Hypermarket lessons for New Zealand
A report to the Commerce Commission of New Zealand

September 2007

CORIOLIS RESEARCH

Coriolis Research Ltd. is a strategic market research firm founded in 1997 and based in Auckland, New Zealand. Coriolis primarily works with clients in the food and fast moving consumer goods supply chain, from primary producers to retailers. In addition to working with clients, Coriolis regularly produces reports on current industry topics.

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The coriolis force, named for French physicist Gaspard Coriolis (1792-1843), may be seen on a large scale in the movement of winds and ocean currents on the rotating earth. It dominates weather patterns, producing the counterclockwise flow observed around low-pressure zones in the Northern Hemisphere and the clockwise flow around such zones in the Southern Hemisphere. It is the result of a centripetal force on a mass moving with a velocity radially outward in a rotating plane. *In market research it means understanding the big picture before you get into the details.*

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PROJECT BACKGROUND
This project has the following background

- In June of 2006, Coriolis research published a company newsletter (Chart Watch Q2 2006):
  - see http://www.coriolisresearch.com/newsletter/coriolis_chartwatch_2006Q2.html
- This discussed the planned opening of the first The Warehouse Extra hypermarket in New Zealand; a follow up Part 2 was published following the opening of the store. This newsletter was targeted at our client base (FMCG manufacturers and retailers in New Zealand).
- In June/July 2006 Foodstuffs New Zealand acquired 10% of the shares of The Warehouse Group.
- In September 2006 Woolworths Australia (owner of Progressive New Zealand) acquired 10% of the shares of The Warehouse Group.
- In January 2007 both Foodstuffs NZ and Woolworths AU applied to the Commerce Commission of New Zealand [CCNZ] to acquire 100% of the Warehouse Group. Both applications use data from Coriolis [FS:p11 (uncited); WW:p12,p27].
- In April 2007 CCNZ interviews Coriolis Managing Director Tim Morris as a result of a number of industry participants drawing their attention to the Coriolis newsletter.
- In June 2007 CCNZ declines clearance to both Foodstuffs NZ and Woolworths AU for the potential acquisition of The Warehouse Group (Decisions 606 and 607); decisions cite Coriolis newsletter.
- Following this, both Foodstuffs NZ and Woolworths AU challenge the decision in Court.
- In August 2007 CCNZ commissions Coriolis to further develop its analysis of the international experience of hypermarkets.

HYPERMARKET DEFINITION
Throughout this report we use the United Kingdom's Institute for Grocery Distribution definition of a hypermarket (called a supercenter in the United States)

- "Whilst hypermarkets have opened all over the world, retailers have adapted the format to tailor stores to local market conditions and also to make the most of their own strengths. This has resulted in the term 'hypermarket' now being used to describe a wide range of stores, creating some confusion as to what the format really encompasses...
- One of the key elements of differentiation between hypermarkets and other retail formats is their 'destination' offer. Hypermarkets are designed to attract customers from a wide catchment area with their low prices, unique range and exciting offers.
- In addition, in certain markets, hypermarket retailers have to compete with warehouse clubs and cash & carries. Although these stores comprise some of the characteristics of the hypermarket format (e.g. large selling area, wide range, low prices and destination appeal), they are targeted at small businesses and concentrate on selling large packs in a spartan shopping environment.
- For the purpose of this report, IGD defines a hypermarket as a store with the following characteristics:
    - a selling area typically between 5,000 m² and 15,000 m²
    - a wide product offer comprising food and non-food
    - discounted prices
    - a shopping environment and pack sizes tailored to individual customers
    - a 'destination' offer (i.e. customers are willing to travel to shop there)"

  Source: The Global Hypermarket Revolution, Institute for Grocery Distribution (U.K.), 2001

- NOTE: In the United States market, among others, the hypermarket store format is often called a supercenter

PROJECT STRUCTURE AND LIMITATIONS
This project was structured as follows, with resulting limitations

- Analyse the international experience of hypermarkets
  - By country, specifically those with parallels to the New Zealand market
  - By company
- Incorporating data from numerous publicly available sources, including:
  - Existing industry reports on hypermarkets [Only one identified: IGD 2001]; a number of academic papers were also reviewed
  - Information on the experience of various countries with hypermarkets from industry publications, industry guides, and press articles
  - Information on specific hypermarket operators from company websites, financial reports, analyst presentations, industry publications, industry guides, and press articles
  - Other publicly available data sources
  - No use of confidential CCNZ information [this document can enter the public domain]
- This project has a number of limitations:
  - The analysis looked in a very short timeframe at the global experience of over 100 countries and is, as a result, "a mile wide and inch deep" in places.
  - No primary research was conducted. The numbers in this report come from a variety of sources. While we believe the data are correct, we recognise the limitations in what information is available. In some cases the record is incomplete or different data sources disagree. Many data sources themselves incorporate estimates of industry experts.
- If you have any questions about the source or meaning of a number in this report, please contact the project leader, Tim Morris at Coriolis Research on (09) 623 1848

PROJECT SCOPE
Our brief from the Commerce Commission of New Zealand involves three related questions

1. **Will The Warehouse Extra succeed in New Zealand? Is New Zealand suitable for Hypermarkets?**

2. **What parallels can be drawn from the launch of hypermarkets from similar markets to New Zealand?**

3. **How would we expect the first decade of growth for The Warehouse Extra to look?**

PROJECT SCOPE
The first section of this report looks at question 1

1. **Will The Warehouse Extra succeed in New Zealand? Is New Zealand suitable for Hypermarkets?**
2. **What parallels can be drawn from the launch of hypermarkets from similar markets to New Zealand?**
3. **How would we expect the first decade of growth for The Warehouse Extra to look?**

FOR AND AGAINST

From our research, we conclude there are good arguments both for and against the success of hypermarkets in New Zealand in general and The Warehouse Extra specifically

Arguments for and against the success of The Warehouse Extra hypermarket in New Zealand
(propositions)

	Arguments for success	Arguments against success
Evidence supports these propositions	1. Other new internationally successful store formats have succeeded in New Zealand 2. The Warehouse is in a very strong position (#1 department store) from which to launch a hypermarket 3. Done right, the hypermarket format has the potential to deliver on lower grocery prices than supermarkets 4. By launching a hypermarket in 2006, The Warehouse can benefit from 44 years worth of learning by other hypermarket operators 5. The hypermarket format has been successful across the world; hypermarkets are operating in over 100 countries	1. New Zealand is the most consolidated supermarket market in the world (2 ~100%); the strong position of the incumbents may allow them to keep out new entrants 2. Initially The Warehouse may not be able to buy packaged food categories as well as either incumbent
Evidence does not support these propositions	- *Addressed in section 2*	1. It is easier for Supermarkets to get into general merchandise (GM) than GM retailers to get into grocery 2. Running a supermarket is difficult for a general merchant 3. Hypermarkets failed in Australia, therefore they will fail in New Zealand

FOR: COPYING INTERNATIONAL MODELS WORKS
1. Other new internationally successful store formats have succeeded in New Zealand

Examples of international retail store formats that have succeeded in New Zealand market
(various dates)

Store Format	International model(s)	New Zealand example
Variety Store	Woolworths (US) Woolworths (AU)	Woolworths (originally)
Supermarket	Safeway Coles New World	Foodtown New World
Box Warehouse Supermarket	PAK'n SAVE Cub Foods	PAK'n SAVE
Limited Assortment Discounter	Kwiksave 3 Guys (US)	3 Guys[1]
Discount Department Store	Kmart Wal-Mart Target	Kmart The Warehouse
Big Box Sporting Goods	The Sports Authority Rebel Sport	Rebel Sport
Big Box Pet Supplies	PetSmart Petsco	Jansens Animates
Big Box Book & Entertainment	Borders	Borders
Dollar Stores	Dollar General Dollar Tree	The $2 Shop Dollarstore 123
Wholesale Membership Club	Costco Sam's Club (Wal-Mart)	[Cost-U-Less[2]] *failed*

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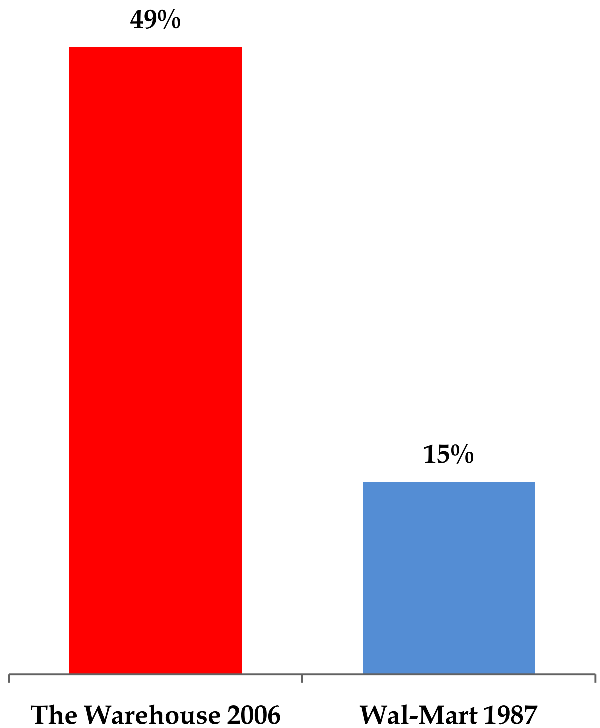
1. While 3 Guys no longer exists, it was very successful when it was launched in 1973 until it was sold to Progressive in 1985; 2. Cost-U-Less is an excellent example of the difficulties facing an underfinanced new country and market entrant with a new store format, for a full discussion see Coriolis "Understanding Costco; 2004"

