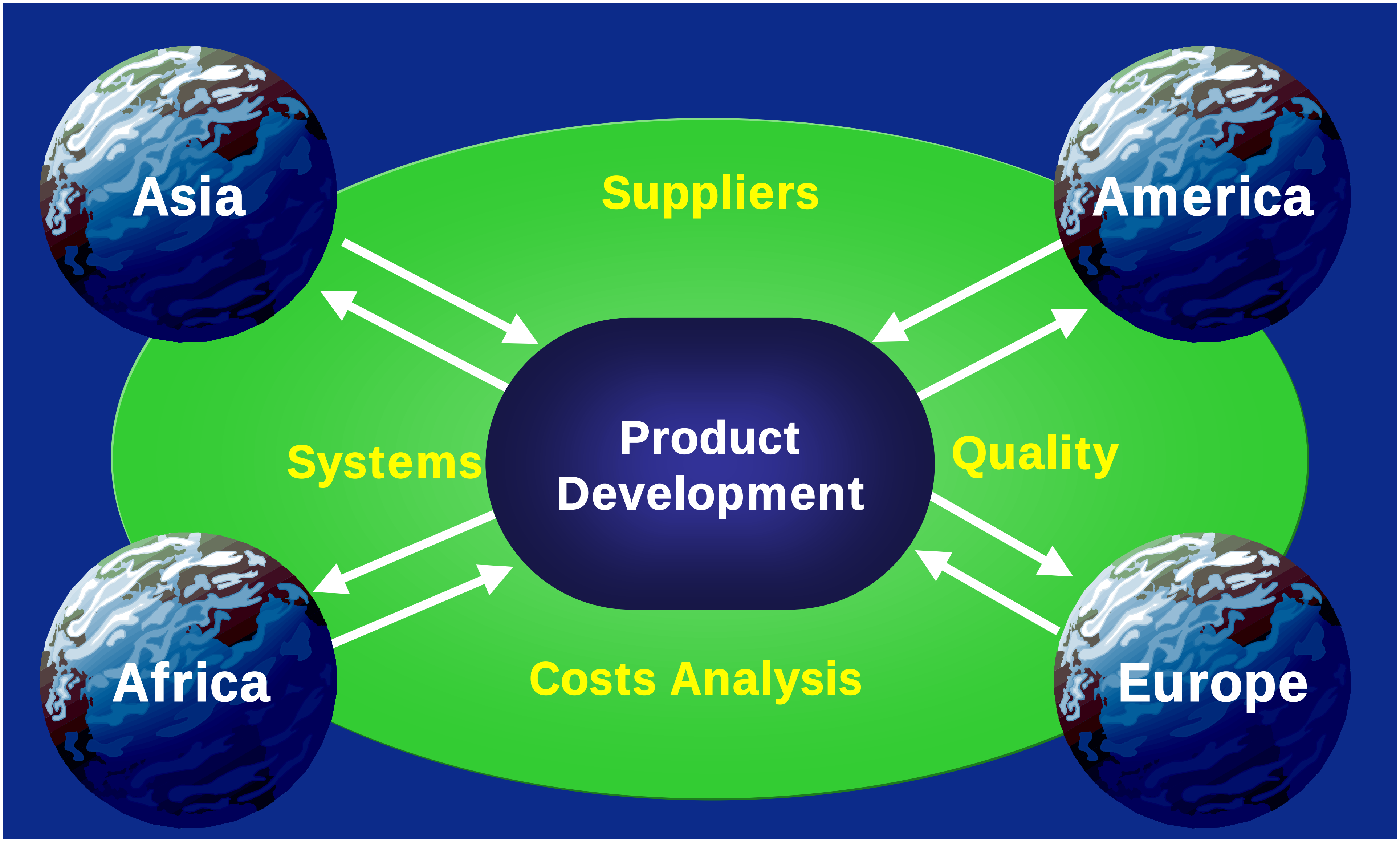
