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## **Tesco in Asia November 2008**



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## **Homeplus – A world class Korean company SH Lee, CEO**



## Contents

- Korea & Economy
- About Tesco Korea
- What we have achieved
- What are our key success factors
- How we will grow

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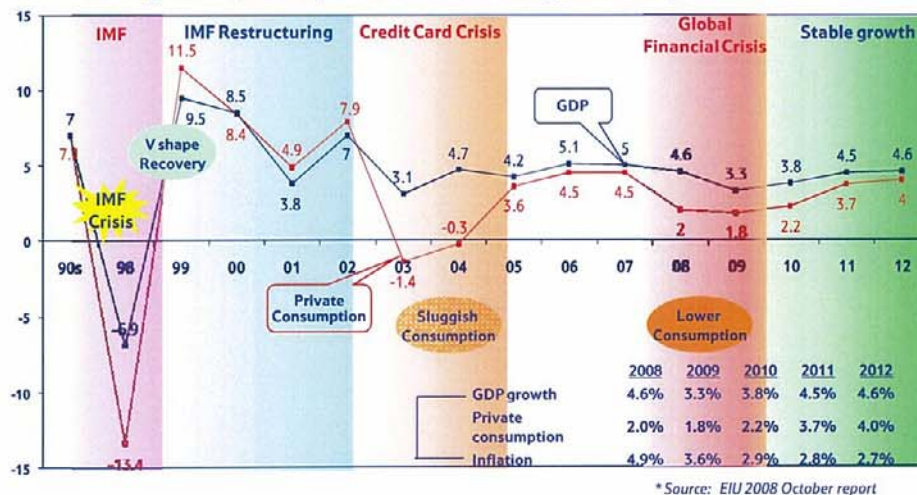
## South Korea

- 45% in size compared to the UK
  - Korea peninsula is 90% of the UK
  - Only 30% of the land is mass habitable
- Of Korea's 50m population (growing at 0.8% annually)
  - 48.6% of the population live in Seoul metropolitan area
  - 37 cities have over 250,000 people which is similar in size to Nottingham
- GDP - 13<sup>th</sup> largest in the world (Source: World Bank)
- 84% of high school students go to college/university

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## Economy trend - past, present and future

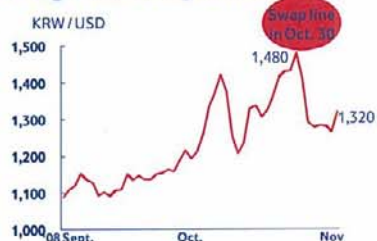
- In long-term, steady and sustainable growth expected



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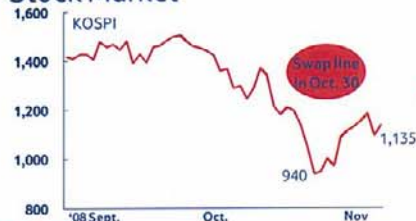
## Gov't policy for stabilising economy

- Foreign exchange market



- Swap line with the U.S. eases concerns
  - \$30bn reciprocal currency arrangement
  - Helpful for Korea's creditworthiness

- Stock Market

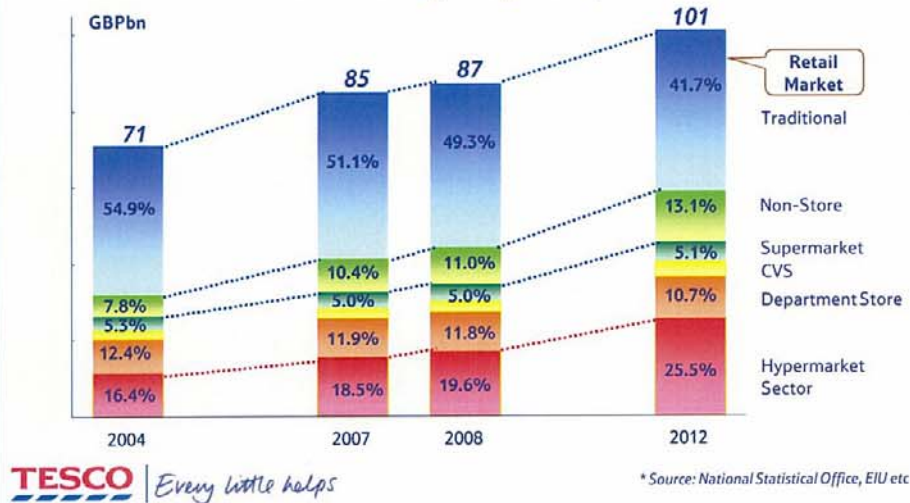


- Tax reduction
  - Income tax rate reduced by 2%
  - Property & corporate tax rate to be reduced
- Key interest rate down to 4% cut by 1.25%
  - Relieve mortgage interest burden
  - Additional interest rate cuts are expected
- Expand government expenditures (\$11 billion)
  - Social infrastructure
  - Financial aid to SMEs
  - Tax benefits on new investments

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## Korea retail market overview