FOR: STRONG POSITION TO LAUNCH FROM

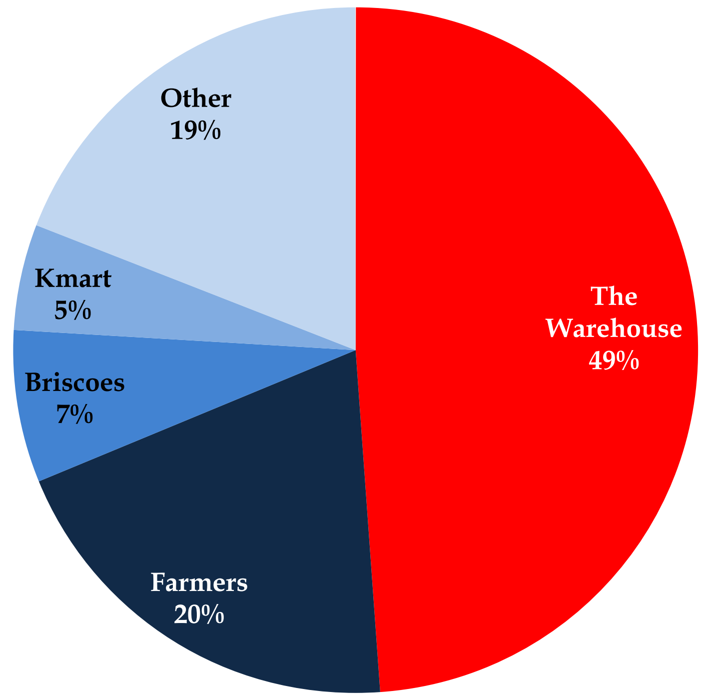
2. The Warehouse is in a very strong position (#1 department store) from which to launch a hypermarket

Department store market share at time of hypermarket launch
(% of sales; 2006 vs. 1987)



$ per person	*NZ$414 (2006)*	*US$54 (1987)* *US$749 (2006)*

New Zealand department store market share
(% of sales; 2006)



Note: Wal-Mart national share masks their larger share in the US South, however the US calculation is based on discount department store share while the NZ calculation is based on department store share

Note: Uses ANSIC department store definition; Source: SNZ RTS (YE200606); Warehouse annual report 2006; Wal-Mart annual report 1987; Briscoe annual report 2006; NZ Companies office; DSN magazine; Coriolis estimates (Farmers 2006 from 2003 data) & analysis

FOR: LOWER PRICES AND HIGHER RETURNS THAN SUPERMARKETS

3. Done right, the hypermarket format has the potential to deliver on lower grocery prices than supermarkets

Comparison of the economics of a well run hypermarket with a conventional supermarket in the United States market

(financial model; US $ and units; 2004)

Exhibit 21. Wal-Mart Supercenter Economics

	Wal-Mart Supercenter	U.S. Conventional Supermarket
Size (sq.ft.)	205,000	65,000
Tot. Sales/Sq.Ft./Wk	$10.50	$8.00
Weekly Sales	$2,153	$520
Food (sq.ft.)	65,000	65,000
Food Sales/Sq.Ft./Wk.	$12.00	$9.00
Weekly Food Sales	$780	
Food Price Index	**85**	**100**
Ratio Of Food Sales	35%	100%
COGS Index	65	68
Food Gross Margins	20%	32%
Overall Store GP%	24%	32%
Distribution	4.0%	5.1%
Labor	9.5%	14.0%
Advertising	0.5%	1.5%
Other Exp.	3.6%	4.5%
Store Contribution	6.4%	6.9%
Contr./Sq.Ft./Wk	$0.67	$0.55
Cap. Investment/Sq.Ft.	$80.0	$140.0
Inv. Investment/Sq.Ft.	$20.0	$35.0
Total Investment	**$100.0**	**$175.0**
Ann Store ROI	**34.9%**	**16.4%**

Supercenter takes 33% lower margins on food

Supercenter delivers twice the ROI

Source: CIBC World Markets Inc.

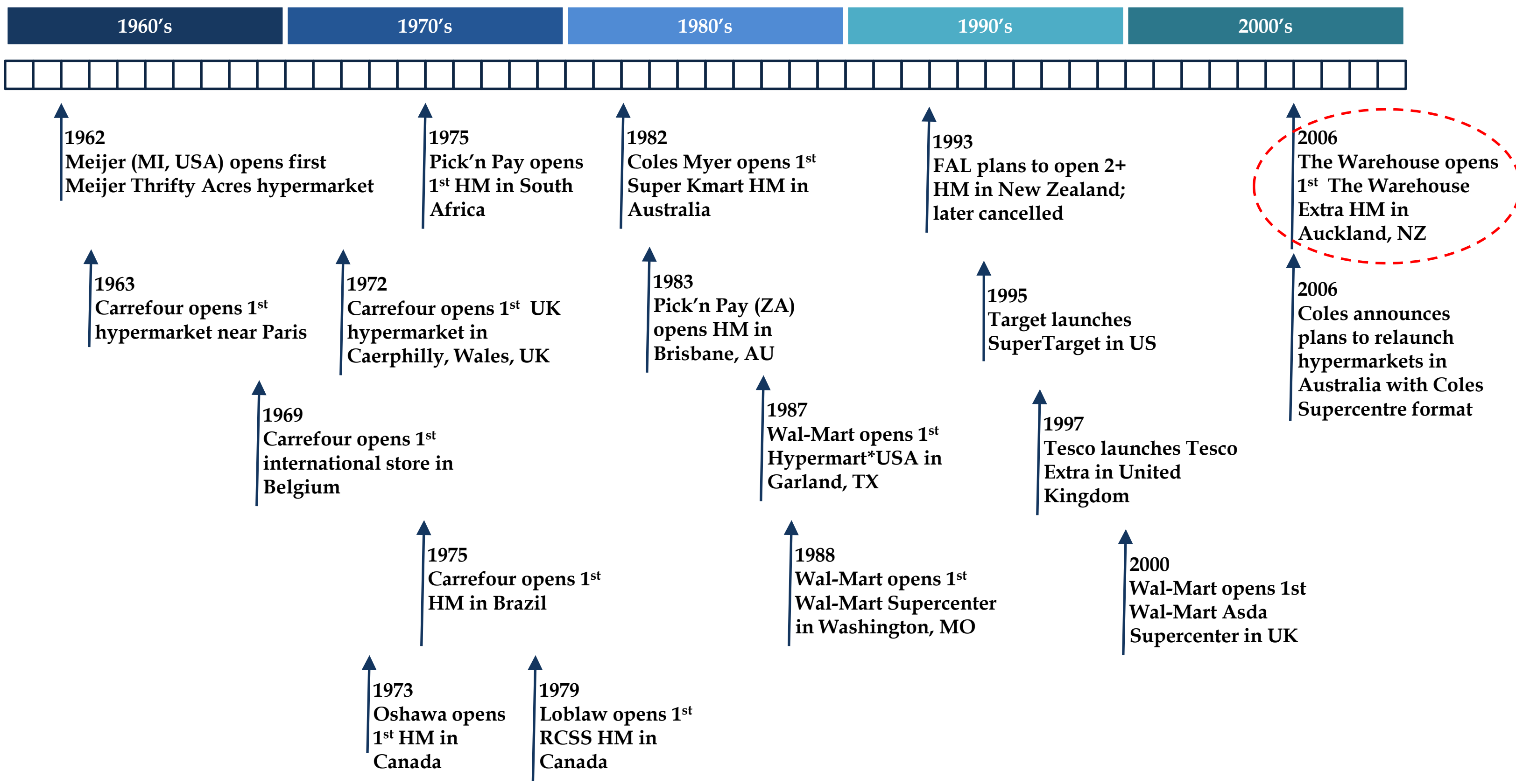
Note: New Zealand supermarkets take lower gross margins than those in the United States due to much lower wage rates, therefore the important point is the relativity between the two; Source: CIBC Nov 2004

FOR: 44 YEAR HISTORY TO LEARN FROM

4. By launching a hypermarket in 2006, The Warehouse can benefit from 44 years worth of learning by other hypermarket operators

Timeline of global hypermarket development

(1962-2007)



FOR: HYPERMARETS WORK IN OVER 100 COUNTRIES

5. The hypermarket format has been successful across the world; hypermarkets are operating in over 100 countries

Please review Appendix 1 for detailed analysis of these markets

Current hypermarket situation by country

(presence of format; 2007)

	Americas	Europe		Middle East/ North Africa/ South Africa	Asia	Australasia
Present	Canada United States Mexico Costa Rica El Salvador Guatemala Honduras Panama Colombia Ecuador Venezuela Brazil Argentina Uruguay Chile Peru Paraguay	France Finland Germany U.K. Italy Netherlands Spain Austria Belgium/Luxembourg Denmark Greece Ireland Norway Portugal Sweden Switzerland	Bulgaria Croatia Czech Estonia Hungary Latvia Lithuania Macedonia Poland Romania Russia Belarus Serbia Slovakia Slovenia Ukraine Turkey	Morocco Algeria Tunisia Egypt Israel Jordan Kuwait Lebanon Saudi Arabia UAE Qatar Kuwait Oman Yemen South Africa	Japan China South Korea Thailand Taiwan Malaysia Indonesia Philippines Singapore Vietnam India Sri Lanka	New Zealand
Failed	-	-		-	--	Australia[1]
Not present	Nicaragua Bolivia	Iceland Kosovo Malta Moldova		Libya Syria Iraq Iran	Pakistan Brunei Bangladesh Cambodia Laos	-