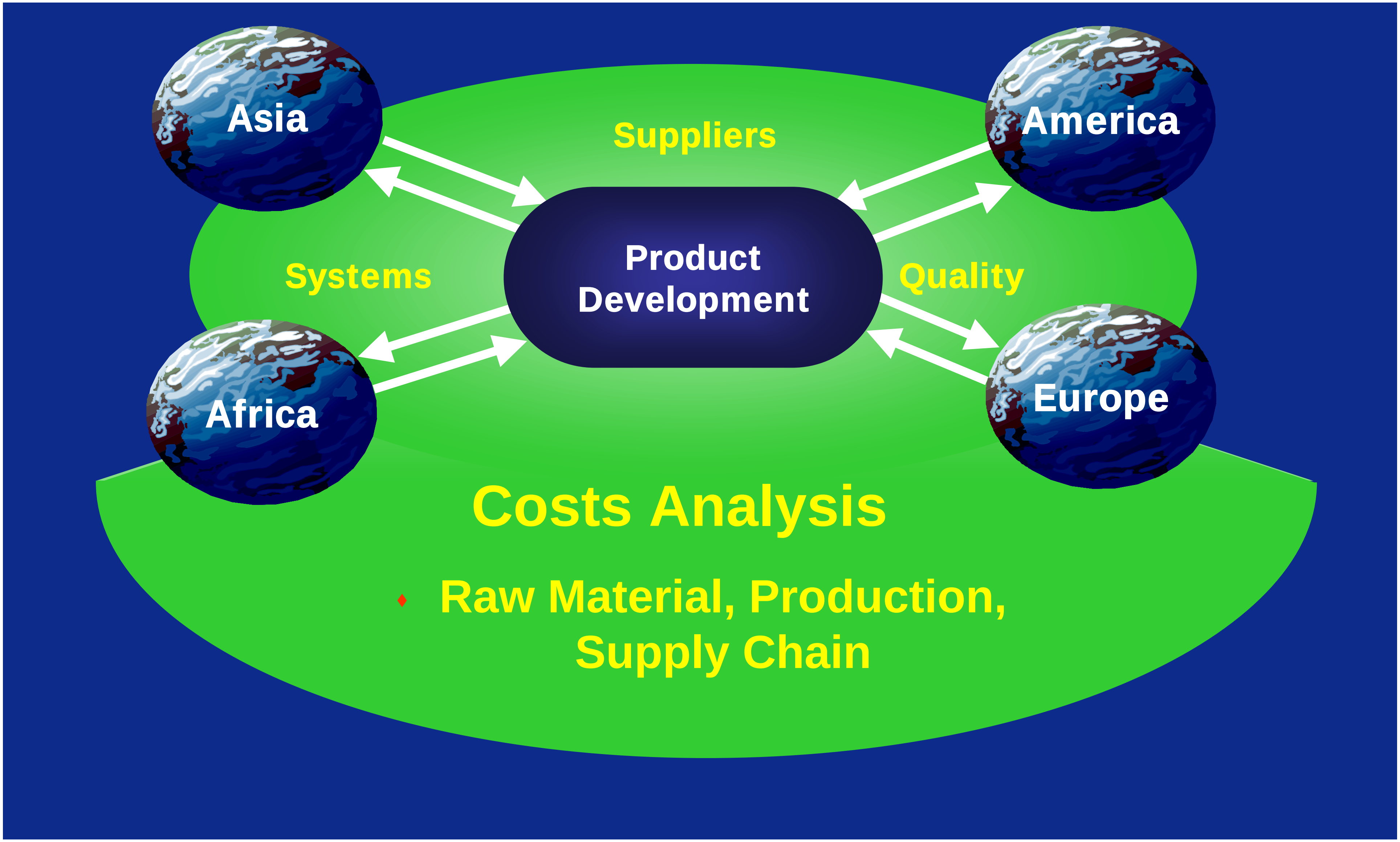
Process


