
➤ **US Home Improvement Market**

- Study of international Home Improvement Retail Models

Most low cost retailers operate discount format stores

KEY METRICS: INTERNATIONAL LOW COST RETAILERS

Retailer	Revenues	Number of Stores	Key Categories	Formats
Wal Mart	USD 285 Bn (2004 - 05) (Jan End)	~5289 (globally)	Food and Drugs, Apparel, Consumer Electronics, Home Improvement, Health and Beauty, Toys and other categories	Discount Stores, Super Centre, Neighborhood Stores and Cash and Carry
Aldi	USD 40 Bn (2003)	4000 (globally)	Food and Grocery - Core Category Textiles, Electronic equipments, garden supplies, houseware etc	Discount stores
Loblaw	USD 20.2 Bn (2004)	1000	Grocery, perishables and general merchandise	Supermart, Hypermart, Discount stores, Warehouse and Cash and Carry
Casas Bahia	USD 2.3 Bn (2003)	350 (2003)	Furniture and consumer electronics	-

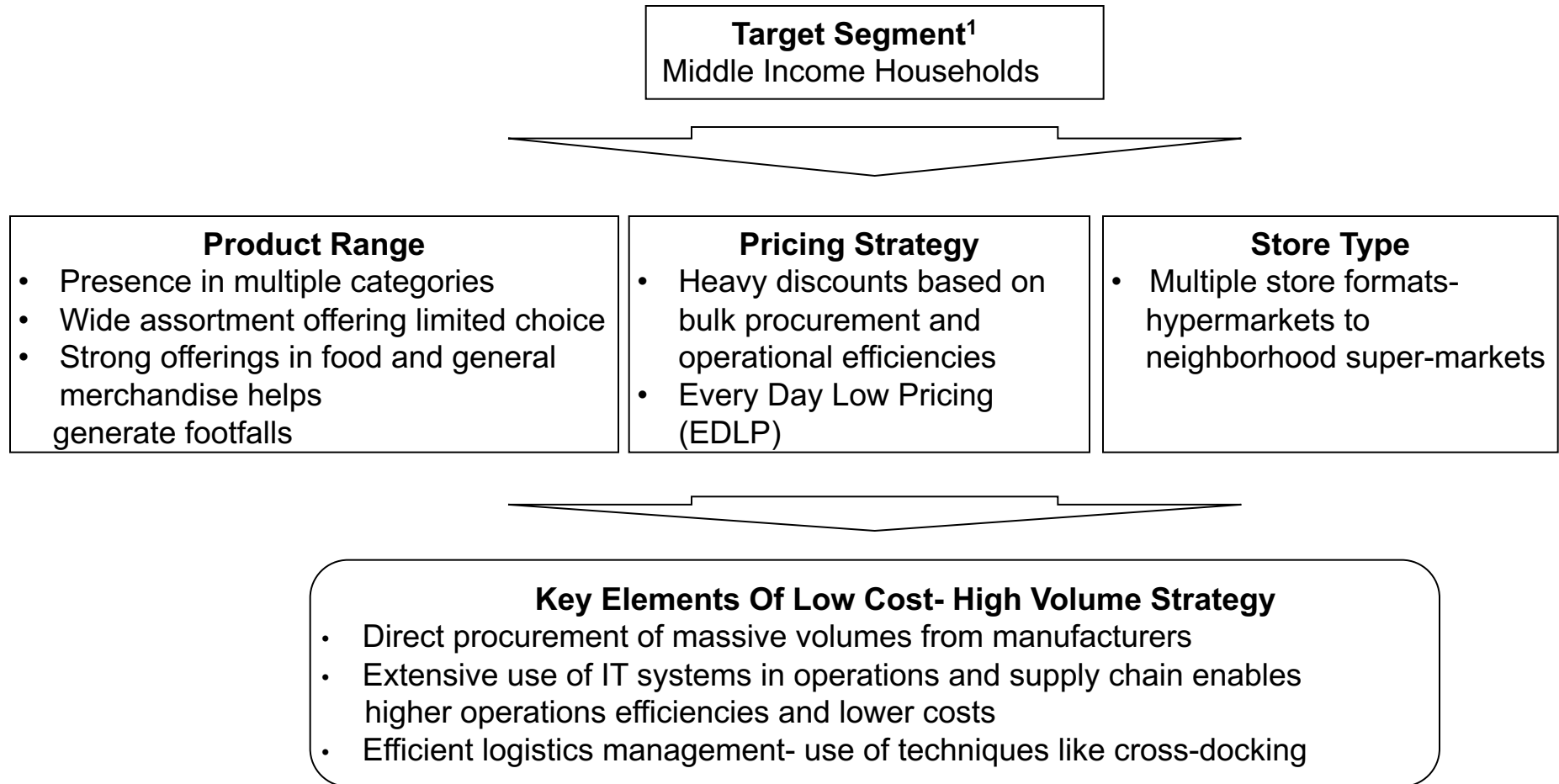
Note:

1. Refer to annexure 4 for details

Source: Company websites and annual reports, Business Press

Wal-Mart targets middle income households through a Every Day Low Pricing strategy enabled through centralized procurement of large volumes, efficient logistics management and low cost operations

WALMART : BUSINESS MODEL



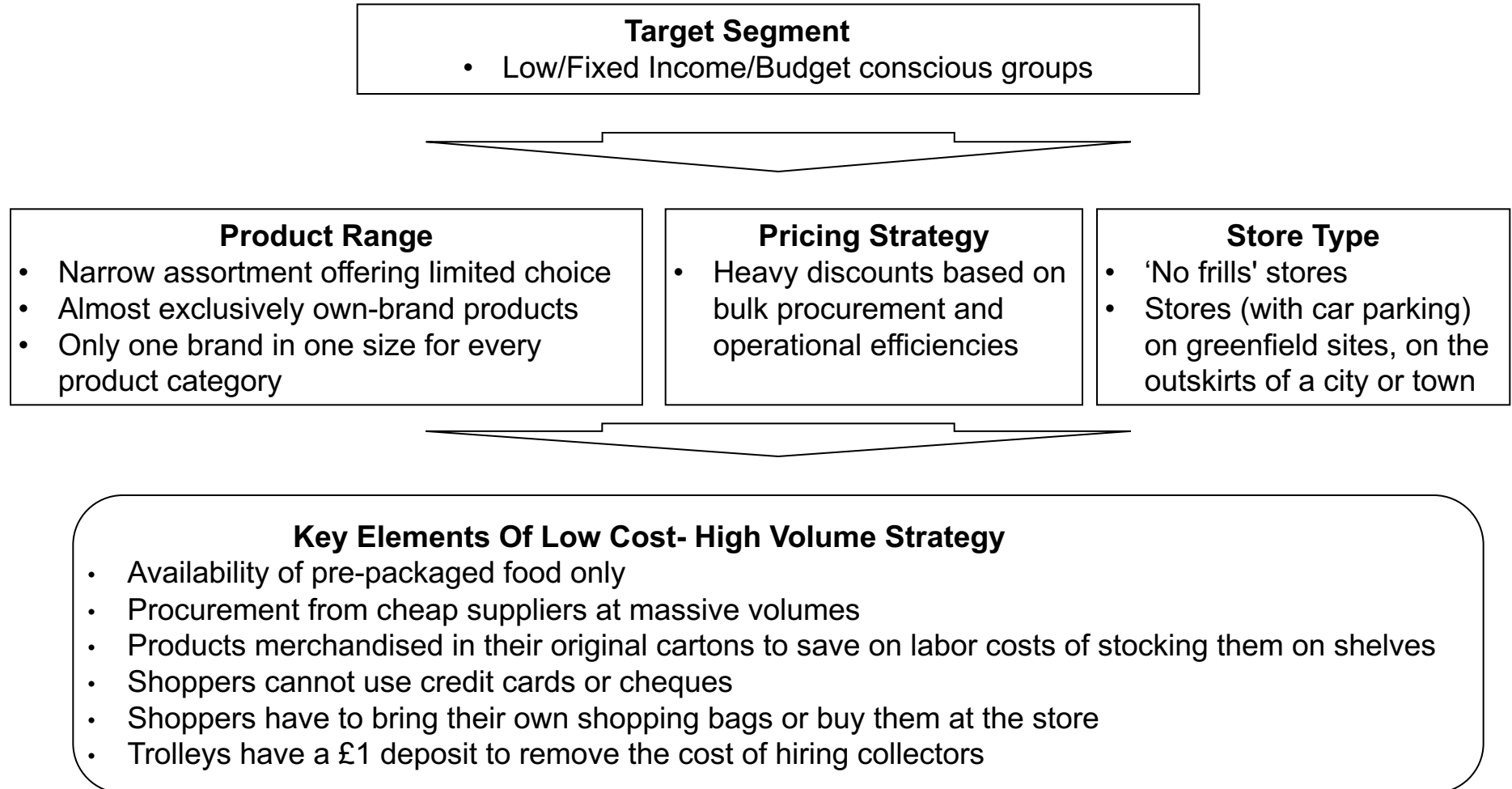
Note:

1.Walmart targets wholesalers and corporates through SAM's Club

Source: Secondary sources, Internal analysis

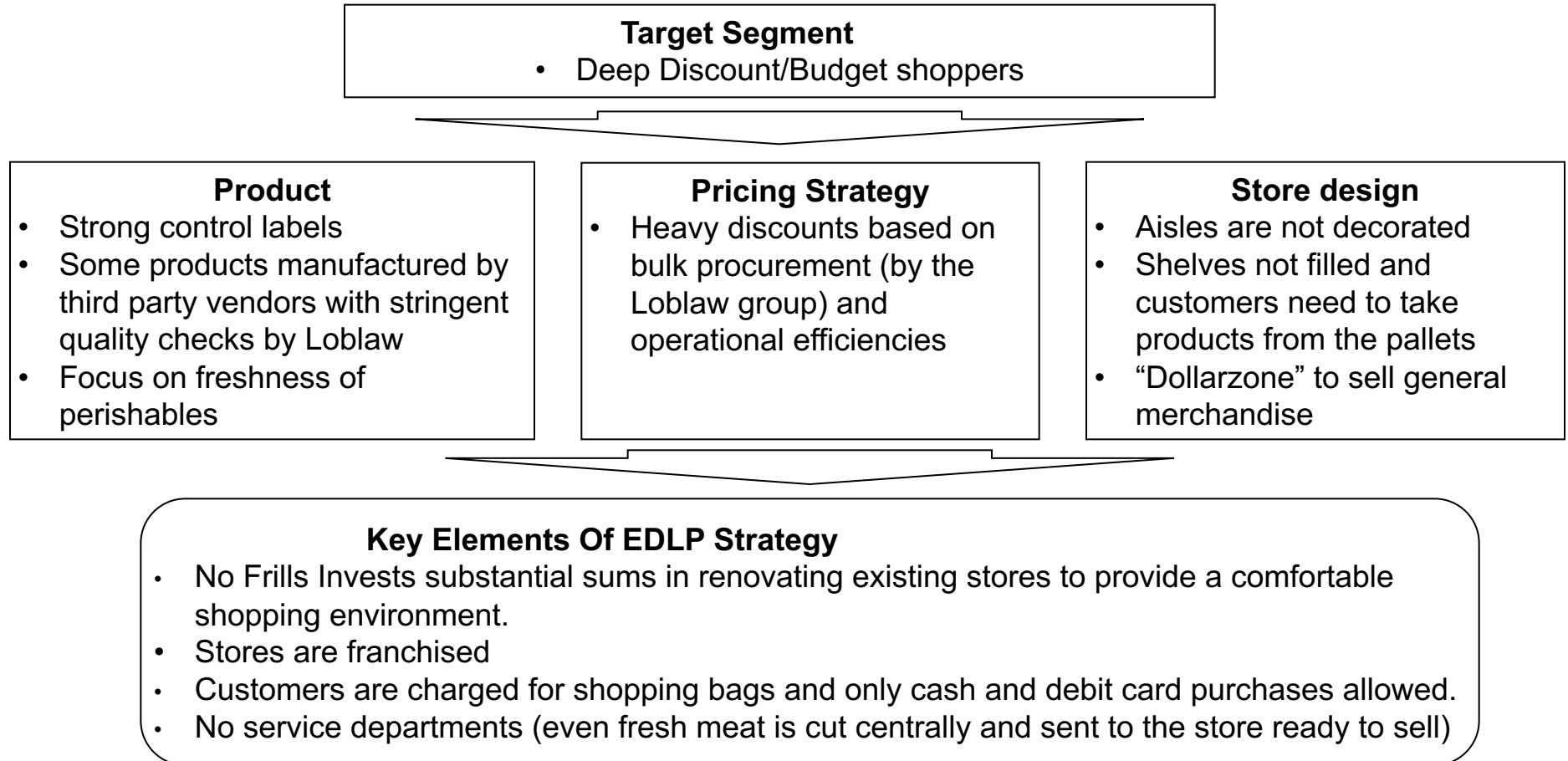
ALDI's narrow product range, heavy discount pricing and low cost orientation are the key elements of its retail business model

ALDI : BUSINESS MODEL



Loblaw No Frills stores follow an Every Day Low Price strategy which are targeted at budget shoppers

LOBLAW : BUSINESS MODEL



Casas Bahia targets the BOP customer segment, who are attracted to the financing options provided by them

CASAS BAHIA : BUSINESS MODEL

Target Segment

- Low Income groups (\$ 700 per month households)
- Cannot avail credit from other sources
- Representing 83.6% of the population and 79% of the households
- Have high penetration of furniture and consumer electronics goods

Product Range

- Low end assortment in national and international brands

Pricing Strategy

- Competitive pricing without discount offers

Store Location

- Proximity to low income urban populations

Services offered

- Credit
 - Low installments spread over longer durations
 - Credit rating and credit counseling to avoid over debting
 - Credit refusal rate: 16%, credit sales: 90% and default rate of 8.5%
- Home delivery
 - Home delivery and installation (also acts as verification for proof of residence)

Competitive pricing ,strong private label strategy, centralized procurement and distribution and low cost operations enable international retailers to successfully target budget conscious households

INTERNATIONAL RETAILERS: KEY LEARNINGS

Product Range

- Food and general merchandise are the core offerings used to generate traffic
- Limited assortment carried by smaller players
- Hypermarkets like Walmart's carry multiple categories but limited assortment in each category

Pricing Strategy

- Focus on providing competitive prices either through
 - Deep discount strategy, or
 - Every Day Low Pricing(EDLP)

Private Label Strategy

- Strong private label strategy across multiple categories to provide competitive prices

Sourcing and Supply Chain

- Centralized procurement to avail substantial supplier discounts
- Central warehousing and use of regional distribution centres for efficient logistics

Operations Management

- Tight control over manpower expenses
- Focus on maintaining low cost operations
 - No/low use of credit cards
 - Charging consumers for carry bags

Credit policies

- Develop in-house credit rating systems to enable provision of credit to lower income classes

Note:

1. Refer to annexure 4 for details

Source: Secondary Sources, Internal Analysis

INTERNATIONAL LOW COST RETAILERS

WALMART : A SNAPSHOT

Revenues

- Sales of USD 256 bn globally in 2003¹
- Global retailer with presence in US, Canada, UK, Germany, Japan, China, Korea , Brazil, and Mexico
- US accounts for ~80% of the revenues

No. of formats and stores

- Uses multiple store formats across ~3700 stores
 - Discount Stores
 - Supercentres
 - Neighbourhood stores
 - SAM's Club -Targets wholesalers and corporates
- } Targets Households

Number and type of SKUs

- SKU range from 28000 in neighborhood markets to 100,000 in Supercentres
- Limited offering of 4000 SKU's in SAM's Club

Products

- Food and Drugs-33%
- Apparel-18%
- Consumer Electronics-9%
- Home Improvement-20%
- Health and Beauty Aids-7%
- Toys-6%
- Others-7%
- Focus on asset turns than margins

Walmart is the largest retailer in the world with revenues of USD 256 bn in 2003 from ~3700 stores

Note

1. Sales in FY'04 is USD 289 bn

Source: Secondary sources, Internal analysis

WALMART OVERVIEW

Walmart Revenues 2003

Country	Revenues (USD Bn)
USA	208
UK	18
Mexico	11
Japan	11
Canada	6
Germany	2
Brazil	1
China	~0
Korea	~0
Total	256

US market revenues and market share by category

Category	% of Walmart Sales	Walmart US Market Share
Apparel	18%	10%
Food and Drug	33%	16%
Consumer Electronics	9%	13%
Home Improvement	20%	4%
Health and Beauty Aids	7%	NA
Toys	6%	21%
Others	7%	NA