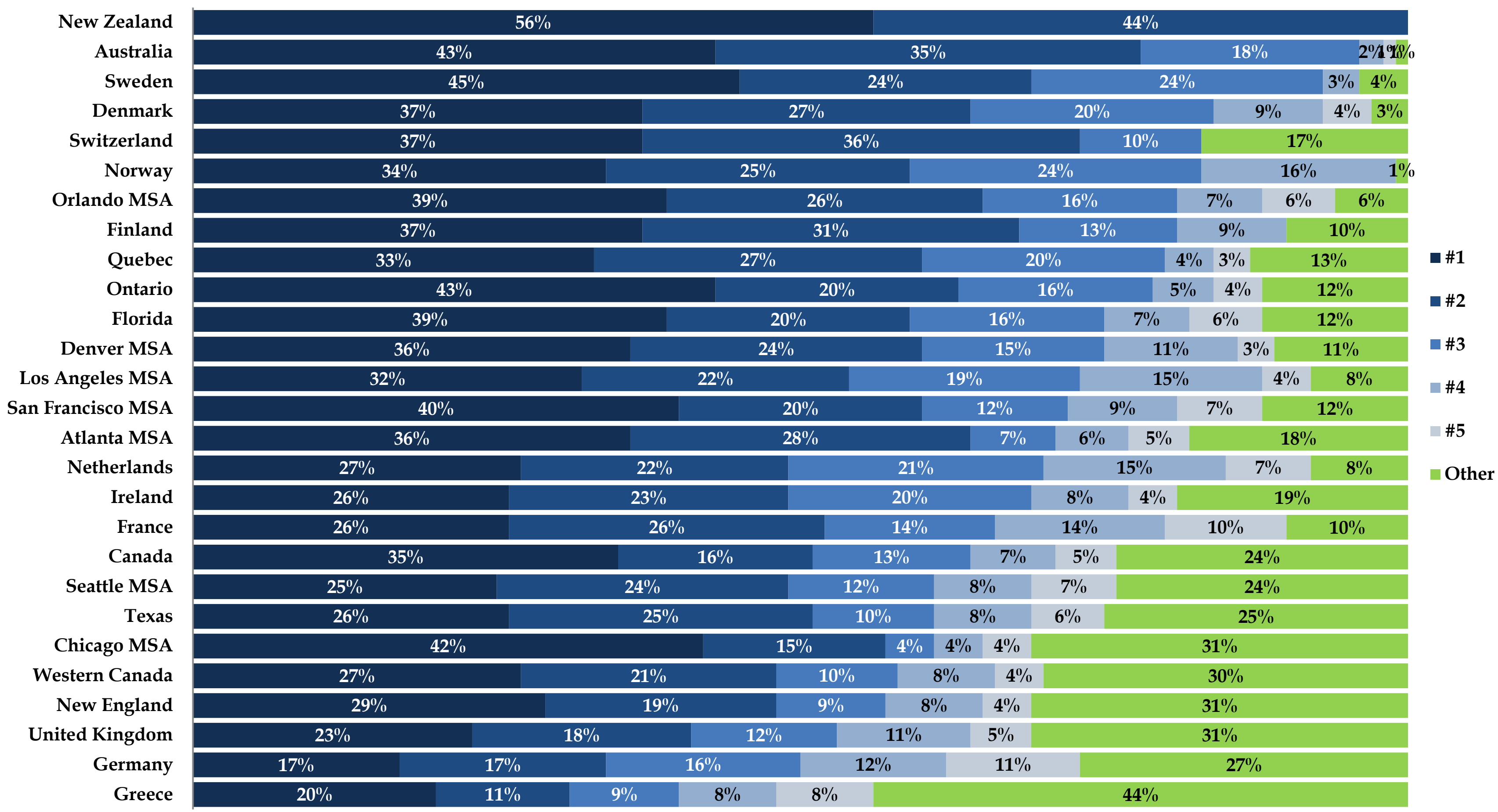
1. Note: while there are currently 2 hypermarkets in Australia, the ending of the 34 store Super Kmart experiment in 1992 and the division of these stores into separate Coles supermarkets and Kmart discount department stores leads to this description

AGAINST: MOST CONSOLIDATED MARKET IN THE WORLD

1. New Zealand is the most consolidated supermarket market in the world; the strong position of the incumbents may allow them to keep out new entrants

Market share of top 5 grocery retailers be country (or region)

(% of sales; various years 02-06)



Preliminary Coriolis estimates

AGAINST: LACK SCALE IN BUYING

2. Initially the Warehouse may not be able to buy packaged food categories as well as either incumbent

Model discounting structure of a typical New Zealand FMCG manufacturer

(model; 2007)

	Woolworths/Progressive and Foodstuffs	The Warehouse
Economic terms • Settlement terms • Quantity terms • Delivery terms • *Other*	-10% to -15%	-5% to -15%
All "Discretionary" terms • Cooperative advertising • Growth incentives • Display allowances • Case allowances • *Other*	-15% to -25%	-5% to -20%
	-25% to -35%	-15% to -35%

We believe The Warehouse is 0% to -15% disadvantaged in some cases

Needs to be considered in parallel with the potential efficiencies of a hypermarkets vs. conventional supermarkets (see "For #3") for a more complete picture

Notes

- *This chart represents the typical range of discounts and allowances of all forms given by major leading food manufacturers in New Zealand. It does not represent the situation in perishable products such as fruit & vegetables or meat, where the current price competitiveness of specialists (e.g. Fruit World, The Mad Butcher) vs. supermarkets implies much lower economies in purchasing*
- *The Warehouse sells some consumables (both food and non-food) across all 85 of its stores. Strong categories include confectionery, carbonated beverages, health & beauty and household chemicals. We expect that The Warehouse would buy as well as or almost as well as the supermarket groups on these lines.*
- *The upper end of this range would represent the price disadvantage on low volume lines carried only in The Warehouse Extra (but not conventional Warehouse stores)*

PROJECT SCOPE
The second section of this report looks at question 2

1. Will The Warehouse Extra succeed in New Zealand? Is New Zealand suitable for Hypermarkets?

2. **What parallels can be drawn from the launch of hypermarkets from similar markets to New Zealand?**

3. **How would we expect the first decade of growth for The Warehouse Extra to look?**

DEFINING PARALLELS: KEY GLOBAL MARKET SEGMENTATION VARIABLES

We propose the two key variables for segmenting countries hypermarket experience are: (1) Does the country have a well developed retail market? and (2) Is the launcher a local player?

Segmenting hypermarket launches by market characteristics

(model)

		Country has well developed retail market?	
		No	**Yes**
Company launching hypermarket is a major player in local retail?	**No**	**Rapid battle for share by Global players Usually followed by acquisition wave where larger operators acquire smaller** - *L&S in Romania* *Casino in Vietnam* *E.Leclerc in Poland* *Tesco in Taiwan*	**Struggle to achieve meaningful scale Concept is often not well tailored to local consumer needs; often fails** - *Auchan in Mexico* *Carrefour in United States* *Pick'n Pay in Australia* *Carrefour in United Kingdom*
	Yes	**Local fighter develops concept Often dependent on early restrictions on foreign entry for development nursery** - *E-Mart in South Korea* *Emke in UAE* *Lianhua in China* *Migros in Turkey*	**Initial development is often slow as companies develop competencies a scalable model** - *Meijer in the United States* *Coop Norden in Sweden* *Loblaw in Canada* *Tesco in United Kingdom*

Note: These variable were developed following the research given in appendix 1 and 2 (i.e. definition was not "a priori")

DEFINING PARALLELS: NEW ZEALAND PARALLEL
This segmentation indicates the relevant parallel markets for New Zealand are those where a local player launches a hypermarket into an already developed market

Segmenting hypermarket launches by market characteristics
(model)

Country has well developed retail market?

Company launching hypermarket is a major player in local retail?	No	Yes
No	**Rapid battle for share by Global players Usually followed by acquisition wave where larger operators acquire smaller** - *L&S in Romania* *Casino in Vietnam* *E.Leclerc in Poland* *Tesco in Taiwan*	**Struggle to achieve meaningful scale Concept is often not well tailored to local consumer needs; often fails** - *Auchan in Mexico* *Carrefour in United States* *Pick'n Pay in Australia* *Carrefour in United Kingdom*
Yes	**Local fighter develops concept Often dependant on early restrictions on foreign entry for development nursery** - *E-Mart in South Korea* *Emke in UAE* *Lianhua in China* *Migros in Turkey*	**Initial development is often slow as companies develop competencies a scalable model** - ***Meijer in the United States*** ***Coop Norden in Sweden*** ***Loblaw in Canada*** ***Tesco in United Kingdom***

SEE NEXT PAGE - Parallel for New Zealand: Organic launch of new hypermarket concept by existing player into well developed retail market

DEFINING PARALLELS: MARKETS WITH NZ PARALLELS

Further examining the parallel markets for New Zealand - those where a local player launches a hypermarket into an already developed market – highlights a "A List" for primary focus

Further segmentation of parallel markets for New Zealand

(model)

Please review Appendix 2 for a detailed discussion of the experience of the primary focus parallels

	Developed retail market when HM launched	Somewhat developed when HM launched[1]
"A List" countries *Strong parallels:* *high demographic, cultural and social similarities to New Zealand market*	United States Canada United Kingdom Australia (Ireland[2]) *Primary focus of further analysis*	-
"B List" countries *Lesser parallels:* *less demographic, cultural and social relevance to New Zealand market; highly detailed market data in English also a major challenge*	Denmark Finland Netherlands Norway Sweden Switzerland	Austria Belgium France Germany Netherlands

Secondary focus of further analysis

1. For example when Carrefour launched the Hypermarket format in France in 1963, the supermarket sector was predominantly small independent grocers, most trade occurred in specialists, and there was no developed discount department store sector; 2. We do not analyse Ireland further as the HM concept was only introduced there recently (2004)

PARALLELS FOR NEW ZEALAND – PRELIMINARY CONCLUSIONS

We draw the following preliminary conclusions from markets with strong parallels to New Zealand

1. **Hypermarkets have been launched successfully into well developed markets by discount department store (DDS) operators, supermarket (SM) operators and operators of both (but never by start-ups)**

2. **Hypermarkets generally trigger price wars when they enter a market**

3. **The hypermarket format appears to have a natural market share limit around 25-30% (ex. France) (effectively similar to PAK'n SAVE share in New Zealand today)**

4. **However, government regulation, either to protect small shopkeepers or the environment, has a large impact on the ultimate market share achieved by hypermarkets**

WHO SUCCEEDS?

1. Hypermarkets have been launched successfully into well developed markets by discount department store (DDS) operators, supermarket (SM) operators and operators of both

Types of organic launch of hypermarket by existing player into well developed retail market
(model)

Nature of existing business of hypermarket entrant	Examples	Observations
Department store (DS) or discount department store (DDS) operator	• Wal-Mart in the United States • Wal-Mart in Canada • Kmart in United States • Target in United States • Sears in United States • The Warehouse in New Zealand	• Often struggle initially with perishables quality as they develop competencies • Early store rollout often slow while scalable model is developed • Generally discount grocery to drive foot traffic • Successful in all observed cases (to date) • Stores are a mix of new builds and conversions
Supermarket operator	• Meijer in United States • H.E. Butt in the United States • Tesco in United Kingdom • Loblaw in Canada • Provigo in Canada • Oshawa in Canada • [Coop Norden in Sweden]	• Often struggle initially with general merchandise execution, changing fashion aspects, seasonality and inventory management; large losses common • Existing store conversion often a strong focus • In many cases a defensive move following another entrant (or threat of entrant) • Do not seem to ever grow unit numbers very rapidly for long periods due to self-cannibalisation
Supermarket and department store and/or discount department store operator	• Kaufland in Germany • Metro (predecessor) in Germany • Wal-Mart/ASDA in United Kingdom • Coles Myer in Australia • Fred Meyer in United States • Big Bear in United States • Steinberg in Canada • SuperValu in United States • [Kesko in Finland]	• Conceptually/hypothetically should be easiest development path • Some notable struggles to succeed (Big Bear, SuperValu, Steinberg, Coles Myer) outside Germany • Interestingly all observed European models also have limited assortment discounter store format (ie. Aldi-type stores) in portfolio • There is also a very strong global tradition of department stores having a food offer, often in the basement (e.g. M&S, Printemps)
New start-up venture	• *None observed*	• Too much to learn?