Asia
America
Suppliers
Systems
Product Development
Quality
Africa
Costs Analysis
Europe

Process



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Old Model

Negotiating Terms and Prices

Selling

Tesco Model

Supplier
Joining forces to get better and cheaper for customers
Market
Tesco

Why it works

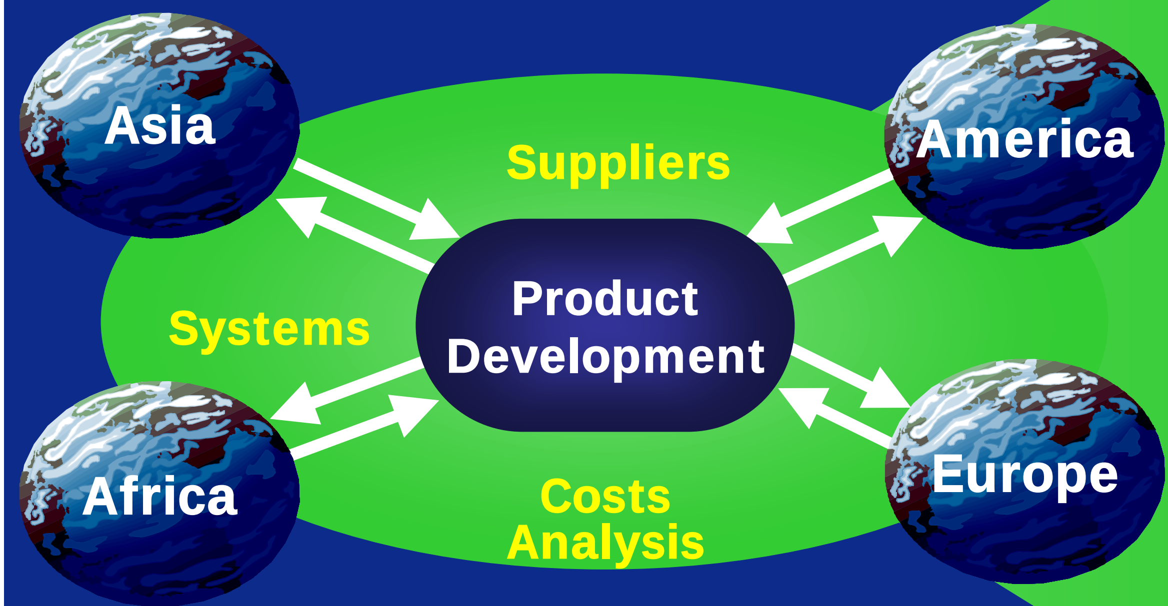
Old Model

- Zero Sum Game
- Limited to small advantages from each other

Tesco Model

- Taps the entire marketplace