~7% of overall retail market

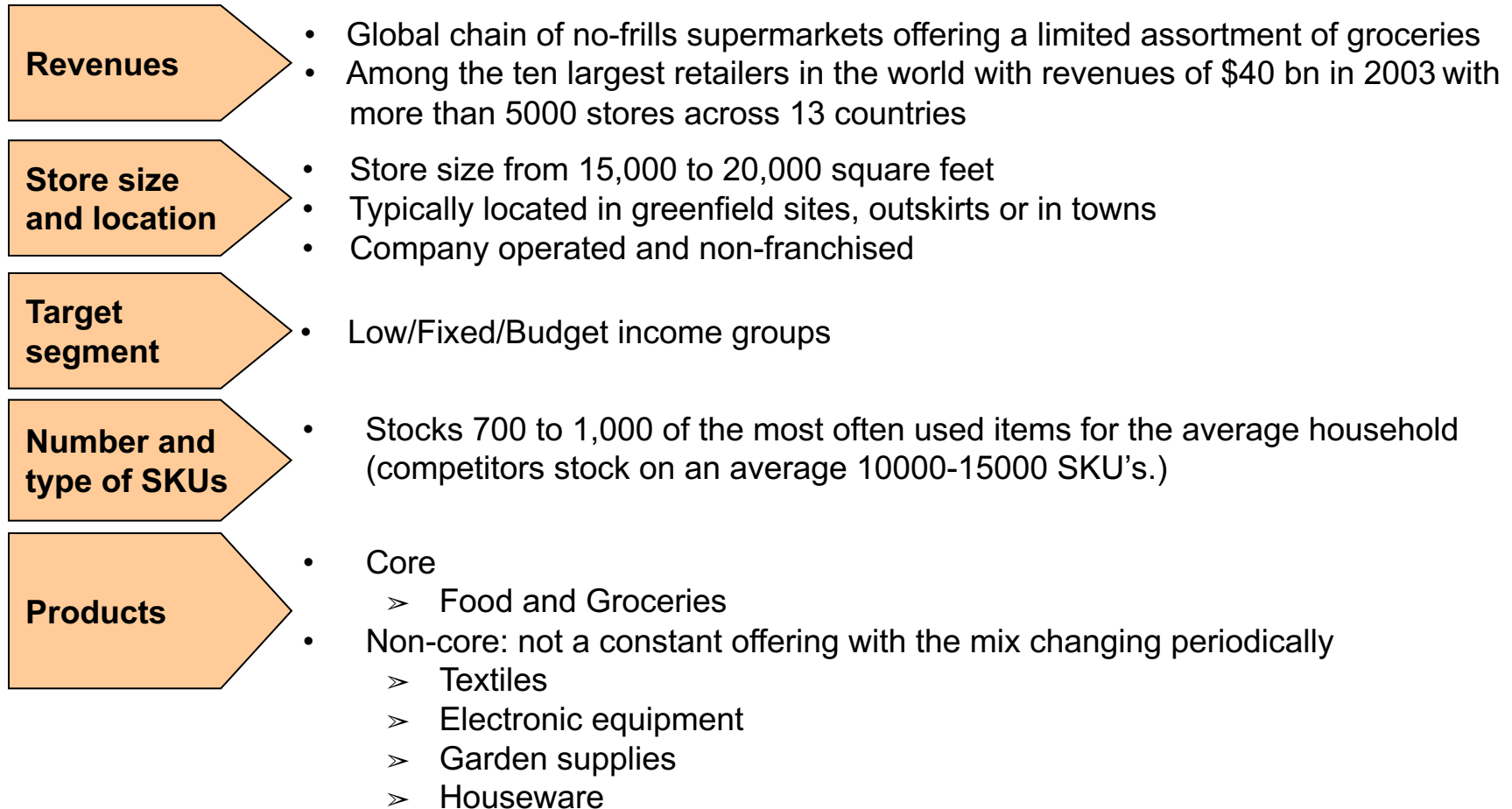
Walmart is the largest retailer in the US with ~7% share of the overall US retail market

WALMART STORE FORMATS

Format	Discount Stores	Super Centres	Neighborhood Markets	SAM's Club
Value proposition	Variety of quality, value priced general merchandise at convenient locations	One stop family shop for food & general merchandise	Convenient shopping for groceries and household products	Large volume items at value prices
Target segment	Households			Wholesalers & corporates
Size ('000 sq. ft.)	40 – 125	100 – 250	40 – 50	100 – 130
SKUs	80,000	1,00,000	28,000	4,000
Associates / Store	150	400	90	125
Estimated EBIT Margin	7.4%	7.6%	NA	3.2%
No. of Stores in USA (2004)	~1500	~1500	65	>500

Walmart uses multiple formats to increase reach to its target segment

ALDI: A SNAPSHOT



ALDI is a leading grocery retailer that targets low, fixed, budget income customers

ALDI: A SNAPSHOT (CONTD.)

Private Label Strategy

- National brands are 15% only, while private labels are the majority (85%)
- Price differential with respect to the branded labels
- Quality of private labels stays comparable to that of national brands
- Made by well-known brand manufacturers and shipped in different packaging

Low Manpower costs

- Products, merchandised in their original shipping cartons to save on labor to stock shelves
- Employs fewer workers than comparable supermarkets partly because it's closed at night, on Sundays and for all major holidays
- By having shoppers "rent" their grocery carts, ALDI doesn't need to employ clerks for rounding up carts

Pricing Strategy

- Overall cost leadership
- EDLP (Every-day Low-price) pricing strategy for food and non-food

ALDI stocks strong "own label" products and keeps employee costs low to follow an Every Day Low Price strategy

LOBLAW: A SNAPSHOT

Revenues

- Large Canadian player with revenues of US \$20.2 billion in 2004
- Holds 32% of the Canadian retail grocery market

Store formats

- Uses multiple store formats across 1000 stores with a mix of ownership and franchisees
- No frills format store carries limited assortment and follows deep discounting pricing

Store size and location of No Frills format

- Store size from under 20,000 square feet
- Located in older locations that could no longer support a conventional supermarket

Target segment

- Low/Fixed/Budget income groups

Product offering

- Grocery(75%¹), Perishables(20%¹) and general merchandise (5%¹)
- Non Core products include stationary, toys, electrical and household items
- Control label products manufactured under contract by third-party vendors

Pricing and private label strategy

- Deep discounting in food and grocery for building traffic
- Dollar pricing in non core products
- Focus on control label products manufactured under contract by third-party vendors

Loblaw is Canada's largest food retailer with revenues of US\$20 billion in 2004

LOBLAW'S SIX KEY STORE FORMATS

Format	Fascia (s)	Price Index	Ownership	Store Size	# of SKU	Objective
Conventional Supermarkets	Loblaws, Zehrs, Lucky Dollar, Provigo, +Others	100	Corporate, Franchised & Independent	18,000 – 45,000 sqft	10,000-15,000 sku	<ul style="list-style-type: none"> Urban locations where space is expensive and competition limited; store layouts vary based on site constraints and local demographics
Fresh Box	Loblaws Provigo	100	Corporate	25,000 – 45,000 sqft	4,000+sku	<ul style="list-style-type: none"> Conversion of conventional supermarket to a strong perishables offer to attract regular daily/weekly shopping trip
Limited Assortment	No Frills	80	Franchised	Under 20,000 sqft	20,000-30,000 sku	<ul style="list-style-type: none"> Located in older locations that could no longer support a conventional supermarket; adding dollar store sections
Superstores / box Warehouse	Loblaws Extra Foods Maxi	85	Corporate	60,000-80,000 sqft	50,000-70,000 sku	<ul style="list-style-type: none"> Value through lower prices; warehouse racking; bag your own groceries; pallet shelving
Supercentres	RCSS Maxi&co	85	Corporate	85,00-150,000 sqft	3,500 sku	<ul style="list-style-type: none"> Superstore offer plus extensive general merchandise
Wholesale club	RCWC	80	Corporate	60,000 +sqft		<ul style="list-style-type: none"> Offer club store shopping to businesses and households

Loblaw currently operates six store formats under numerous banners

CASAS BAHIA: A SNAPSHOT

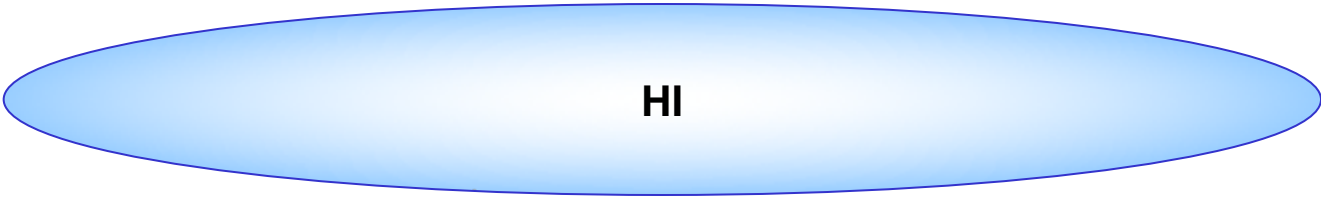
Company Size	<ul style="list-style-type: none">• 350¹ stores across 121 cities• Open ~ 25 stores per year
Product Categories	<ul style="list-style-type: none">• Furniture: 13%• Television: 14%• Audio products: 10%• Phones, Computers and appliances: 45%
Footfalls and Conversion	<ul style="list-style-type: none">• 6 million footfalls/ month• Conversion rate: 15%• Average ticket size: USD 210
Credit Rating	<ul style="list-style-type: none">• Innovative credit rating system• Need no income proof for credit up to USD 225• Cross selling after payment of 50% of last credit
Financial Performance (FY2003)	<ul style="list-style-type: none">• Revenue : USD 2.3 Bn<ul style="list-style-type: none">> 45% (YOY Sales Growth)> 14.9% (Comparable store growth)• Inventory Turns : ~ 9

Casas Bahia is the largest furniture and electronic goods retailer in Brazil with sales¹ of US\$ 2.3 billion

Note:

1: For year 2003

Source: Michigan Business School Research; Euromonitor



The US Home Improvement (HI) market is estimated at \$336.8 bn and has two broad customer segments : Do-It-Yourself and Do-It-For-Me