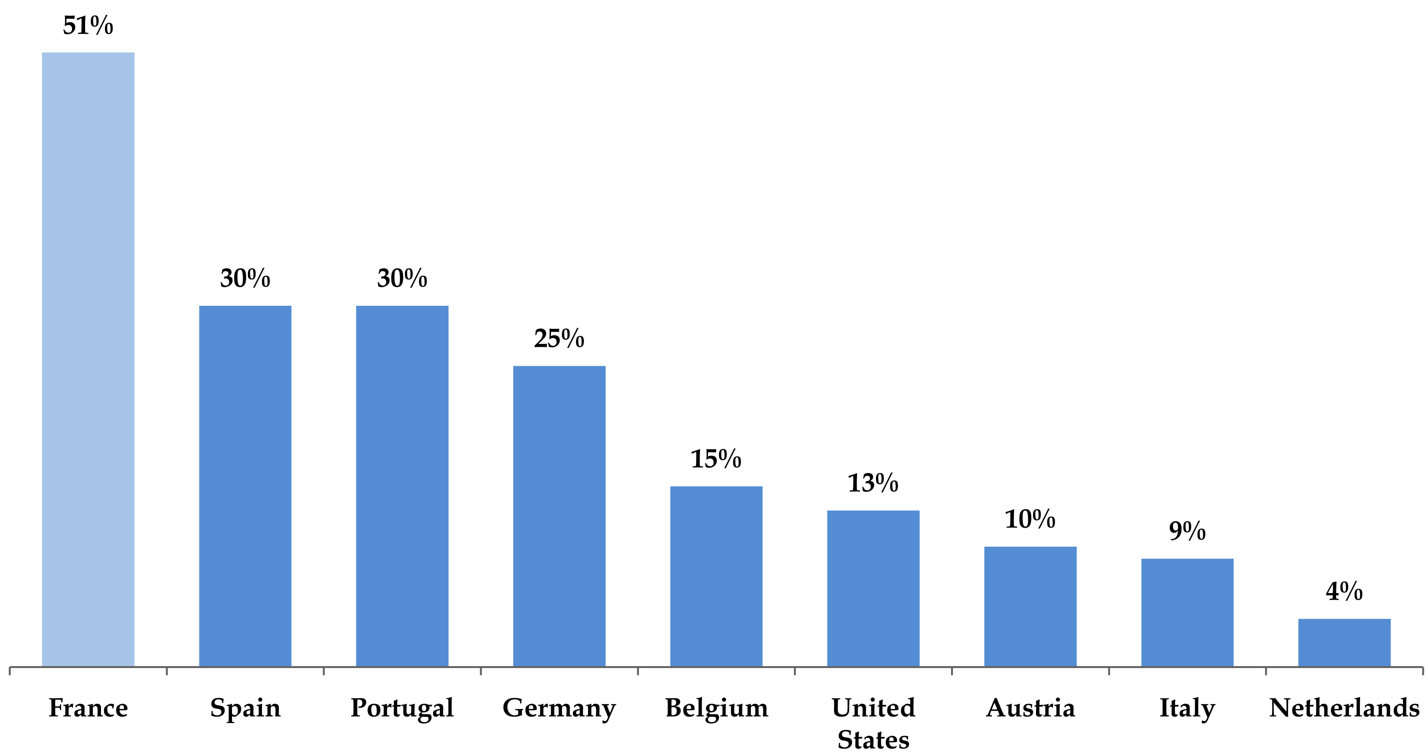
TRIGGER PRICE WARS
2. Hypermarkets generally trigger price wars when they enter a market

More examples available as required

- **Example: BRISBANE, AUSTRALIA**
  - **"A bread price war erupted in Brisbane yesterday. Three large supermarket chains cut prices by up to 15 cent a loaf after the Aspley Hypermarket announced a price cut for standard white sliced loaves from 85 cent to 74 cent. Coles Super K-Mart, Jack the Slasher and Woolworths dropped their price to 70 cent within hours. Hypermarket managing director, Mr David Goldberg, said retail price maintenance - the setting of maximum and minimum prices - should be abolished with retailers allowed to set their own selling price. He hoped other retailers would join Pick'n'Pay in the fight to end retail price maintenance."** *Courier-Mail, December 1984*
  - **"We've already shown we're good competition and have made Coles more competitive."** *Raymond Ackerman, Chairman, Pick'n Pay South Africa, February 1986*
  - **"Turnover at Woolworths' four Northside Brisbane stores was above last year's figures… Trade at Stafford City was not affected by the hypermarket and was better than expected. Their recent advertising of Coca-Cola one litre bottles at 39 cent is fairly desperate. It's what's called a desperation ad - anything to get a customer in."** *Jim Levinge, Queenstown State General Manager, Woolworths, January 1985*
  - **"If there's a price war, there's a price war, tough. When we had our Hypermarket in Aspley in Brisbane [in the 1980s], we had one store and we had a price war, and we managed to survive."** *Sean Summers, CEO, Pick'n Pay South Africa, June 2001*
- **Example: EDMONTON, CANADA**
  - **"In all the major urban markets, surveys show that the megastores have led to much sharper price competition. The Alberta branch of the Consumers Association of Canada monitored Edmonton food prices between July last year and February this year (and is completing a second survey). That survey showed [Loblaws Real Canadian Superstores] with the lowest cost for an average weekly food basket ($161.95) and Woodward's the highest at $201.64."** *The Financial Post, December 1985*
  - **"With the opening of a giant food emporium in August, shoppers in Edmonton are currently enjoying the lowest food prices in Canada... The prices are sensational, says Mr. Tigert, who does regular cross-Canada comparisons. In his August survey, a 120-item basket of groceries that cost $372 at a traditional supermarket in Toronto could be purchased at The Real Canadian Superstore in Edmonton for only $306."** *The Globe & Mail, Oct 1984*

30% LIMIT
3. The hypermarket format appears to have a natural market share limit around 25-30% (ex. France) (effectively similar to PAK'n SAVE share in New Zealand today)

Hypermarket share of grocery trade
(% of sales; various years)



Source: various company annual reports; various published articles; various retailing industry reports and papers; various websites; Coriolis analysis

REGULATION PLAYS A ROLE

4. However, government regulation, either to protect small shopkeepers or the environment, has a large impact on the ultimate market share achieved by hypermarkets

- "In France, Italy, Spain and Portugal, the emergence of organised retail chains in the post-war period coincided with the arrival of the latest new concept, the hypermarket, which was developed before restrictive legislation began to bite. This strong growth lasted well into the 1980's, though left out the smaller towns and particularly ignored the city centres. In these countries, restrictive legislation has all but choked off new hypermarket development and let to the rise of the supermarket, which had a relatively low penetration rate in some southern European countries as rapid hypermarket development had created a polarised market with large numbers of traditional outlets on the one hand and a smaller number of large hypermarkets on the other." *Albert Breekveldt, analyst, Julius Baer, Feb 2001*

- "In Britain grocery chains opted early for the supermarket, and this intermediate stage after the corner shop made the economies of the jump to the mega-shop less pronounced than in France. Britain had other sorts of shops which are still rare on the continent -- chains like Marks and Spencer, and many department stores that mass-market non-foods... Hypermarkets have been vetoed by some planning authorities in Britain because large shops in the middle of the countryside challenge the three general principles on which British town and country planning is based: protecting the countryside; keeping urban development under control; and helping to create self-contained communities." *The Economist, July 1976*

- "Small retailers everywhere fear and loathe hypermarkets... Thai Prime Minister Thaksin Shinawatra's Thai Rak Thai (Thais Love Thais) party made curbing hypermarkets a plank in its election campaign platform that featured heavy doses of economic nationalism alongside pledges to encourage foreign investment... In May, the government introduced a package to aid shopkeepers... Thaksin's government also announced plans for a retail bill to tame the hypermarkets, and launched a panel to investigate hypermarket pricing practices, due to report this week. A draft of the retail bill made public in September proposed restrictions on hypermarket trading hours, capital access, and new outlet locations. It also aimed to regulate prices, advertising and "shelf fees", payoffs big retailers everywhere demand from manufacturers to stock and display their goods." *Asia Times, November 2002*

PROJECT SCOPE
The second section of this report looks at question 3

1. Will The Warehouse Extra succeed in New Zealand? Is New Zealand suitable for Hypermarkets?

2. **What parallels can be drawn from the launch of hypermarkets from similar markets to New Zealand?**

3. **How would we expect the first decade of growth for The Warehouse Extra to look?**

GROWTH LESSONS FOR NEW ZEALAND – PRELIMINARY

We draw the following preliminary conclusions about the early years of The Warehouse Extra, again from markets with strong parallels to New Zealand