- Retail industry contributes 6% of GDP, 16% of employment
- Hypermarket, Non-store lead retail growth
- Modern channels still have great growth potential



## Tesco Korea overview

- Brand **Home plus**
- Established: 15 May 1999
- Sales: £4.2bn (incl. Tenant, '08 estimate)
- Number of Staff: 20,000



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## Fastest growth in retail market

- Compound avg. annual sales growth 45% for 9 years
- 49% of non-food sales participation
- Tenant sales takes 11% of total sales



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⊗ In above graph, Sales include tenant sales / But, in P&L, tenant sales are not included

## World Top Class Capabilities

### High talented people with Synbaration

- 1 to 150 competition of Univ. graduates
- Over 400 training programme provided
- Retain 1.5 times key people pool
- Synbaration culture & 200 hobby clubs



### Most efficient SCM

"The First, Biggest & Best"

- World top class Ambient DSC
  - 99% Store service level
  - Cover over 160 stores
- Best quality control Fresh DSC



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### Operating Model

Tesco's Philosophy across international for Process, System & People

Local Customer Proposition  
Local Management  
But Single Operating Model

- Space Range & Display
- Auto Replenishment
- Accuracy of stock level
- Execute Promotions
- Invoice Matching
- Vendor Financing
- CSR
- E-learning Programme

### Family Card

- 10 mil members
- 81% Sales participation of total sales
- Target mailing quarterly basis
- The differentiated generator for future growth



## Great Prices

- Stronger price investment
- Fresh food step change
- PB investment
- Inflation busting campaign



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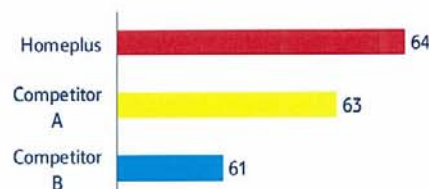
Inflation busting campaign



Reinforcing price investment & communication

## Good Quality

- Strict quality control
  - World top level TL&T
  - Survey customer needs & preference
- 1<sup>st</sup> cold chain from farm to stores
- Communicating PB quality in store



\* Source: Image tracker (Q2 '08/09)

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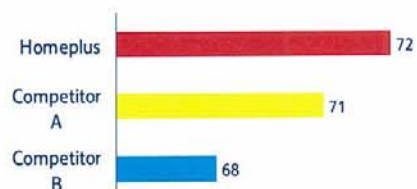
PB Quality Control



PB Quality Communication

## Strong Range & Availability

- Practical range review in display centre
  - More volume & Better presentation
- Wide PB range
  - 24,866 items, 25% Sales participation
- Higher availability than competitors
  - Satisfaction with Stock availability : 94 %  
(image tracker)



\* Source: Image tracker (Q2 '08/09)

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Major Range Change in Creative Innovation Centre

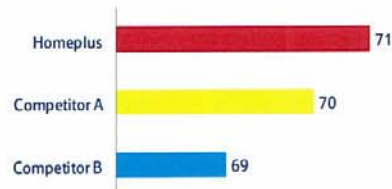


Higher Availability



## Wonderful People

- Keep No.1 service image
- Try harder for better service
  - Training staff at Service Academy
  - Mystery shopping in all stores



\* Source: Image tracker (Q2 '08/09)

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Entered "the service Hall of Fame" for 7 years consecutive Best Service award winning



Human touch customer service

Service Academy

## Face of contribution



Market  
Brand Value



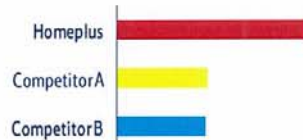
Social  
Brand Value

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## Extended education

- The World's largest Extended Education centre
  - 91 Extended Education centres
  - 350 programmes with 5,000 instructors
  - 850,000 customers annually
- Sponsorship for Community
  - Kid's national football league
  - Support students \_ art & music



\* Source: Image tracker (Q2 '08/09)

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## Green Initiatives



### eParan Children's Green Scout

- 200 Scouts Yearly (17,000 cumulative)



### Green Painting / Writing Contest with UNEP

- 27,000 Participates every Year (113,000 cumulative)

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eParan (2000)  
Green Character