US HOME IMPROVEMENT MARKET : SNAPSHOT

- **Market Size : 336.8Bn (2003)**
- **Growth Rate : 5.7% (1995-2003)**

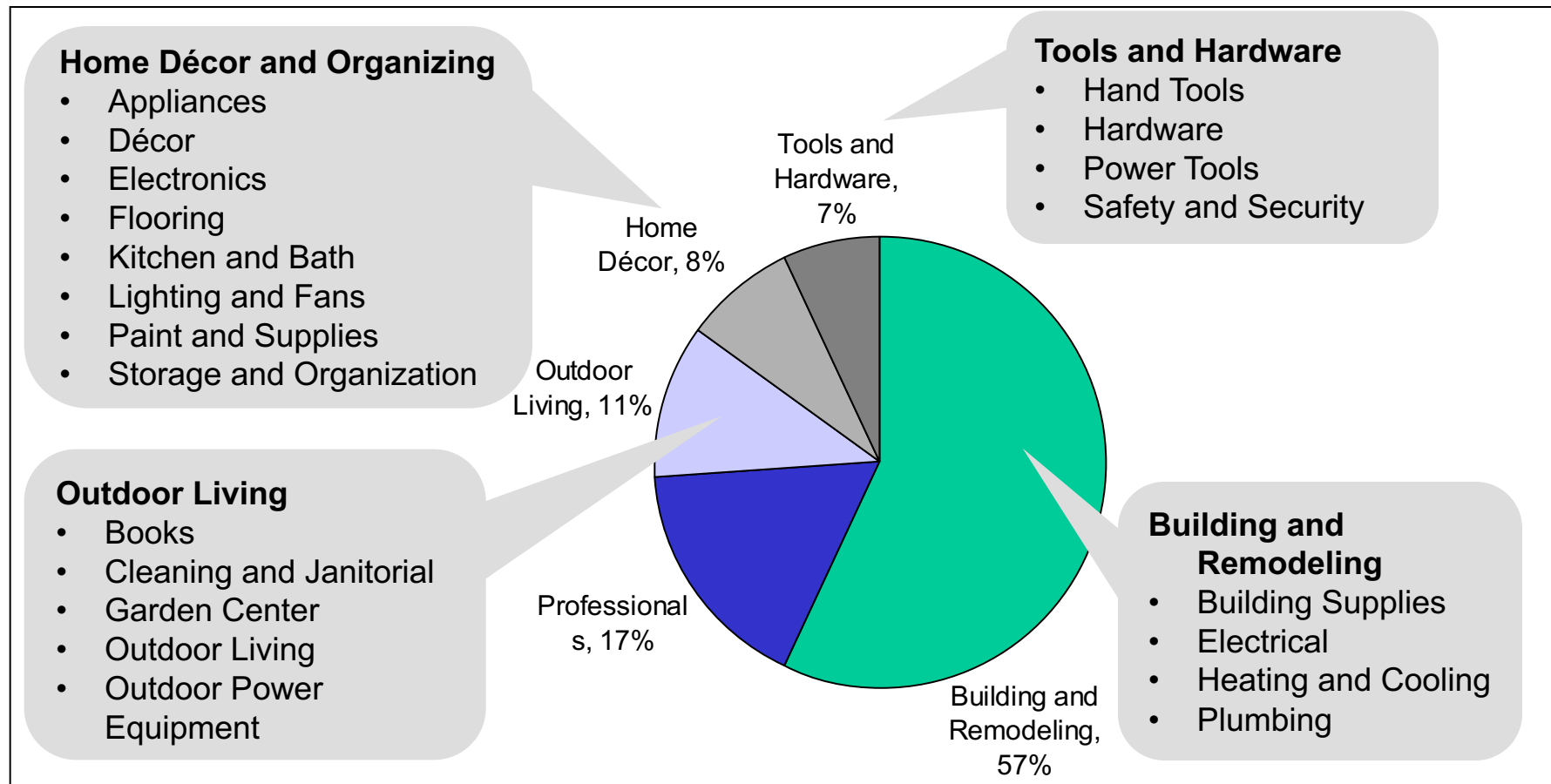
- Macro Economic Trends Propelling HI Sales:**
- Continued Increase in Household Income
 - Low Interest Rates
 - Low Unemployment Rates
 - Aging of Housing Stock : Need for Renovation
 - Rising Rates of Home Ownership

Consumer Segment	Description	Target Customer Profile	Market Size 2003 (USD Bn)	Relative Share
Do-it-Yourself (DIY)	Customers who execute their own projects.	Age Group: 18-44 Years Annual Income: USD 80,000	160.8	47.75%
Do-It-For-Me (DIFM)	Customers who use professionals to execute their projects but buy HI materials themselves.	Age Group: More than 45 Years Annual Income: More than USD 80,000	118.8	35.25%
Professionals	Professionals who buy materials for professional uses.	Business Customers	57.2	17.0%

Source: SG Cowen Research; Internal Analysis

The US Home Improvement market is concentrated in four broad categories

US HI MARKET : PRODUCT CATEGORIES



Note: The Professional Market includes all products sold to Business Customers

Source: SG Cowen Research; Internal Analysis

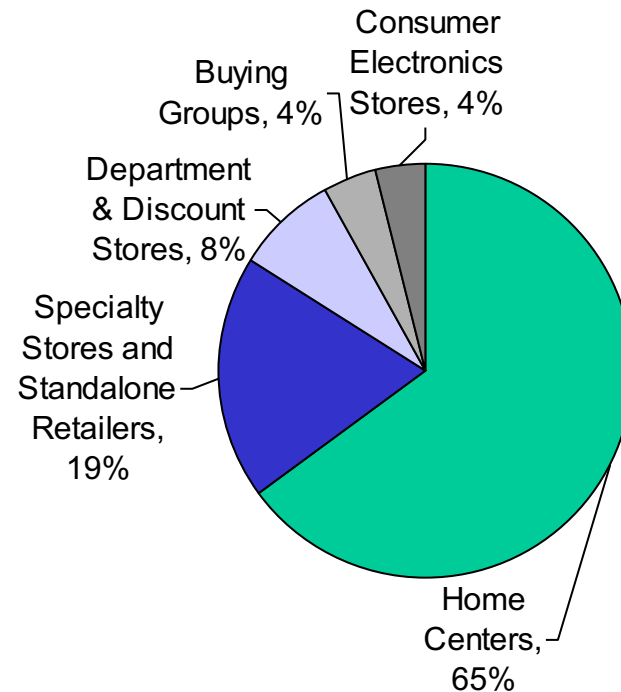
Home Centers are the primary distribution channel in the home improvement market

US HI MARKET : RETAIL FORMATS

Multiple Home Improvement Retail Formats Co-exist

- Home Centers and other Building Materials Dealers e.g. Home Depot, Lowe's
- Department and Discount Stores e.g. Wal-Mart, K-Mart, Sears
- Hardware Stores e.g. Ace Hardware, True Value
- Consumer Electronics and Appliance Stores
 - Best Buy, Circuit City
- Standalone and Specialty Stores
 - ◆ Paint and Wallpaper Stores
 - ◆ Lawn and Garden Equipment Suppliers
 - ◆ Furniture, Furnishings and Floor Covering Stores
 - ◆ Other Specialty Stores e.g. Williams Sonoma, Ikea, Bed Bath and Beyond

HI Sales by Retail Format



**Overall Market Size : \$ 337
Bn (FY'04)**

Source: Bear Stearn and Co. Inc Research; Internal Analysis

Large box retail formats (>100,000 Sq Ft.) dominate the US HI market

TOP US HI RETAILERS : KEY INFORMATION

Retailer	No. of Stores (2003)	Average Store Size (sq feet)	Total FY'03 Sales (USD Million)	Market Share	Sales / Square Foot (USD/sq ft)
Home Depot	1716	107,000	64800	19.2%	371
Lowe's	952	114,000	30800	9.1%	283
Wal-Mart	4906	NA ¹	13000 ²	3.9%	NA ¹
Menard Inc.	170	NA	6000	1.8%	NA
Bed Bath and Beyond	629	32500	4478	1.3%	219
84 Lumber Company	528	50,000-90,000	3460	1%	72
Ace Hardware	4800	17,000	3160	0.9%	160 ³
True Value	6200	NA	2024	0.6%	NA
IKEA (2004)	202	227,000	1700	0.5%	338
Home Goods	876	28000	876	0.3%	171.89

1- Space allocated to Home Improvement not available

2- Estimated home improvement sales

3 - Company allows retailers to stock other products and provide independent services

Source: Company websites; Internal Analysis

✓ US Home Improvement Market

➤ **Study of international Home Improvement Retail Models**

Home Depot is the largest Home Improvement retailer in the US with over 1700 stores in North America generating annual revenues of ~ USD 65 bn in 2003

HOME DEPOT: A SNAPSHOT

Number of Stores

- Total 1716 stores (US: 1589, Canada: 102, Mexico: 18, Puerto Rico: 7)