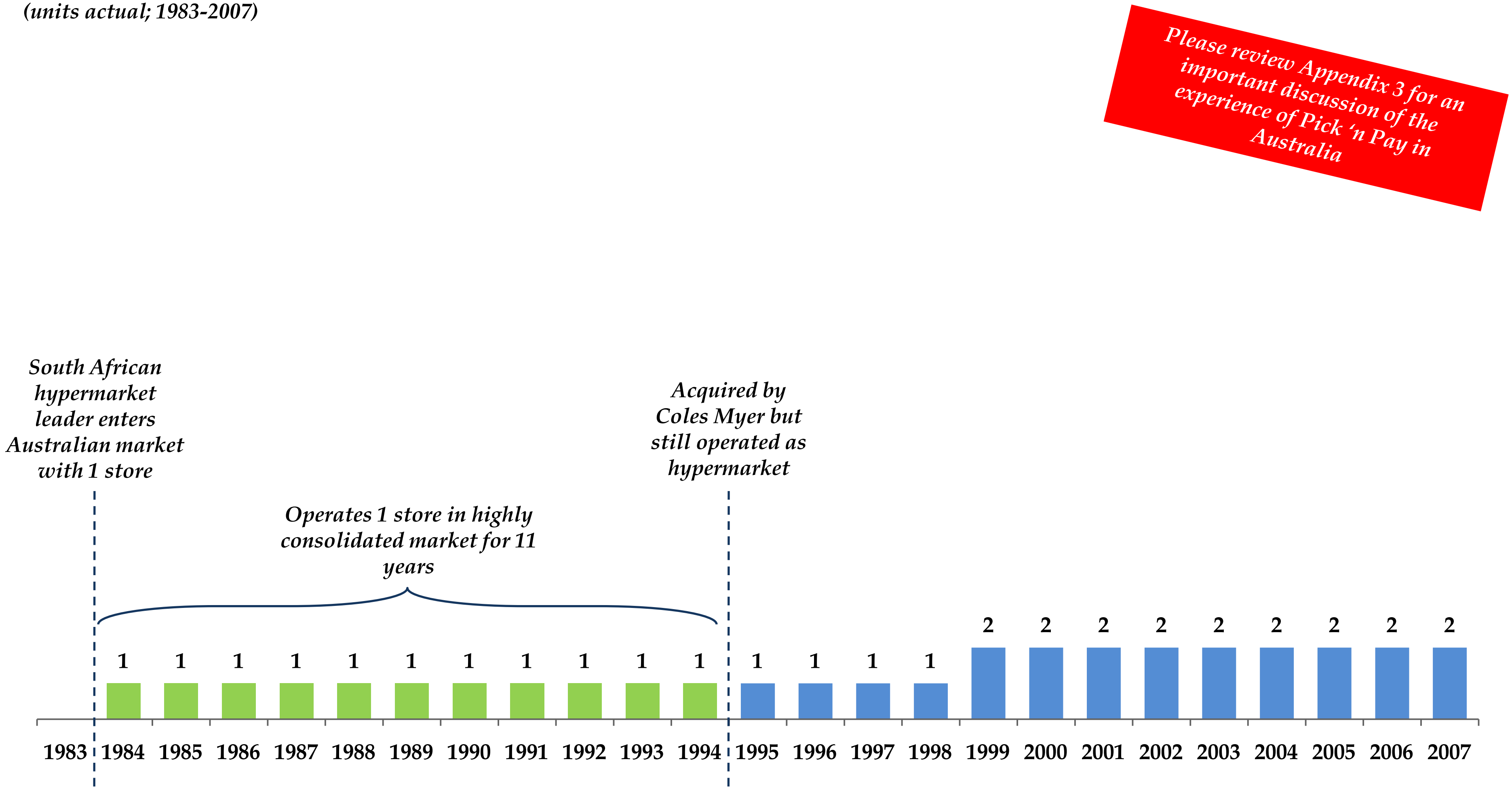
1. The hypermarket store format can support low store numbers for extended periods of time (e.g. Pick'n Pay with 1 store in Australia for a decade)
2. Roll-out of a new hypermarket concept is often slow initially
3. Launchers modify their hypermarket store model, going through a rapid learning curve, until the right model is developed; companies often launch multiple formats
4. Many hypermarkets initially lose money
5. The opening of a hypermarket by one market participant generally triggers other market participants to also launch the format
6. Early experiments have effectively failed in a number of countries (United Kingdom, Eastern Canada, Australia, Switzerland) only to return to the concept at a later date

CAN SUPPORT LOW STORE NUMBER FOR A LONG TIME

1. The hypermarket store format can support low store numbers for extended periods of time (e.g. Pick'n Pay with 1 store in Australia for a decade)

Number of Pick'n Pay hypermarkets in Australia

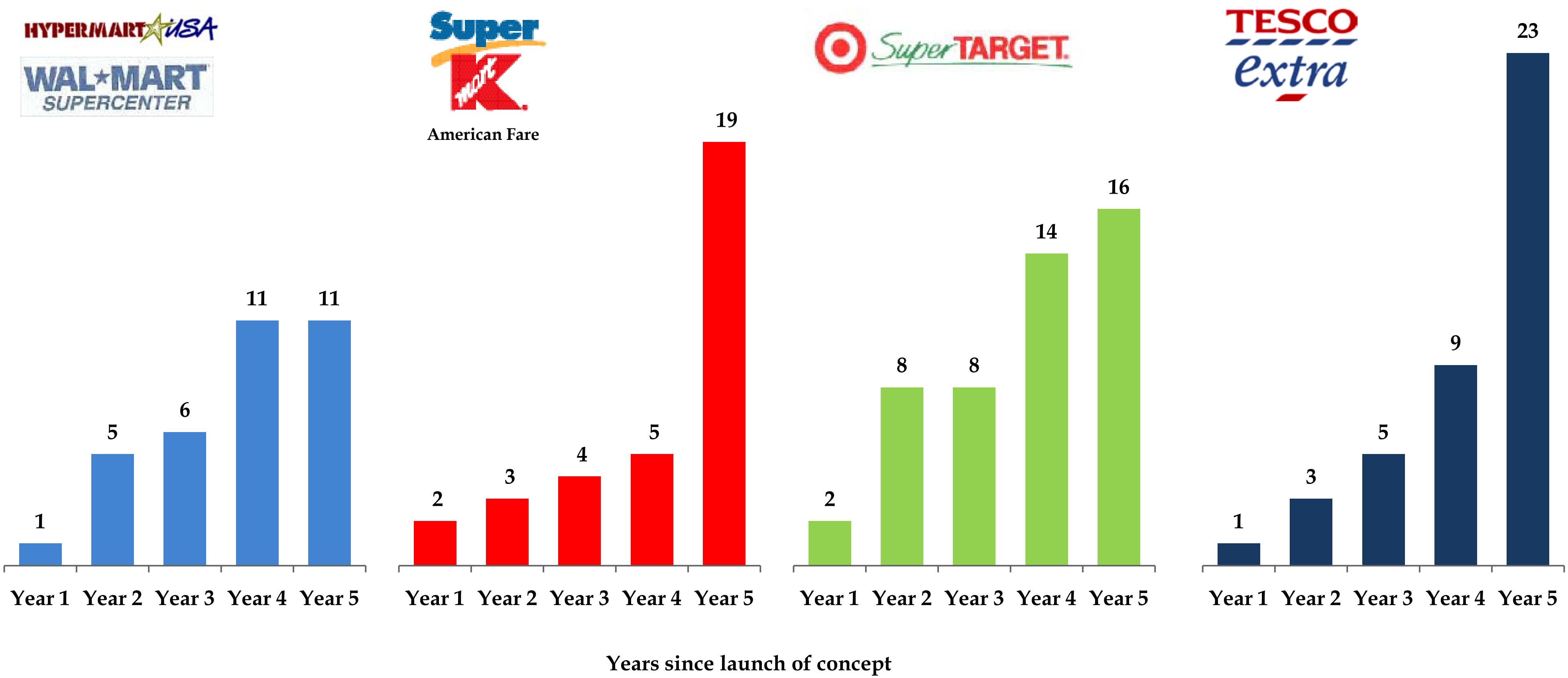
(units actual; 1983-2007)



Note: See KHF Food Terminal in Canada for a slightly larger chain operating for longer; Source: various published articles; various press reports; Coriolis analysis

SLOW INITIALLY
2. Roll-out of hypermarkets is often slow

Number of stores operating during first five years of operation
(hypermarket units; actual; different time periods)



*Note: Wal-Mart includes Hypermart*USA and uses calendar not fiscal years; ; Kmart includes American Fare; Source: various annual reports; Coriolis analysis*

DON'T GET THE FORMAT RIGHT THE FIRST TIME

3. Launchers modify their hypermarket store model, going through a rapid learning curve, until the right model is developed...

Details of first 10 hypermarkets opened by Wal-Mart

(various; 1987-1990)

	Date Opened	Location	Size	Range	
Hypermarket*USA #1	Dec 1987	Garland, Texas	220,000 sqft 32% food	70,000 sku (11,000 food sku) Cut case display	Gross margins 15%, Labour 5%; net profit 2-3%
Hypermarket*USA #2	Jan 1988	Topeka, Kansas	220,000 sqft 30% food	70,000 sku (5,500 food sku) Cut case display	
Wal-Mart Supercenter #1	Mar 1988	Washington, Missouri	126,000 sqft 40% food	100,000 sku Warehouse fixtures	Gross margin 18%; Labour 7%; net profit 2-3% DDS style apparel
Hypermarket*USA #3	Aug 1988	Arlington, Texas	200,000 sqft	70,000 sku Cut case display	
Wal-Mart Supercenter #2	Nov 1988	Wagoner, Oklahoma	97,000 sqft	100,000 sku	
Wal-Mart Supercenter #3	1989	Farmington, Missouri	186,000 sqft	120,000 sku	
Hypermarket*USA #4	Feb 1990	Kansas City, Missouri	200,000 sqft	70,000 sku Cut case display	
Wal-Mart Supercenter #4	1990	Jefferson City, Missouri	186,000 sqft	120,000 sku	
Wal-Mart Supercenter #5	1990	Poplar Bluff, Missouri	186,000 sqft	120,000 sku	
Wal-Mart Supercenter #6	1990	Mount Pleasant, Texas	147,000 sqft	120,000 sku	

Source: various published articles; various annual reports; Coriolis analysis

DON'T GET IT RIGHT THE FIRST TIME
... and companies often launch multiple formats

Examples of multiple store formats launched by hypermarket players
(various)