### Green store plan

- Target : CO2 50% reduction with 69 green initiatives



#### • Energy Production

- Building Integrated Photo Voltaic system



#### • Energy Saving

- Ice Storage System
- LED, T5 Lamp, Highly-efficient light



#### • Together with Customers

- Bicycle Ride Campaign
- Secondary package reduction programme

## Brand value

- 94 Best awards over 9 years



## The Korea's Most Admired Company



1<sup>st</sup> in Retail Industry  
14<sup>th</sup> in All Industries

1<sup>st</sup> **SAMSUNG** Electronics

5<sup>th</sup> **LG** Electronics

7<sup>th</sup> **HYUNDAI** MOTORS

8<sup>th</sup> **SK** telecom

10<sup>th</sup> **SAMSUNG** CORPORATION



14<sup>th</sup>

**Home plus**  
**SAMSUNG TESCO**

25<sup>th</sup> **HYUNDAI** INSURANCE & FINANCIAL SERVICES

20<sup>th</sup> **SAMSUNG** LIFE INSURANCE

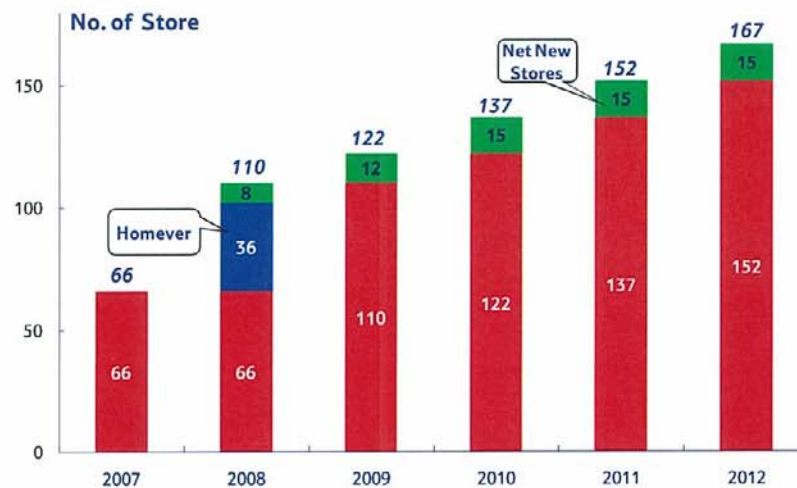
19<sup>th</sup> **KT**

17<sup>th</sup> **DOOSAN** Doosan Heavy Industries & Construction

16<sup>th</sup> **SHINHAN** BANK

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## Hypermarket roll-out plan



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## Express programme

- Compound avg. annual sales growth of 144% for past 4 years
- 5 times sales growth expected by 2012 with 571 stores



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## New retail services

- Retail Services has grown continuously since 2003

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Service Products	3	6	9	13	15	17	19	21	22	23



### Finance Service

- Car Insurance (2003)
- Credit Card (2004)
- Life Insurance (2004)
- Banking Alliance (2008)



### Telecom Service

- Mobile (2003)
- International Calling Card (2005)
- Broadband (2006)

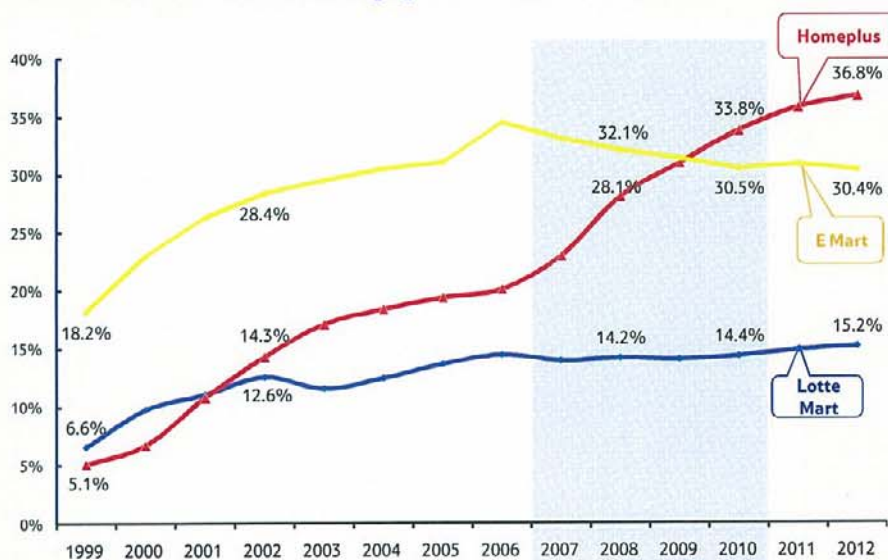


### Living Service

- ATM (2003)
- Travel (2005)
- Moving (2007)
- Rental (2008)

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## We will be leading position in 2010



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## Grocery home shopping

- Profitable grocery home shopping model proved
- Sales contribution will be 2.6% of company total in 2012
- Potential market expansion to Non-food, B2B, M-commerce & IPTV

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
No. of Stores	4	6	8	11	12	44	59	67	73	81
Sales (£m)	2.3	4.2	6.1	9.9	18.8	35.3	70.4	112.4	160.9	200.2

### [ Korea Online Market ]

CAGR 15.4% for 5 years



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## In closing

- Within 10 years Tesco Homeplus grown to No. 2 position in hypermarket sector, and is going to be leading position by 2010
- The fast growth of Express, Grocery Home Shopping and expansion of new retail services together with new hypermarket openings gives us the platform for strong future growth
- The acquisition of 36 Homever stores will give us stronger position in Seoul Metropolitan area and a real synergy opportunities in terms of commercial margin, central costs and each business unit
- The investment in supply chain infrastructure, expansion of global sourcing, and implementation of the Tesco operating model enable us to improve further on our current world class operating margin
- I believe that it is important to become an ever-lasting company by not only generating outstanding financial figures, but also building solid corporate culture and systems for sustainable growth

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