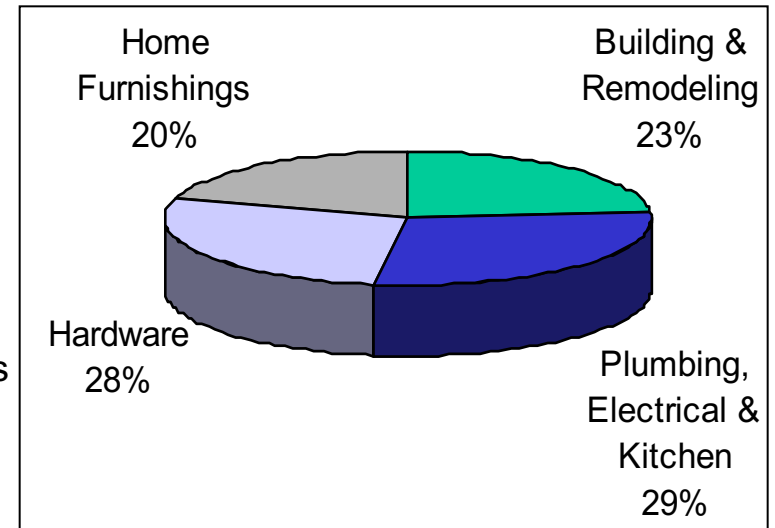
Product Categories

- Building and remodeling
- Plumbing, electrical and kitchen
- Hardware
- Home furnishings

Financial Performance (FY2003)

- Revenue : USD 64.8 Bn
 - 11% (YOY Sales growth)
 - 9.5% (YOY Square footage growth)
 - 6% (Same store sales growth)
- PAT : USD 4.3 Bn
- ROCE : 17.3%
- Number of days of sale inventory:50 days

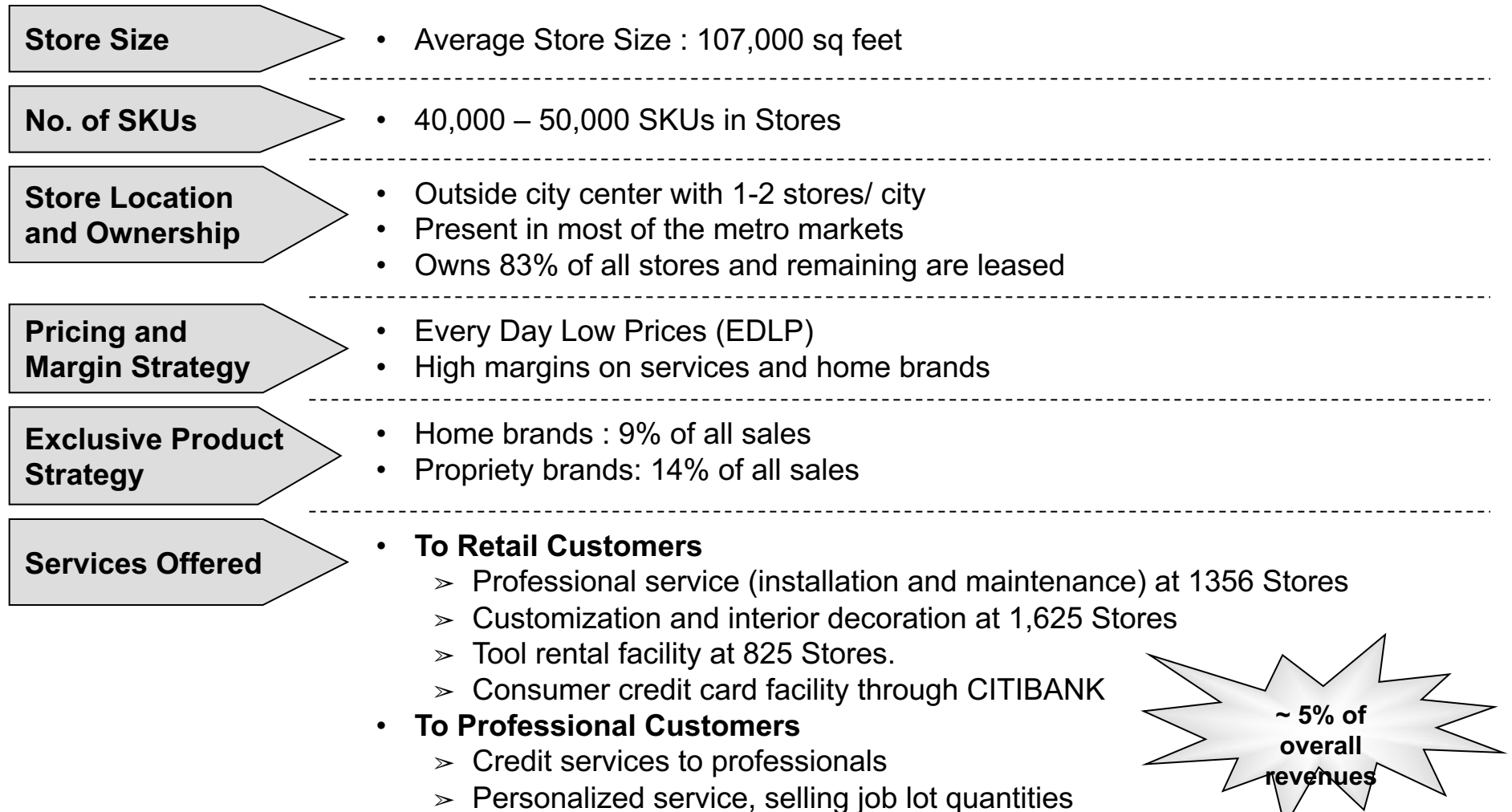
Revenue contribution by Product Category



Source: SG Cowen Research; Krause Fund Research; Annual Report; Internal analysis

Home Depot's business model is characterized by large box format, suburban store location, store ownership, EDLP pricing and use of services and home brands as margin enhancers

HOME DEPOT : BUSINESS MODEL



Source: SG Cowen Research; Yahoo Finance, Internal analysis

Home Depot is using multiple levers to grow – expand geographically, drive same store sales and acquire smaller companies

HOME DEPOT: STRATEGIC INITIATIVES

New Stores/Store Concepts

- New stores : 175 Stores in the US, 14 in Canada and 9 in Mexico.
- Exploring new store concepts
 - EXPO Design Centers, Floor Store, Landscape Supply store: Exclusive lawn and garden accessories sales

Increasing Same Store Sales

- Professional service: interior decoration service, bathroom and kitchen remodeling
- Installation and maintenance services
- Emphasis on proprietary product sales – John Deere, Thomasville, RIDGID, Behr
- Entering into garden and nursery business.

Inorganic Growth

- Acquiring strategic players to strengthen sourcing, enter premium categories and offer newer services
 - Georgia Lighting, YOW, Arvada Hardwood Floor Co.
- In Mexico, acquired Total HOME and Del Norte and converted to Home Depot

Increasing International Presence

- Increasing international presence (restricted only to N America)
 - Canada – Total 102 Stores
 - ◆ Market entry through own stores
 - Mexico – Total 18 Stores
 - ◆ Acquisition of existing players has been the key market entry strategy
 - Puerto Rico – Total 7 stores

Home Depot uses a centralized procurement model with a 60:40 mix of direct shipment to store and re-distribution from DCs

HOME DEPOT : OPERATIONS OVERVIEW

Sourcing and Distribution

- Centralized procurement and distribution
- 8-9% of all products imported from over 500 suppliers located across 40 countries
- 10 import distribution centers and 30 lumber distribution centers
- 40% shipments through its own network and 60% through direct shipments

IKEA is the leading furniture retailer in the world with over 200 stores in 32 countries, generating annual revenues of over USD 15 bn in 2004

IKEA: A SNAPSHOT

Number of Stores

- Total 202 stores

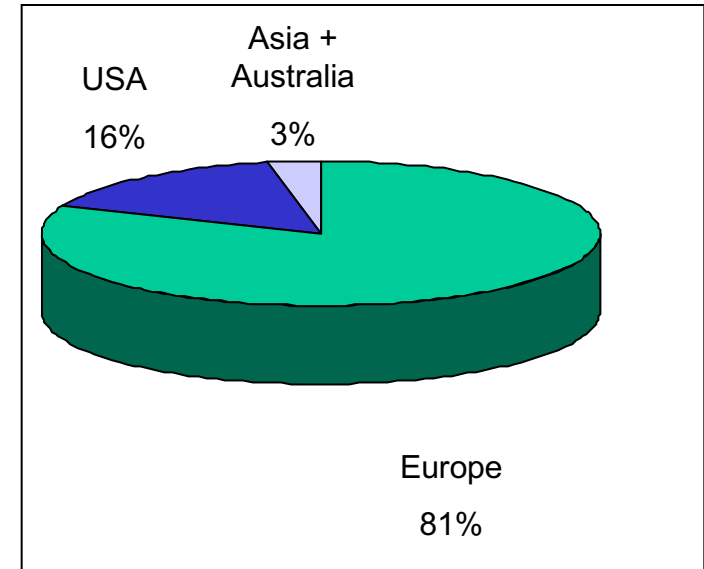
Product Categories

- Furniture and organizers
- Furniture care and accessories
- Workspace furniture and accessories
- Lighting, decoration, tableware and textiles
- Floors, rugs and mats
- Pet Housing - kennels
- Kitchen and cookware

Financial Performance (FY2004)

- Revenue (2004) : USD 15.5 Bn (USD 1.7b in the US)
 - > 7.7% (Y-O-Y sales growth)

Revenue breakup by region (FY2003)



IKEA's business model is characterized by large box format, out of city centre store location and EDLP pricing

IKEA : BUSINESS MODEL

Store Size

- Average store size : 227,000 sq feet
- Size range: 15,000sq feet – 565,000 sq feet

No. of SKUs

- 10,000 SKUs of which 5000 are available at all stores and rest customized to market

Store Location and Ownership

- Presence primarily limited to metro markets
- Mainly outside the city center (5-50 miles from city center)
- 1-4 Stores / City
- Owns 180 stores in 23 countries and 22 franchised outlets in 14 countries.