Group	Starting Format	Concept 1	Concept 2	Concept 3
Kmart	1962+ Kmart DDS	1989 American Fare Hypermarket 244,000 sqft 3 units opened	1992 Super Kmart Supercenter 140,000-190,000 sqft 124 stores (at max)	1996 Big Kmart DDS with some grocery 84,000-120,000 sqft 2,000+ units opened
Target	1962+ Target DDS	1990 Target Greatland DDS with some grocery 120,000-135,000 sqft 700+ units opened (?)	1995 Super Target Supercenter 175,000 sqft 177 units opened	
Wal-Mart	1962+ Wal-Mart DDS	1987 Hypermarket*USA Hypermarket 220,000 sqft 4 units opened	1988 Wal-Mart Supercenter Supercenter 120,000-186,000 sqft 2,326 units opened	1998 WM Neighborhood Market Supermarket 42,000 sqft 118 units opened
Loblaw	1919 Loblaw Supermarket	1979 The RCSS Supercenter (W. Canada) 75,000-80,000 sqft 97 stores (2006)	1984 The SuperCentre Supercenter (Ontario) 90,000-100,000 sqft 7 units (at max) converted	1986 Atlantic superstore Supercenter (Maritime C.) 60,000-80,000 sqft 53 units

Note: WMT also rolled out a limited food "pantry" range; across many of its stores but gave this no special name; Source: various published articles; various annual reports; Coriolis analysis

LOSE MONEY INITIALLY
4. Many hypermarkets initially lose money

More examples available as required

- "At year-end, Loblaw Cos. Ltd. will have lost about $35-million from three years of operating its giant combination food and general merchandise stores, president Richard Currie says... Ontario's superstore losses should shrink to about $5-million in 1989 compared with losses of $15-million in each of the two previous years, he said. He expects to recoup the losses by the end of 1991 - "I expect big things in 1991" - and said the supercentres will be either the top, or among the top, profit makers in their regions within three years." *The Globe & Mail (Canada), March 1989*

- "Wal-Mart's venture into hypermarkets could contribute about $148 million to total sales in 1988; however, we assumed the operation would lose about $5 million, with no meaningful impact on the bottom line... Among the noted risks as we see them:
  - The concept may still prove unsuccessful in convincing shoppers to buy softgoods at a "food" store. Previously, similar formats have had difficulty blending the merchandise. However, on a recent visit to the Garland store, we found consumers buying both food and apparel.
  - Price competition from supermarkets is likely to be extremely intense and may not allow the company to establish the price image they seek in certain merchandise categories. Perhaps more important, if supermarket prices come down, convenience is likely to be just as important as price, and the hypermart could lose business to supermarkets.
  - We question how often the consumer will drive past the local Wal-Mart discount store to shop at the hypermart.
  - Wal-Mart's management must develop the food expertise to run the hypermarts that are not joint-ventured with other food retailers.
  - Real estate locations could be a source of concern, inasmuch as the hypermarts will typically require about 30 acres of land.

- Even if Wal-Mart is unsuccessful in this venture, we estimate it will have little impact on earnings over the near term. We estimate the hypermarts will contribute $148 million to total revenues in 1988 and $200 million in 1989. The bottom-line contribution in both years is negligible. " *W Hood, analyst, Prudential Securities, March 1988*

COMPETITORS LAUNCH COPYCAT STORES
5. The opening of a hypermarket by one market participant generally triggers other market participants to also launch the format

Examples of multiple hypermarket launches in close time periods
(launch of hypermarket; various countries; various times)

Country (time period	Hypermarket Launcher	Hypermarket Followers
France (1960's)	Carrefour	Leclerc Auchan Casino Promodes
United States (1980's)	bigg's	Hypermart*USA/Wal-Mart Supercenter American Fare/Super Kmart Auchan Carrefour Big Bear Plus Twin Valu Leedmark Target Greatland
Canada (1970's)	Hypermarché	Knob Hill Farms
Australia (1980's)	Super Kmart	Pick'n Pay
United Kingdom (1970's)	Carrefour	SavaCentre Tesco HM Castlecare
United Kingdon (1990's)	Tesco Extra	Asda Wal-Mart SC

IF YOU DON'T GET IT RIGHT THE FIRST TIME...

6. Early experiments have effectively failed in a number of countries (United Kingdom, Eastern Canada, Australia, Switzerland) only to return to the concept at a later date

Examples of the rebirth of the hypermarket in countries with previous experiments
(store fascia; various dates)

Country	Hypermarket concept "fails" by failing to achieve significant share in 1970's-1980's	Hypermarket concept is reborn in late 1990's-2000's
United Kingdom	Carrefour Tesco Hypermarket	Tesco Extra Asda Wal-Mart Supercentre
Eastern Canada	Hypermarché Knob Hill Farms Food Terminal The supercentre	Real Canadian Superstore Maxi & Co.
Switzerland	Carrefour Maus Jumbo	Carrefour[1] Migros
Australia	Super Kmart Pick'n Pay	Coles Supercentre (planned)

1. Carrefour has just (August 2007) sold its Swiss hypermarket JV to Coop Suisse

APPENDICIES

Appendix 1	**Details of all screened international markets**
Appendix 2	**Details of hypermarket launches in identified parallel markets**
Appendix 3	**Australian experience with hypermarkets**

APPENDIX 1 – DETAILS OF SCREENED MARKETS

DEFINING THE SEARCH UNIVERSE

For our initial search for hypermarkets, we defined very wide search criteria encompassing effectively all of the developing and developed world

Countries defined as part of hypermarket search universe

(world map; 2007)

Selection criteria	Examples
Those without effective market economy	North Korea, Cuba, Myanmar
Regions of very small islands[1]	Caribbean islands, Pacific islands
Undeveloped, low income regions[1]	Sub-Saharan Africa, Central Asia

CORIOLIS RESEARCH

1. Note: To date we are aware of hypermarkets in Guadeloupe, Dominican Republic, Puerto Rico, Martinique, French Guyana, Mayotte, Madagascar, New Caledonia, French Polynesia, Reunion, Kazakhstan, Angola, Sudan, Benin, Kenya, Rwanda, Uganda & Tanzania

HYPERMARKETS – NORTH & CENTRAL AMERICA
The hypermarket/supercenter concept is still growing in North and Central America

Current hypermarket situation by country
(presence of format; 2007)

Country	Pop.	Year of first hypermarket launch	Penetration and strength of hypermarkets	Key hypermarket operators (store fascia)	Comments/Notes
United States	302m	1962	Medium (still growing rapidly)	Wal-Mart (WMSC: 2,256) Meijer (Meijer: 181) Target (Super Target: 177) Kroger (Fred Meyer: 150*) Sears (Sears Grand: 74) Sears/Kmart (Super Kmart: 55)	Supermarket operator Meijer opened 100,000 sqft. Meijer Thrifty Acres in 1962; WMT launched Hypermart*USA in 1987; Kmart launched American Fair in 1989; Auchan entered 1988 and exited 2002; Carrefour entered in 1988 and exited 1992; Target launched SuperTarget 1995; bigg's; HEB Plus; Smith's Marketplace
Canada	33.0m	1973/1979	Low (never a priority for incumbents until recent WMT entry)	Loblaws (RCSS 164[1]) Wal-Mart (WMSC 7+)	Oshawa launches single HM in 1973; others launch; Loblaws launched "The Real Canadian Superstore" in 1979; Wal-Mart launched WMSC in Nov 2006; in response to expected WMT entry Loblaw has been opening more & larger stores
Mexico	103.3m	1980's	High	Soriana (S. Hipermart: 157) Wal-Mart (WMSC: 118) Gigante (Gigante: 88) Comerci (Mega: 56)	Local SM Comerci launches HM in 1980's; Gigante and CIFRA (DDS/SM) launches HM as well; WMT entered in 1991 via JV with CIFRA; later restructured into Wal-Mart Mexico; launched first SC in 1993; Carrefour entered 1994 and exited 2005 (sold to local Chedraui); Auchan exited 2002;
Costa Rica	4.5m	1990's	Low	Wal-Mart (Hiper Mas: 4)	Market leader CARHCO was partially owned by Ahold, now 51% owned by WMT
El Salvador	6.9m	1999	Low	Wal-Mart (Hiper Paiz: 2)	WMT entry via CARHCO
Guatemala	13.4m	1994	Low	Wal-Mart (Hiper Paiz: 6)	WMT entry via CARHCO
Honduras	7.1m	2005	Low	Wal-Mart (Hiper Paiz: 1)	WMT entry via CARHCO
Panama	3.3m	1990's	Medium	Martinelli (Super 99: 33[1])	Local supermarket leader expands into hypermarkets
Ecuador	13.3m	1990's	Low	Supermaxi (Megamaxi) El Rosado (Hiper Market)	Local supermarket chains expand into hypermarkets

1. Unclear all these stores are HM; Source: various company annual reports; various published articles; various retailing industry reports and papers; various websites; Coriolis analysis

HYPERMARKETS – SOUTH AMERICA
The hypermarket format is very strong across much of South America

Current hypermarket situation by country
(presence of format; 2007)

Country	Pop.	Year of first hypermarket launch	Penetration and strength of hypermarkets	Key hypermarket operators (HM store fascia: units)	Comments/Notes
Brazil	186.7m	1975	High (~30%)	Carrefour (Carrefour: 143) Casino/PdA (Extra: 84) Wal-Mart (Hiper B./Big: 66)	Carrefour 1975; WMT entered 1995; Ahold sold; Casino acquired share in Pao de Acucar in 1999; WMT acquires Ahold (Bompreco) 2004 and Modelo/Sonae (originally from Portugal) in 2005; Carrefour acq. 10 HM from Sonae in 2005
Argentina	39.5m	1982	High	Carrefour (Carrefour: 30) Coto (Coto HM: 15) Casino (Libertad: 13) Cencosud (Jumbo/PV: 22) Wal-Mart (WMSC: 13)	Carrefour (Promodes) entered 1982; Cencosud/Jumbo (CL) entered 1982; Auchan exited 04/05 (sold to BTP San Jose (ES)); Ahold exited (sold to Jumbo (CL)); WMT entered 1995; Coto is local SM operator that expanded into HM as a result of international player entry; Casino acq. local Libertad 1998
Uruguay	3.3m	1999	Very Low	Casino (Geant: 1)	Casino acquires Disco UY in 1998 & opens first HM in 1999
Chile	16.7m	1976/1995	High	D&S (Lider: 59) Cencosud (Jumbo: 21) Unimarc (Hiper Unimarc: 1)	Domestic Cencosud supermarket launches Jumbo hypermarket format in 1976; D&S launches Ekono HM in 1987 and Lider HM in 1995; Falabella launched HM Tottus acquired by D&S 2007; Centrosud purchases Santa Isabela from Ahold 2005; Carrefour entered 1998 and sold to Cencosud in 2003;
Colombia	44.0m	1990's	High (25%+)	Casino/Cencosud (Exito: 47) Carrefour (Carrefour: 31) Alkosto (Hiperbodega: 9)	Carrefour 1998; Casino entered via acquisition of existing player Exito in 1999; Exito also partially owned by Cencosud of Chile; Casino/Exito acquires additional local SM/HM
Venezuela	27.7m	2001	Low (recent)	Casino/Cativen (Exito: 7) *Numerous smaller chains*	Casino entered via acquisition of Exito in 1999; launch and aggressive growth of hypermarket format by Cativen (51% Casino; FR); 1 unit 2001; 7 units 2006 ; other chains follow with prototype hypermarkets
Peru	27.9m	2001?	Low-Medium (recent)	E. Wong (Metro: 11) S. Peruanos (HM Plaza Vea: 9)	Ahold bought Santa Isabela (Peru) then sold to Interbank in 2003; renamed SP