- Unlimited Opportunity

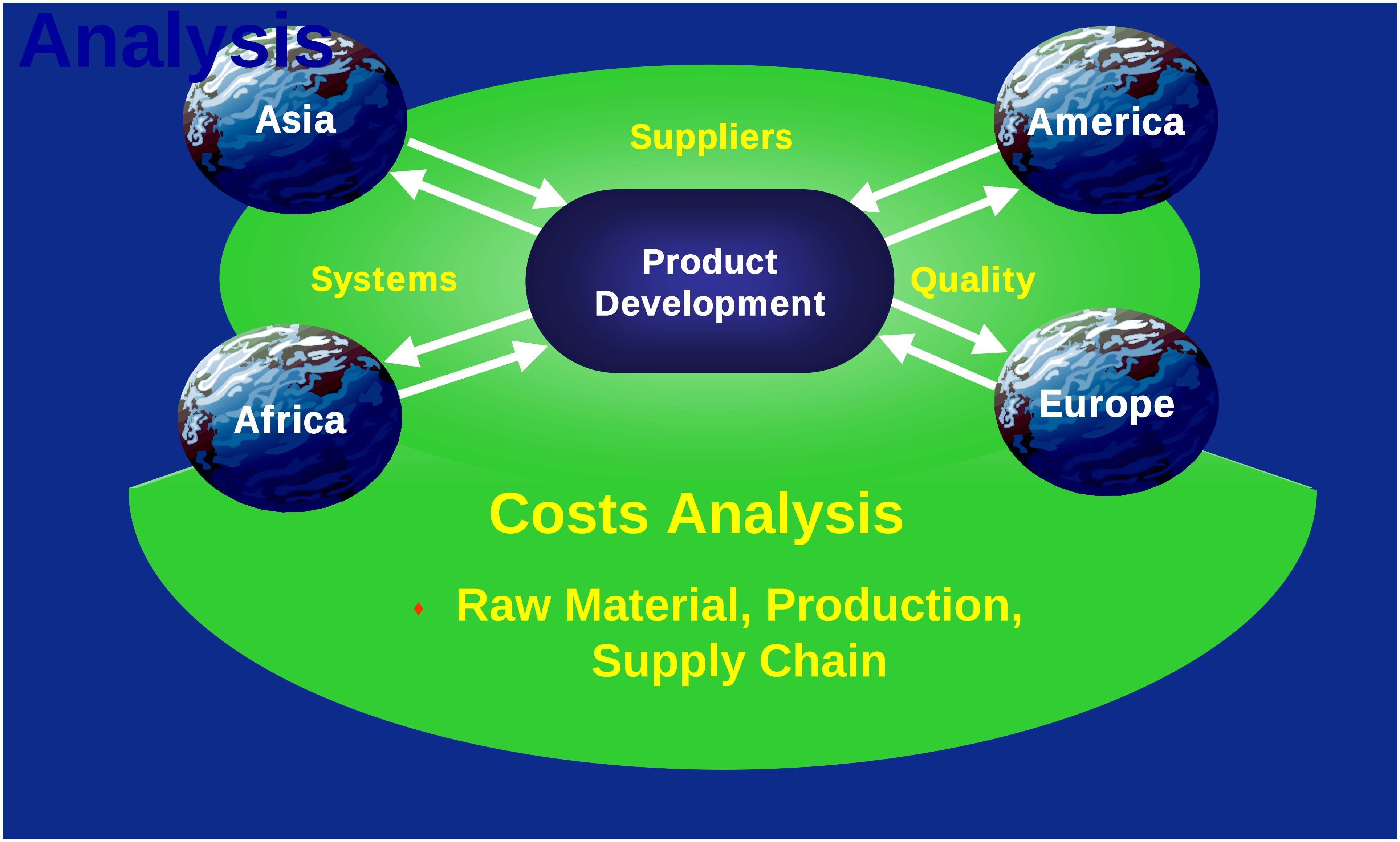
Product Development - Quality



Quality

- Trading Law and Technical teams in all hubs
- Quality procedures and process from product development to store
- Quality Controls adapted to sources and products
- Supplier base audited

Product Development - Cost Analysis



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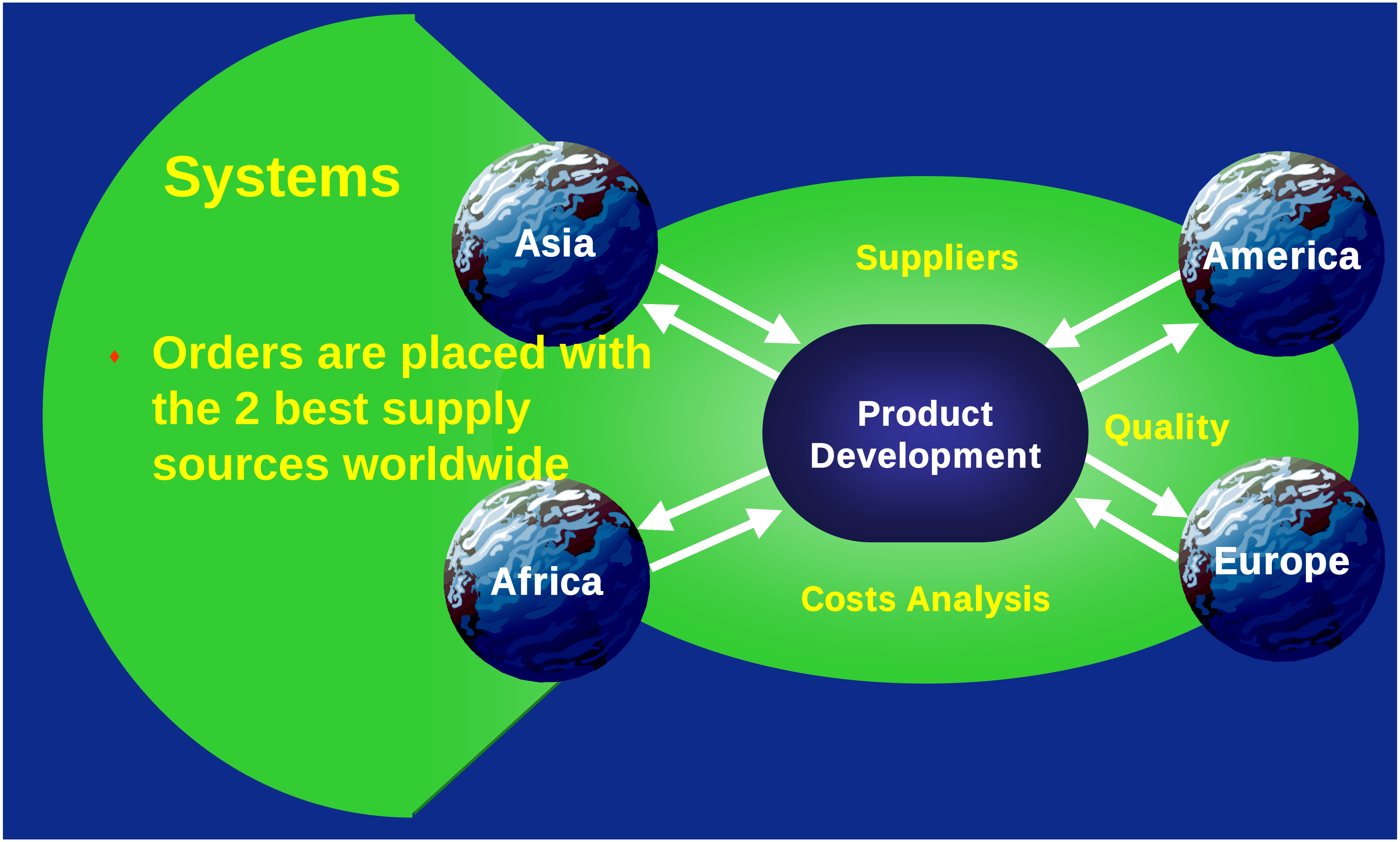
Product Development - Systems