Pricing and Margin Strategy

- Every Day Low Prices (EDLP)
- Price modulation as per local market

Services Offered

- Enhancing shopping experience
 - Children's IKEA – play areas within the store
 - In store restaurant service
 - 30 day exchange/ cash return policy
- Assembly and installation (for certain product categories)
- Home furnishing and kitchen planning consultancy
- Office planning for workplace
- Catalog sales and eCommerce portal
- Computerized furniture customization

IKEA has used ownership and franchise models to enter international markets, localize product mix and price modulation to succeed in emerging markets

IKEA: STRATEGIC INITIATIVES

New Stores

- Plans to open 5 new stores per year
 - Large box format
 - Encouraging franchised store openings
-

Increasing Same Store Sales

- Customizing product assortment as per local market and season
 - Enhancing shopping experience
 - Increasing the number of check-out lanes
 - Model homes
 - Interior decoration service
-

Increasing International Presence

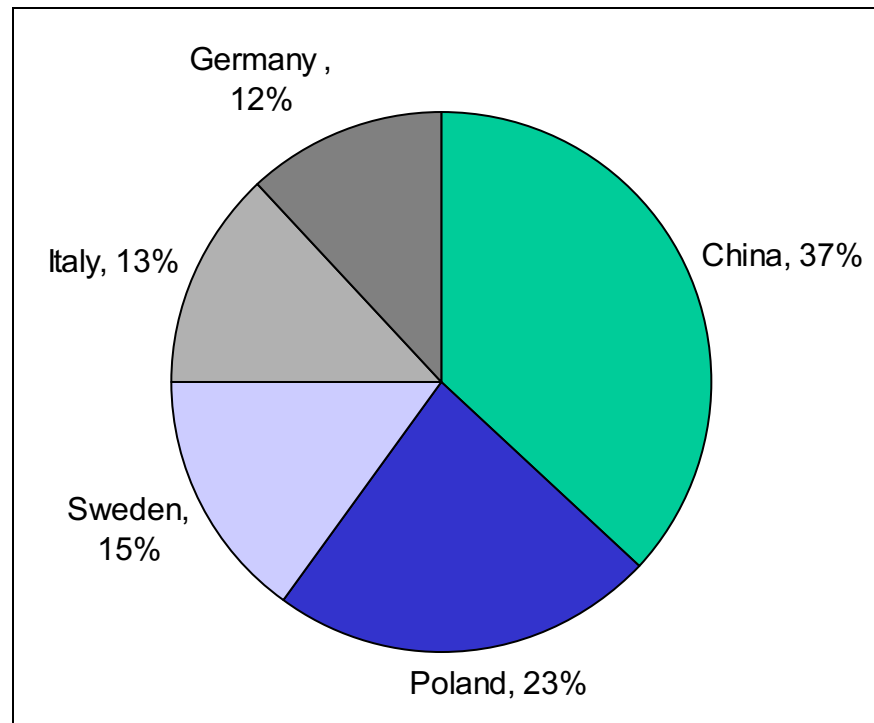
- Presence in 32 countries
- Focus on China and Russia : Plans 10 new stores in China in the next six years
- Entry to international markets is through a combination of own stores and franchise
- Customize product mix and price points to local market trends

IKEA uses a centralized procurement model but a decentralized distribution to gain a resilient assortment

IKEA : OPERATIONS OVERVIEW

Sourcing and Distribution

- IKEA has around 1,500 suppliers in 55 countries.
- Centralized sourcing but decentralized distribution
- 27 distribution centers across 16 countries



Sourcing Countries

Source: Company website; Internal analysis

Lowes is the second largest home improvement retailer in the world generating over USD 30 Bn in revenues

LOWE's: A SNAPSHOT

Number of Stores

- Total 952 Stores

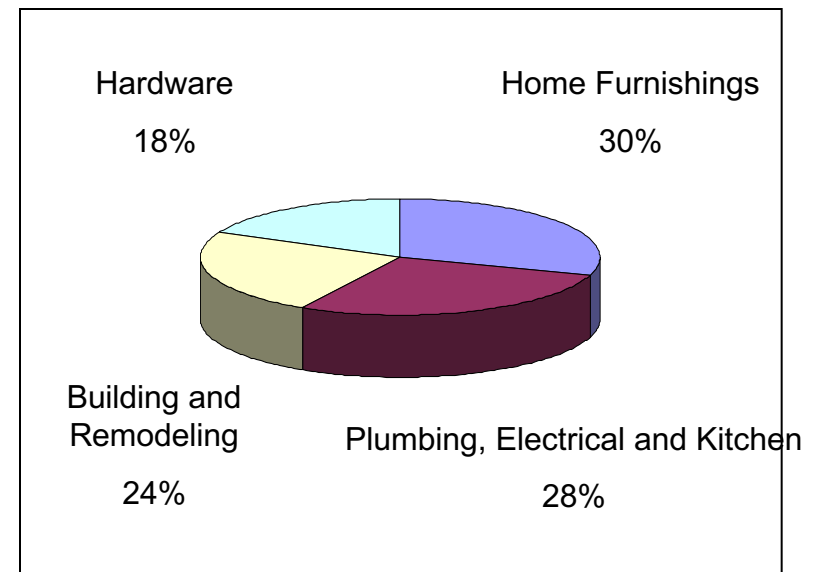
Product Categories

- Building and Remodeling
- Plumbing, Electrical and Kitchen
- Hardware
- Home Furnishings

Financial Performance (FY2003)

- Revenue : USD 30.8 Bn
 - >18% (Y-O-Y Sales growth)
 - >14% (Y-O-Y Square footage growth)
 - >6.7% (Same store sales growth)
- PAT : USD 1.87 Bn
- ROCE:13.9%
- Number of days of sale inventory: 54 days

Revenue Contribution of each Product Category



Lowe's business model is characterized by large box format, store ownership, EDLP pricing and use of services as margin enhancers

LOWE'S : BUSINESS MODEL

Store Size

- Average store size : 114,000 sq feet
 - 116,000 sq ft - large metros
 - 94000 sq ft -small towns1
- Total square footage : 109 m sq ft
- Completely graduated from medium and small size formats to large box format in 2000

No. of SKUs

- 40,000 SKUs in stores and over
- 500,000 SKUs in the online special order system

Store Location and Ownership

- Geographic concentration in the US east coast
- 1-2 stores/ city located at suburban and urban locations (shopping malls)
- 79% of stores are company owned and remaining are leased

Pricing and Margin Strategy

- Every Day Low Prices (EDLP)
- High margins on services and home brands (10% -15%)

Services Offered

- To Retail customers
 - Installation and maintenance
 - Customization and interior decoration
 - Tool rental facility
 - Consumer credit card facility through GE Money Bank
- To Professional Customers
 - Credit services to professionals through GE Capital Finance
 - Personalized service, selling job lot quantities

Lowe's uses a centralized procurement model with an equal mix of direct shipment to store and re-distribution from distribution centers

LOWE'S : OPERATIONS OVERVIEW



Sourcing and Distribution

- Nearly 10-15% of all procurement sourced globally.
- Supplier base of over 7000 with no vendor supplying more than 4% of total purchases.
- Equal mix of direct shipment by vendors and shipment through RDCs
- Distribution network: Nine regional distribution centers (RDCs)

Lowe's has used multiple levers to grow – expand geographically, drive same store sales, focus on women customers and acquire smaller companies

LOWE'S: STRATEGIC INITIATIVES

New Stores

- Plans to open 150 stores in 2005
- Shifting concentration from the east coast to all major markets

Increasing Same Store Sales

- Enhancing shopping experience:
 - Focusing on product innovation aimed at women customers
 - Professional service: paint calculation, installation demonstration and guides
 - Constantly changing store layout to provide new experience each visit.
 - Interior decoration service
 - Improving the proportion of full time staff to provide personalized customer service
- Product assortment:
 - Differentiated merchandising by adding superior quality and diversified product range at same price points
 - Introducing middle and upper price point products while maintaining the entry level price point products
 - Introducing proprietary products

Inorganic Growth

- Acquired Eagle Hardware and Garden in 1998 to strengthen sourcing, enter west coast market, acquire stores at premium locations

Source: SG Cowen Research; Business Week Report, Internal analysis

Wal-Mart has successfully used the discount store channel to gain share of the home improvement market

WAL-MART: A SNAPSHOT

Number of Stores

- 4906 Stores (3551 stores in the US)
-

Product Categories and Range

- Lawn furniture and furnishings
 - Grill
 - Selected hardware and other low assortment products
-

Financial Performance (FY2003)

- Revenue from home improvement sales : USD 13 Bn
- Market leader in the furniture market with 15% market share
- Significant share in the kitchenware category

Wal-Mart's HI business model is characterized by mass market low end product assortment combined with EDLP pricing as volume enhancer