Source: various company annual reports; various published articles; various retailing industry reports and papers; various websites; Coriolis analysis

HYPERMARKETS – WESTERN EUROPE
The hypermarket has been successful across much of Western Europe…

Current hypermarket situation by country
(presence of format; 2007)

Country	Pop.	Year of first hypermarket launch	Penetration and strength of hypermarkets	Key hypermarket operators (store fascia)	Comments/Notes
Austria	8.3m	1968	Medium (10%+)	Spar (Interspar/Maximarkt: 60) Rewe/Billa (Merkur:	Rewe/Billa acquired part of Meinl (PamPam HM) in 1999
Belgium/Lux	11.0m	Early 1970's	Medium (15%) (legislation)	Carrefour (Carrefour: 56) Louis Delhaize (Cora: 9) Auchan (Auchan: 1)	Carrefour entered 1969; re-entered 2001 via acquisition of GB;
Denmark	5.6m	?	Low-Medium (planning)	Dansk (Bilka: 13) Coop Norden (Kvickly Xtra: 14)	Local SM operator Dansk launches; local SM coop follows
Finland	5.3m	?	High	Kesko (Citymarket: 51) S-Group (Prisma: 50) Tradeka (Euromarket: 26)	Local SM operator Kesko and local SM coop both develop HM; #3 SM operator follows
France	64.1m	1963	Very high (33% of food; 13% of non-food; 51% of grocery)	Carrefour (Carrefour: 218) Intermarche (???) Auchan (Auchan: 120) Leclerc (Leclerc: 384) Casino (Geant: 128) Louis Delhaize (Cora: 59) *others*	Carrefour invented the modern hypermarket in 1963 and grew rapidly with concept; E.Leclerc opens first HM 1964; Casino 1970; all major supermarket groups offer hypermarkets today; Auchan opened first HM in 1967; market now dominated by HM, with large hyper 32% and small hyper 20%
Germany	82.3m	Early 1970's	High (25%)	Lidl&Schwartz (Kaufland: 450) Metro (Real: 272) Rewe (Globus/Toom: 97) Edeka/AVA (Marktkauf: 182*) Edeka/AVA (E-center: 235*) Tengelmann Globus (Globus: 31)	Most Germany retailers and several start-ups launch hypermarkets soon after France; Promodes (now part of Carrefour) entered; market now highly penetrated. WMT entered in 1997 following purchase of two small German HM chains and conversion to Wal-Mart Supercenter format; stores sold to Metro in 2006; significant restrictions remain on large store openings, but some players still growing with compact format (e.g. Kaufland)

Source: various company annual reports; various published articles; various retailing industry reports and papers; various websites; Coriolis analysis

HYPERMARKETS – WESTERN EUROPE
The hypermarket has been successful across much of Western Europe... *continued*

Current hypermarket situation by country
(presence of format; 2007)

Country	Pop.	Year of first hypermarket launch	Penetration and strength of hypermarkets	Key hypermarket operators (store fascia)	Comments/Notes
Ireland	4.2m	2004	Low (new)	Tesco (Tesco Extra: 3)	UK chain with SM adds HM
Italy	59.1m	1970's	Medium (9%)	Coop Italia (Ipercoop: 78) Auchan (Auchan: 43) Carrefour (Carrefour: 56) Conad/Leclerc (Leclerc: 14) Supercentrale Spar (Interspar) Esselunge	Carrefour entered 1972 and later exits; Auchan entered 1989; local coop launches then expands into Croatia; Carrefour re-enters in 1993; other local/international groups launch HM
Netherlands	16.4m	?	Low (4%) (400 people/km2)	Van Erd (Jumbo) *Others (AHXL, Konmar)*	Development by local operators; largest are very small by international standards; effectively compact HM
Norway	4.8m	?	Medium	Coop Norden (Coop Obs! 21) ICA (ICA Maxi: 16)	local SM cooperative launches HM
Portugal	10.6m	1985	High (30%)	Auchan (Jumbo: 17) Sonae/Modelo (Continente: 25) Leclerc (Leclerc: 12) Jeronimo Martins (FeiraNova:9)	Continente opens first HM 1985; Carrefour entered via acquisition of Euromarche 1991; Auchan entered 1996 via Pao de Acucar acquisition; Carrefour sold Sonae/Modelo Continent jv share (to Sonae) in 2004 and 10 Carrefour branded HM to Sonae in 2007 (exiting HM market)
Spain	45.1m	1973	High (30%)	Carrefour (Carrefour: 154) Eroski (Eroski: 81+) Auchan (Alcampo: 47) El Corte Ingles (Hipercor: 34) Leclerc (Leclerc: 7)	Carrefour 1973; Eroski (coop) launches own format; Auchan entered 1981; Local operator El Corte Ingles launched

HYPERMARKETS – WESTERN EUROPE
The hypermarket has been successful across much of Western Europe... *continued*

Current hypermarket situation by country
(presence of format; 2007)

Country	Pop.	Year of first hypermarket launch	Penetration and strength of hypermarkets	Key hypermarket operators (store fascia)	Comments/Notes
Sweden	9.1m	?	Medium	Coop Norden (Coop Forum: 50) ICA (Maxi ICA: 37) Axel Johnson (Super Willys: 2)	Local coop (Coop Norden) and local SM operator open
Switzerland	7.5m	1970	Medium	Migros: 40 Coop Suisse (Carrefour: 12)	Carrefour enters in 1970 in JV with Mercure then later exits (sites); Migros (local co-op; #1 SM) launches HM in 1970; Maus (DS; other retail) launches Jumbo HM in 1974; in 2000 Carrefour purchases 40% (later 50%) share in Maus Jumbo operations to re-enter market; Maus/Carrefour sells 12 HM/E504m sales venture to Coop Suisse (#2 SM) in Aug 2007
United Kingdom	60.2m	1972/2000	Low (sites and legislation/planning restrictions)	Tesco (Tesco Extra: 147) Wal-Mart (ASDA-WMSC: 23)	Carrefour opened in Caerphilly, Wales in 1974 in jv with local wholesaler (WD&T acquired by Linfood/Gateway); Tesco opened a test HM in Irlam in 1976; Gateway/Carrefour jv opens 7 HM; Gateway sells HM to ASDA in late 1980's; Tesco re-launches HM into UK with Tesco Extra format in 1997 leveraging international experience with format in other countries; ASDA re-launched hypermarket as ASDA Wal-Mart Supercenter following acquisition by Wal-Mart in 1999;

HYPERMARKETS – CENTRAL/EASTERN EUROPE

The fall of Communism across Central/Eastern Europe and the ensuing market deregulation triggered a massive influx of Western European hypermarket operators...

Current hypermarket situation by country

(presence of format; 2007)

Country	Pop.	Year of first hypermarket launch	Penetration and strength of hypermarkets	Key hypermarket operators (store fascia)	Comments/Notes
Croatia	4.6m	Late 1990's	Low (growing)	Coop Italia (Ipercoop: 4) L&S (Kaufland) Spar (Interspar: 2+) Mercator (Mercator: 3) Konzum (SuperKonzum)	L&S enters 2001; Spar Austria enters 2005; Mercator (SL);
Cyprus	0.9m	1996	Medium-High	Carrefour (Carrefour: 7) Chara. (AlphaMega: 2)	Organic HM development by local operators Chris C&C (acquired by Carrefour in 2005) and Charalambides AlphaMega
Czech	10.3m	Mid-1990's (market opening)	Medium-High	Tesco (Tesco Extra: 46) L&S (Kaufland) Spar (Interspar: 24) Glubus (Globus: 31)	Tesco 1997 via acquisition; Ahold 1991 SM then HM (Hypernova); L&S 1997 via acquisition; Carrefour entered 1998 and exited 2006 selling to Tesco; Globus
Estonia	1.3m	Late-1990's	Low-Medium	Kesko (Citymarket: 7) ETK (Maksimarket: 5+) S-Group (Prisma: 4) Selve (Selver) ICA (Maxi Rimi: 1)	Kesko (Finland) acquired local SM/HM operator Saastumarket in 2001; ETK Coop SM operator launches own HM format; ICA enters organically into SM/HM; Local SM operator Selver launches HM
Greece	11.1m	1991	Low (growing)	Carrefour (Carrefour 15+)	Continent operns HM in 1991; Carrefour/Marinopoulos jv 1993; Carrefour 1999 via acquisition of JV partner;
Hungary	10.0m	1994	Medium-High	Tesco (Tesco Extra: 67) Auchan (Auchan: 10) Spar (Interspar: 26) Louis Delhaize (Cora: 7)	Tesco 1994; Auchan 1998; Louis-Delhaize (Cora) enters 1997 via franchisee (Magyar Hipermart Kft NL); local SM chains have not developed HM formats (Coop Hungary & CBA)
Latvia	2.3m	Mid-1990's	Low-Medium	ICA (Maxi Rimi: 6) Kesko (Citymarket: 10)	Kesko and ICA enter and launch HM

Source: various company annual reports; various published articles; various retailing industry reports and papers; various websites; Coriolis analysis

HYPERMARKETS – CENTRAL/EASTERN EUROPE

The fall of Communism across Central/Eastern Europe and the ensuing market deregulation triggered a massive influx of Western European hypermarket operators… *continued*

Current hypermarket situation by country

(presence of format; 2007)