Tesco International Sourcing

1 - Key Facts

2 - Process

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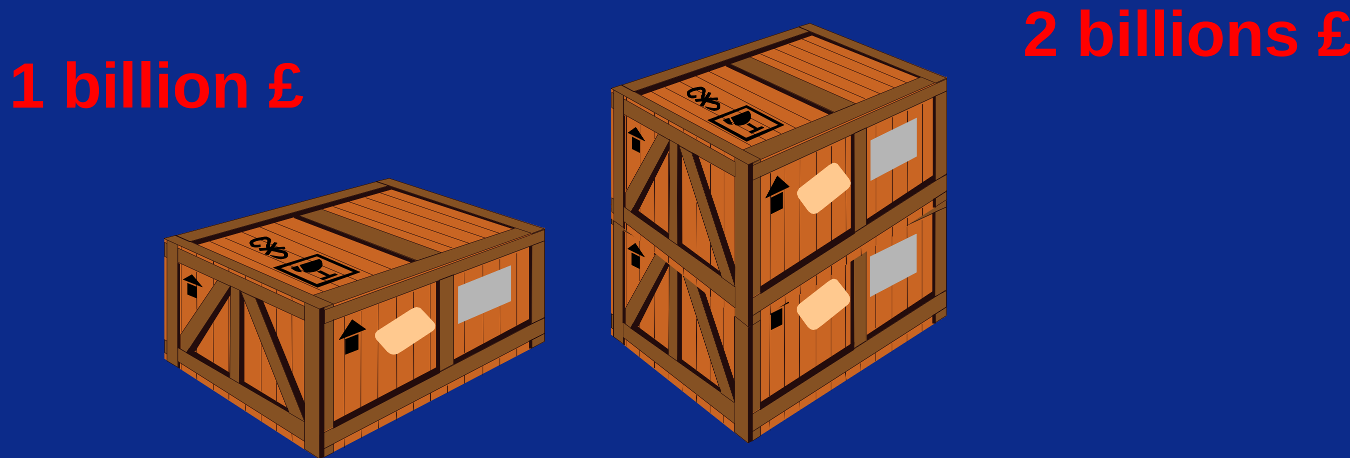
Summary

Doubling our volumes in 2 years



Operating costs reduced

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Summary

- Everything is driven by what customers tell us they want
- We buy for less so we can sell for less
- We drive all possible costs out of the supply chain to get cheaper so we can sell more so we can buy more and get cheaper again
- We don't sacrifice quality as a route to getting cheaper

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Q & A