WAL-MART : BUSINESS MODEL

Store Size

- Average store size : 127,500 sq feet (space dedicated to home improvement products not available)
- Combination of large box and mid size formats

No. of SKUs

- Constraint in dedicating square footage to home improvement products limits the no of SKUs offered in this category

Store Location

- Located at suburban locations

Pricing and Margin Strategy

- Every Day Low Prices (EDLP)
- Caters to mass market, low end furniture and furnishing

Bed Bath and Beyond is a leading specialty home improvement retailer providing complete home furnishings product range in the mid size store format with sales turnover of ~ 4.5Bn

BED BATH AND BEYOND: A SNAPSHOT

Number of Stores

- 629 Stores

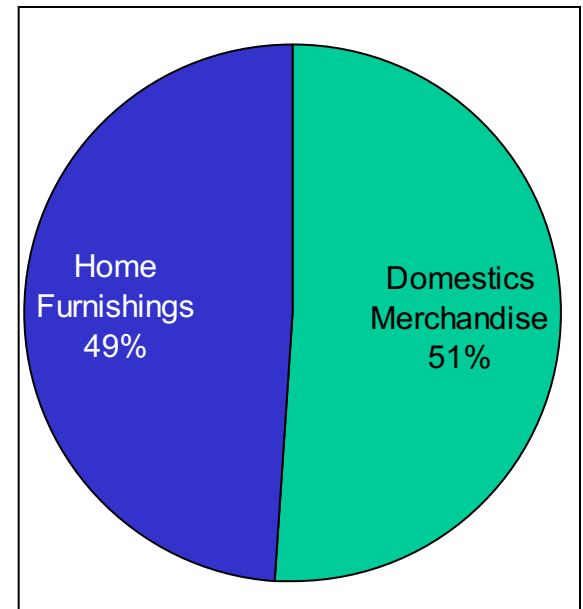
Product Categories

- Domestic Merchandize
 - Bedding and bed linen
 - Bath accessories
 - Kitchen textiles
- Home Furnishings
 - Bath hardware and kitchen-ware
 - Table tops and home decor
 - Organizing and outdoor living
 - Specialty

Financial Performance (FY2003)

- Revenue : USD 4.48 billion
 - 22% (Y-O-Y sales growth)
 - 18.6% (Y-O-Y square footage growth)
 - 6.3% (Same store sales growth)
- PAT : USD 399 million
- ROCE : 18.6%
- Number of days of sale inventory: 81 days

Revenue by product category



Bed Bath and Beyond's business model is characterized by mid size format, out of city centre store location, EDLP pricing and use of services and home brands as margin enhancers

BED BATH AND BEYOND : BUSINESS MODEL

Store Size

- Average store size : 39,500 sq feet

No. of SKUs

- Total: 30,000 SKUs in stores

Store Location and Ownership

- Located in the suburban locality
- Most of the stores are leased.
- Greater concentration in the US north east.

Pricing and Margin Strategy

- Every Day Low Prices (EDLP)
- High margins on private labels

Services Offered

- In-store service in selecting from the assortment range
- Short checkout lanes
- Focus on corporate gift sales (not including professionals)
- Customer loyalty programs – Mom clubs etc
- Return policy (gifts included)

Bed Bath and Beyond uses a centralized procurement model and direct shipment to store to provide a resilient supply chain

BED BATH AND BEYOND : OPERATIONS OVERVIEW



Sourcing and Distribution

- Centralized procurement
- Mostly domestic procurement and rest through direct importers.
- Over 3900 suppliers with none supplying more than 5% and the top 10 contributing to less than 23% of the sales
- Does not have a centralized distribution system – suppliers ship directly to the stores

Bed Bath and Beyond has used multiple levers to grow – expand geographically, drive same store sales, enter new service categories and acquire smaller companies

BED BATH AND BEYOND: STRATEGIC INITIATIVES

New Stores

- 85 new stores opened in the last year
 - Increase presence in existing markets by opening new stores and explore new markets
 - Plans to open 10 Christmas Tree stores in 2005 and 40-60 stores/year thereafter
-

Increasing Same Store Sales

- Enhancing shopping experience
 - Emphasis on in-store service orientation
 - Constantly changing store ambience
 - Diversified product range within and across price points
 - Attractive merchandize displays
 - In-store offerings
 - Introducing private labels and premium product range
-

Bridal Registry

- Entered the USD 17b bridal registry and gift registry market through its e-commerce portal
-

Inorganic Growth

- Acquiring Strategic Players
 - Christmas Tree Stores – to augment its product range and geographical presence in the US north west
 - Harmon Health and Beauty Stores - to establish a presence in the health and beauty aid category within selected Bed Bath & Beyond stores

INTERNATIONAL HOME IMPROVEMENT RETAILERS : SNAPSHOT

Retailer	Turnover (USD Mn)	EBITDA (USD Mn)	PAT (USD Mn)	PAT %	EBITDA %	Store Ownership
Home Depot	64800	6846	4304	6.6%	10.6%	83% owned
Lowe's	30800	3936	1877	6.1%	12.8%	79% owned
Bed Bath and Beyond	4478	639	399	8.9%	14.3%	Most stores are leased
Linens n Things	2395	122	75	3.1%	5.1%	N/A
Kingfisher	12900	1070	848	6.6%	8.3%	N/A

Note:

- Turnover: Wal-Mart -13000 Mn(HI only), IKEA- 15500 Mn, Homebase-2635 Mn. All figures are FY'03 unless stated

Source: Company Websites

HI retailers differentiate by offering a broader product range, better shopping experience and knowledgeable sales staff

US HI MARKET : COMPARISON OF RETAIL FORMATS

● Best ○ Worst

Parameters E.g.	HI Retailer Home Depot	Discount Store Walmart	Stand alone Stores Local Retail Stores
Range			
• Commodity	●	◐	◑
• High End	●	◐	◑
Price			
	◑	●	◑
Shopping Experience			
	●	◐	◑
Knowledgeable Staff			
	●	○	◑
Services			
	Service centre + Home visit	None	Limited service centres
Financing			
	◑	◐	◑
Private Labels			
	◑	◐	○

Widest Range: One Stop Shop

Discount stores offer the lowest prices

Differentiators

“Interior Décor Consulting”
• Featured homes help color and design selection

Margin Enhancers

Source: SG Cowen Report, Morgan Stanley Research; Internal analysis



UK MARKET – KEY HI RETAILERS

The GBP 76 Bn UK Home Improvement market is expected to grow at 6.7% in the long term

THE UK HOME IMPROVEMENT MARKET SNAPSHOT

- **Market Estimates**

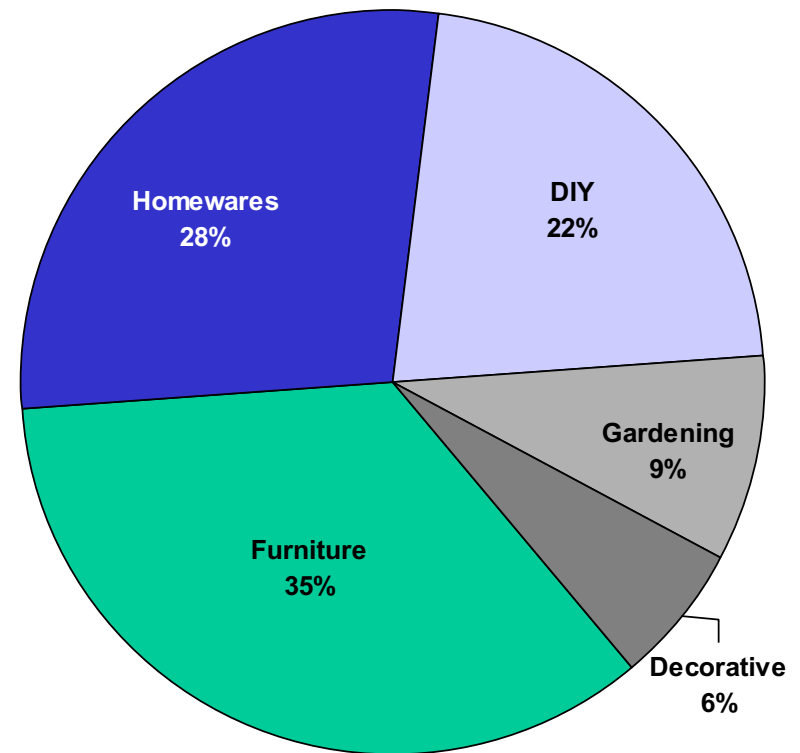
- Market size : GBP 76 Bn (2002)
- Expected growth rate: 6.7% (2002-07)

- **Main Product Categories**

- Furniture
- DIY
- Gardening
- Decorative
- Homewares

The estimates exclude the building and construction material market

Relative market size of various home enhancement product categories



Kingfisher is the largest HI retailer in Europe with over 560 stores generating annual revenues of ~ GBP 7 bn in 2003

KINGFISHER: A SNAPSHOT

Number of Stores

- **Total 566 stores**
 - B&Q – UK: 325 stores, Ireland: 2 stores, China: 15 stores, Taiwan: 17 stores
 - Castorama – France: 105 stores, Poland: 19 stores, Italy:18 stores
 - Brico Depot – France:59 stores,
 - Other brand names: Spain:1 store, Turkey: 5 stores

