



TESCO

World Class Sourcing

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**Helping you
spend less
every day**

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Agenda

- Delivering World Class Sourcing
 - Our goal, model & principles
- International Sourcing progress
- The drivers of growth
 - Non food
 - Group sourcing

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One goal

World Class Sourcing:

Through unlocking the benefits of direct and group sourcing, we will deliver

- unbeatable ranges and prices for customers worldwide, and
- world class sales and returns for shareholders

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Two elements

- **Direct sourcing**
 - Significantly increasing the volume of goods developed and sourced directly with suppliers
- **Group sourcing**
 - Buying jointly where this does not compromise local integrity
 - Unlocking the scale advantage of being an international retailer

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Three guiding principles

- We add only value not cost
- We buy for less so we can sell for less
- We take our brand premium through volume not pricing

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Four drivers

- Expansion of Non Food
- Group Grocery & Produce sourcing
- Group Hardlines & Softlines sourcing
- Expansion of direct sourcing across our businesses worldwide

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International sourcing – key facts 2006

- £1.5bn at retail
- 65% of clothing & 35% of hardlines in UK
- 30 countries sourced
- 16,000 products
- 58 shipping ports across 25 countries
- 36,000 containers per year
- 1m cubic metres

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International sourcing – progress

- We are on track to meet our targets
 - 50% increase in value at retail
 - 48% increase in products sourced
 - Fivefold increase in hardlines participation
 - Growing international retail participation
 - We will beat £2bn at retail next year

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International sourcing – progress

- We are becoming more efficient
 - Simplified supply chain
 - Reduced lead times & stockholding
 - Reducing the cost of packaging
 - Reduced costs with shipping partners
 - Significant investment in systems

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International sourcing – progress

- We are becoming more flexible
 - Developing new sourcing regions
 - Matching optimal source country to product
 - Upweighting sourcing from Europe
- We are developing supplier partnerships
 - Supplier protocol
 - Supporting our suppliers to reduce costs
 - Partnering our China suppliers on quota

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Non food – driving growth

- Progress underpinned by dramatic growth of Non Food
 - Sales volume more than doubled over 3 yrs
 - Direct sourcing penetration increased
- Both trends will continue
 - Potential to increase share in all markets
 - Continued investment in Non Food space
 - Value improvement from sourcing direct

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Hardlines growth

- Expanding ranges in larger formats
- Extending Better and Best ranges
- Introducing brands
- Expanding dot.com
- Reducing internal costs
- Bigger, better seasonal events
- Investing in team expertise at all levels

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Hardlines – Bar Hill



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Softlines growth

- Bigger clothing departments
- Expansion into new markets & categories
- Increased added value
- Strengthened marketing & brand message
- Reduced lead-times

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Softlines



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Group sourcing – leveraging scale

- Our markets and customers are not the same
- But there are significant similarities in products and customer needs
 - Particularly in regions, brands, commodities
- Joint buying can help us deliver an even better deal for customers
- But we will not compromise local integrity

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Group sourcing – principles

- We celebrate what is the same as much as we recognise local variations
- Suppliers find us easier to deal with because we work in a common way globally
- We find international solutions that include UK, not UK solutions that include international
- Working together should always be easier than working alone

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Group sourcing – projects

- Clothing
- Hardlines
- Produce
- Grocery

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Central European Clothing

- Central CE team, process and infrastructure
- Multinational team – matching UK expertise with local knowledge
- Developing common CE ranges
 - Up to 60% common for a/w 06
- Increasing direct sourcing
 - From less than 10% to 65% by a/w 07
- Cherokee and Florence & Fred

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Cherokee launch – CR/SR



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European Hardlines Sourcing

- More similarities than differences in European hardlines ranges
- Establishing pan-European buying and sourcing team to deliver common ranges
- Supported by local buying and trading team
- Take the best from all countries
 - Leverage both UK and local capability
 - Improved ranges with relevant local variances
- Opportunity to increase Tesco brand

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European Produce Sourcing

- 50% of Tesco European produce
- Six countries
- Costs reduced by over 10%
- Generating strong lfl growth
- Step changed quality of European produce
- Developing regionally relevant sources
- Improving local through group capability
- Delivered through an international team

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European Produce



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European Grocery Sourcing

- Strong similarities across European grocery
- Utilising group expertise to create common European core and extend own label
- Up to 500 lines targeted for launch
- Reduced cost; increased value to customers
- Improving CE price, range & quality
- Strengthening CE own label participation
 - UK 30% compared with CE 10%

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Corporate purchasing

- International sourcing:
 - £6m refrigeration sourced from China 06/07
 - 35% saving on UK price
- Group sourcing:
 - All office PCs sourced directly from Dell
 - Group saving £1.1m

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Sourcing together - summary

- We can add value by working together
- Our joint sourcing is already material
- The group takes the best from each country to benefit each country
- We are investing in headcount & capability

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Summary

Working together we will:

- reduce cost to drive even better value for customers
- leverage our worldwide talent to drive even better range and quality
- improve both our own and our suppliers' efficiency
- ensure every customer in every country has a truly outstanding offer

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