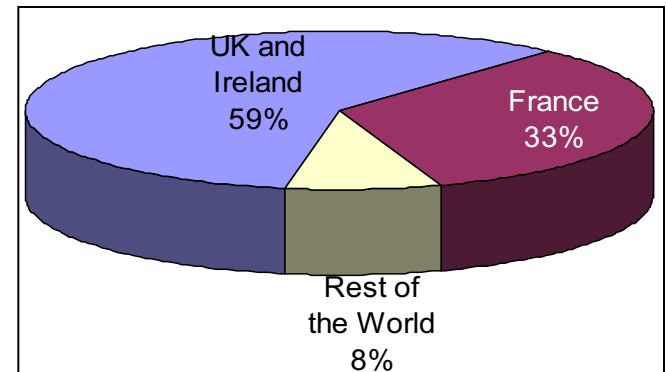
Product Categories

- Appliances, Power Tools, HVAC
- Bathroom, Kitchen and Bedroom Furnishings
- Building Material and Timber
- Doors, Safety and Security Devices
- Electrical, Plumbing Fittings
- Fires, Lawn and Garden Accessories
- Wallpapers, Flooring and Floor Coverings
- Hand Tools, Paint and Accessories
- Storage and Lighting Solutions

Financial Performance (FY2003)

- Revenue : GBP 7.05 Bn
 - 12.8% (YOY Profit growth)
 - 9.8% (YOY Sales growth)
 - 3.9% (YOY Same store sales growth)
- PAT : GBP 463 m
- ROCE: 9.5%

Revenue contribution by region



Source: Company Website, Annual Report, ING Research; Internal analysis

Kingfisher's business model is characterized by a combination of large box and mid size formats, a mix of EDLP and premium pricing and use of services and home brands as margin enhancers

KINGFISHER : BUSINESS MODEL

Store Formats and Sizes

- B&Q:
 - Warehouses: 120,000 sq feet
 - Mini-warehouse: 60,000 – 80,000 sq feet
 - Supercenter: 40,000 sq feet
- Castorama: 90,000 Sq. feet
- Brico Depot: 50,000 Sq feet

No. of SKUs

- 45,000 SKUs at B&Q and Castorama
- 15,000 SKUs at Brico Depot
- 8,000 SKUs at Screwfix Direct

Pricing and Margin Strategy

- Every Day Low Prices (EDLP) at B&Q and Brico Depot
- Premium pricing at Castorama

Exclusive Product Strategy

- Private labels in paints, decorative products, power tools, flooring and lighting product categories

Services Offered

- Buying advisory
- Painting Solutions
- Professional Service (Installation & Maintenance)
- e-Commerce Portal: Home Delivery
- B&Q credit cards

Kingfisher uses a centralized procurement and distribution model for a highly import oriented procurement base

KINGFISHER : OPERATIONS OVERVIEW



**Sourcing and
Distribution**

- 30 % directly sourced globally. 15% from far east and 15% from Europe
- Avoids procurement from intermediaries.
- Fragmented supplier Base: Total of 9000 suppliers of which only 4% supply to more than 1 group company
- Developing a supplier management program for cost reduction
- Centralized distribution for imports and a combination of direct supply for domestic supply

Kingfisher has used multiple levers to grow – expand geographically, drive same store sales and acquire smaller companies

KINGFISHER: STRATEGIC INITIATIVES

New Stores/Store Concepts

- 90 new stores opened in the last year
 - Augment existing stores to warehouse formats (Mid-Box to Large Box)
-

Increasing Same Store Sales

- Emphasis on in store service orientation
 - Diversifying product range especially in bathroom and decorative accessories
 - Introducing private labels and premium product range at Brico Depot and B&Q
 - Improve price perception at Castorama by improving in-store pricing
 - Introduction of entry level products at Castorama stores
-

Inorganic Growth

- Acquisition of SCREWFIX DIRECT to cater to the professional market
- Acquisition of Castorama and Brico Depot (France) to gain foothold in Europe mainland
- Concentrating on core business: demerged its electrical business in 2003 and general merchandise business in 2001

Kingfisher is expanding internationally in developed and emerging markets through acquisitions and joint ventures

KINGFISHER: INTERNATIONAL VENTURES

UK and Ireland

- B&Q – Leading DIY retail chain with 325 stores in UK and 2 stores in Ireland
- Screwfix Direct – Targets professional customers for tools and hardware sales

France

- Castorama – Leading premium DIY retail chain with 105 stores. Acquired in 2002
 - Plan to open or refurbish 10 stores
- Brico Depot – Discount retail chain targeting DIY customers and professionals with 59 stores. Acquired in 2002.
 - Plans to open 7 new stores in the current year

Poland

- Castorama – Leading premium DIY retail chain with 19 stores
 - 3 stores opened in the last year

Italy

- Castorama – No. 2 premium DIY retail chain with 18 stores
 - 4 stores were opened in the last year

China

- B&Q – Leading premium DIY retail chain with 15 stores
 - Joint venture with majority controlling interest
 - 7 stores opened in the last year

Taiwan

- B&Q – Leading premium DIY retail chain with 17 stores
 - 50% Joint venture
 - 3 stores opened in the last year

Kingfisher is looking at expanding in developed markets through joint ventures

KINGFISHER: OTHER INTERNATIONAL VENTURES



**Germany,
Spain, Turkey
and South
Korea**

- Brico Stock – First Kingfisher store in Spain, opened in 2003.
 - Four new stores planned in the current year
- Hornbach – 21% joint venture in the leading German DIY retailer
- Koctas – 50% joint venture in Turkey
- Plans to open a store in Seoul, South Korea

Homebase is the second largest do it yourself retailer in the UK providing home improvement product range in the mid size store format with sales turnover of ~ GBP 1.5Bn

HOMEBASE: A SNAPSHOT

Number of Stores

- 273 Stores

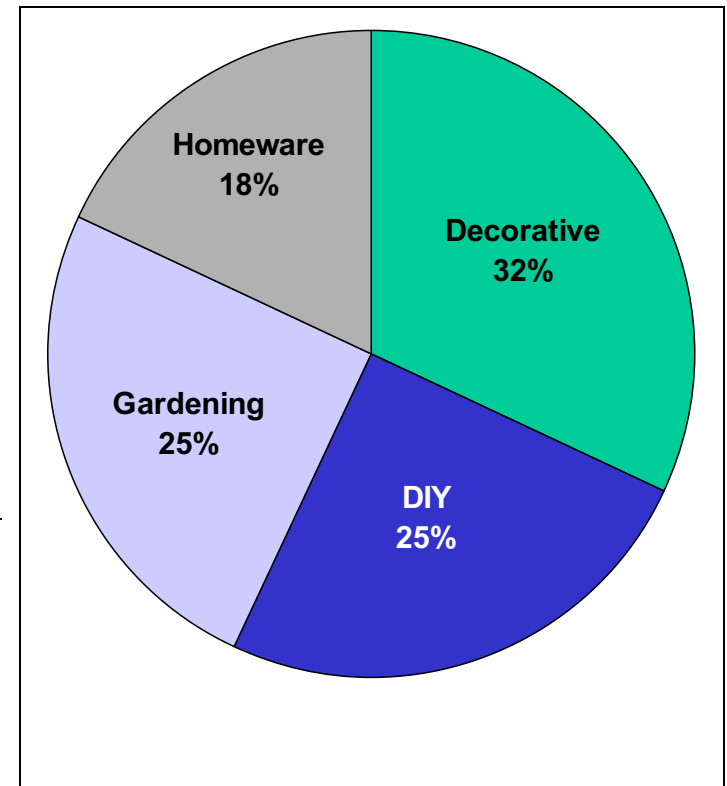
Product Categories

- Bathroom accessories
- Garden and Lawn accessories
- Furniture
- Home appliances
- DIY tools and hardware

Financial Performance (FY2003)

- Acquired by Great Universal Store (GUS) in 2002
- Revenue : GBP 1.44 billion

Homebase – Revenue breakup by category



Homebase's business model is characterized by mid size format, urban and suburban store location, EDLP pricing, centralized procurement/ distribution and use of in-store services

HOMEBASE : BUSINESS MODEL

Store Size

- Average store size : 40,000 sq feet
-

Store Location

- Located in the urban/ suburban locality
-

Pricing Strategy

- Every Day Low Prices (EDLP)
-

In-store services offered

- In-store service in selecting from the assortment range
 - Home delivery services
 - Customer loyalty programs – Homebase cards
 - Financial Services – Loans (including personal loans) and insurance (including pet insurance)
-

Sourcing and Distribution

- Centralized procurement
- 8% goods are imported
- Centralized distribution system

Homebase is primarily focusing on organic growth besides increasing the product range and entering the home furnishings category

HOMEBASE: STRATEGIC INITIATIVES

New Stores

- 9 new stores opened in the last year
- Plans to open 5-10 stores/ year

Increasing Same Store Sales

- Enter into home furnishing market
- Augment floor space in existing stores using mezzanine flooring
- Introduce new range in homeware category