Country	Pop.	Year of first hypermarket launch	Penetration and strength of hypermarkets	Key hypermarket operators (store fascia)	Comments/Notes
Lithuania	3.4m	2000's	Low	VP Market (?) ICA (Maxi Rimi: 3)	ICA enters organically into SM/HM; Local SM operator VP Market launches HM
Macedonia	2.0m	2006	Low	Veropoulos (Vero: 3)	Greek chain enters with SM/HM
Poland	38.1m	1994	High	Tesco (Tesco Extra: 52) Metro (Real: 49) Carrefour (Carrefour: 42) Auchan (Auchan: 20) L&S (Kaufland) Leclerc (Leclerc: 11)	Dohle (Hit) enters in 1994 and exits 2002 selling to Tesco; Tesco enters 1995; Auchan 1996; Casino 1996 and sells to Metro 2006; Carrefour entered 1997; L&S (Kaufland) enters 2001; Jeronimo Martins (PT)(Jumbo) sells to Ahold; Dohle (DR)(HIT) sells to Tesco 2002; Ahold (NL)(Hypernove) sells to Carrefour 2003; Leclerc enters ?;
Serbia	9.9m	2001	Low	Veropoulos (Vero: 3) Mercator (Mercator: 1)	Mercator entry; Veropoulos entry from Greeece 2001
Slovakia	5.4m	2000	High	Tesco (Tesco Extra: 37) L&S (Kaufland)	L&S 2000; Tesco 2000; Ahold (Hypernova); Carrefour entered 2000 and exited 2006 selling to Tesco;
Slovenia	2.0m	Late-1990's	High	Mercator (Mercator: 22) Spar (Interspar: 9) Leclerc (Leclerc: 1)	Local SM operator Mercator launched and is strongest player; European retailers currently entering
Turkey	74.9m	1994	Medium (10%+)	Koc/Migros Turk (MMM: 37+) Yimpas (Yimpas: 43) Tesco (Tesco Kipa: 15+) Carrefour/Sabansi (C: 13) Metro (Real: 8)	Extensive development by locals; Migros develops own HM format MMM; Tansas develops Tansas Macrocenter; Carrefour (Promodes) entry 1994 via JV with Sabansi; Metro 1998; Carefour acquires Gima in 2005; Tesco acquires share in Kipa; Migros acquires Tansas in 2006

Source: various company annual reports; various published articles; various retailing industry reports and papers; various websites; Coriolis analysis

HYPERMARKETS – EASTERN EUROPE/RUSSIA

The fall of Communism across Eastern Europe/Russia and the ensuing market deregulation triggered a massive influx of Western European hypermarket operators and local operations

Current hypermarket situation by country

(presence of format; 2007)

Country	Pop.	Year of first hypermarket launch	Penetration and strength of hypermarkets	Key hypermarket operators (store fascia)	Comments/Notes
Belarus	9.7m	2005?	Low	Hippo ProStore (ProStore)	Government has announced 11 HM by 2010
Bulgaria	7.6m	2004	Low (growing)	L&S (Kaufland: 11) Dohle (Hit: 2+) Carrefour (*announced*)	L&S entered 2006; Koc/Migros enters with Ramstore and sells in 2005; Dohle (DE) enters with Hit in 2004; Carrefour plans entry via Greek subsidiary
Romania	21.4m	2000's	Low-Medium (rapid growth)	L&S (Kaufland: 29) Metro (Real: 8) Carrefour (Carrefour: 7) Rewe (XXL: 5) Louis Delhaize (Cora: 3) Auchan (Auchan: 1) Spar (Interspar: 1)	L&S enters 2005; Metro entered 2006; Louis Delhaize (BE) (Cora: 1)
Russia	142.5m	1998?	Low 3% (rapid growth)	Auchan (Auchan: 14) Migros Turk (Ramstore: 7) Metro (Real: 6) Lenta (Lenta: 6+) Perekrestok (P Plus: 7) Dorinda: (Okay:3+) Novosibirsk (Gigant) Spar (Interspar)	Market initially strongly local operators: Perekrestok (2002); Dorinda (LX invest)(2001); Lenta (1999); Pyaterochka (2004); Sedmoy Continent (2004); P & P merge 2006 INTL: Migros Tirk* Ramstore 1997; Spar via franchise locals Interspar 2001; Auchan 2002; Edeka/AVA Marktkauf 2003; Metro initially C&C 2001 then Real 2004
Ukraine	46.2m	2002	Low (rapid growth)	Fozzy (Fora) Velyka Kyshenya (Velyka: 5) Garantiya-Trade Tavriya-V (Tavriya-V: 2) Karavan (Megastore) Perekrestok	Very rapid development of HM (2001=0; 2003=38); development driven by local groups; Russian HM operator Perekrestok has entered

 Source: various company annual reports; various published articles; various retailing industry reports and papers; various websites; Coriolis analysis

HYPERMARKETS – NORTH AFRICA/SOUTH AFRICA

Hypermarkets currently have only a limited presence across North Africa (due to regulation); South Africa pioneered the format in 1975 and later tried to export it to Australia

Current hypermarket situation by country

(presence of format; 2007)

Country	Pop.	Year of first hypermarket launch	Penetration and strength of hypermarkets	Key hypermarket operators (store fascia)	Comments/Notes
Morocco	31.2m	Late 1990's	Low	Auchan (Marjane: 13) Casino (Aswak Assalam: 2)	Local operator ONA developed Marjane HM format; Auchan acquired 49% share in this in 2001; Auchan sold share back to ONA in 2007 and exited; Casino enters in 2004 via local partner
Algeria	33.9m	2007	Very low (new)	Carrefour (Carrefour: 1)	
Tunisia	10.3m	2001	Very low (regulation)	Carrefour (Carrefour: 1) Casino (Giant: 1)	Government controlling large store openings for "social stability"; Casino via local jv (Mabrouk Group);
Egypt	75.5m		Very low	MAF/Carrefour (Carrefour: 3) GMK Retail (Spinneys: 1)	Carrefour entry via jv with local partner
South Africa	48.6m	1975	Low-Medium	Pick'n Pay (PNP HM: 16)	Launch by local SM operator in 1975

HYPERMARKETS – MIDDLE EAST
Hypermarkets are growing rapidly in the Middle East, with a mixture of European entrants and local chains

Current hypermarket situation by country
(presence of format; 2007)

Country	Pop.	Year of first hypermarket launch	Penetration and strength of hypermarkets	Key hypermarket operators (store fascia)	Comments/Notes
Israel	7.2m	?	Low-Medium	Blue Square (Mega: 39) Clubmarket (Jumbo)	Launch by local SM leader
Jordan	5.9m	2006	Very low (new)	MAF/Carrefour (Carrefour: 1)	UAE franchisee opens in Jordan
Kuwait	2.9m	1990's	Low (growing)	TSC (Sultan Center : 6) Emke (LuLu: 1)	Local SM operator develops HM concept; UAE HM player entry
Lebanon	4.1m	2004	Low (new)	GMK Retail (Spinneys: 6) Casino (Geant: 1)	Local operator develops HM then exports to Egypt; Casino enters in 2004 via local partner (Retail Arabia)
Saudi Arabia	24.7m	?	Low (growing)	Casino (Geant: 12) MAF/Carrefour (Carrefour: 5) Savola (Hyper Panda: 4) Emke (*planned*)	Casino enters via local partner in 2004;
UAE	4.4m	1995	High	Emke (LuLu: 40+) MAF/Carrefour (Carrefour: 10) Casino/Sana (Geant: 1) Savola (Panda: 1)	Majid Al Futtaim Group (MAF) franchises Carrefour brand; initial rollout in UAE followed by regional expansion; Local operator Emke opens LuLu format, then exports to Kuwait & Oman; Casino enters in 2001 in JV with local operator (Bahrain 2001; Dubai 2005); Panda (Saudi) opened in 2006
Qatar	0.8m	2004	Low (growing)	MAF/Carrefour (Carrefour: 2) Casino (Geant: 1) Emke (LuLu: 1)	Emke estimates 80% of food sales will be in HM by 2010
Oman	2.6m	2004	Low (growing)	Emke (LuLu: 4) Carrefour (Carrefour: 1)	UAE HM operator Emke/LuLu enters 2007; Carrefour franchise
Yemen	22.4m	2006	Low (growing)	Emke (LuLu: 1)	UAE HM operator Emke/LuLu enters 2006

Source: various company annual reports; various published articles; various retailing industry reports and papers; various websites; Coriolis analysis

HYPERMARKETS – EAST ASIA
Hypermarkets are a strong force across East Asia, with China being the current battleground

Current hypermarket situation by country
(presence of format; 2007)

Country	Pop.	Year of first hypermarket launch	Penetration and strength of hypermarkets	Key hypermarket operators (store fascia)	Comments/Notes
Japan	127.8m	?	Medium	AEON (Jusco: 300+) Ito-Yokado (Ito-Yokado: 184) Daiei (D HiperMart: 20/184) Japan (Livin/Seiyu: 97) Heiwado (H. Plaza: 34)	Long history of food within dept. store offer; large sites a challenge; market dominated by local operators, most of whom launched HM format; Carrefour entered 2000 & exited 2005 (sold to local AEON); Jusco launched MaxValu SC; Wal-Mart enters in 2002 via shareholding in troubled local operator Seiyu
China	1,320m	1995?	Low (growing)	Lianhua (Lianhua 117) Carrefour (Carrefour: 90) Auchan (RT Mart: 84) Wal-Mart (WMSC: 68) Tesco (Tesco: 47) CP (Lotus: 23) Spar (Interspar: 17) AEON (Jusco: 16) Wu Mart (Wu Mart: 12) NTUC (Nextmart: 7) Ito-Yokado (Ito-Yokado: 5)	Multi-stage deregulation leads to numerous foreign HM entrants; local retailers successfully launch HM formats (e.g. Lianhua); Carrefour entered China 1995 & Hong Kong 1996; Wal-Mart enters 1996; Auchan entered 1999; Carrefour exits Hong Kong 1999; Spar 2005; Tesco enters via 50% acquisition/jv (Hymall) 2005; Park'nShop operates Megastore in HK
South Korea	48.5m	1993	High (fast growing)	Shinsegae (E-Mart: 92+) Tesco (Tesco Homeplus: 52) Lotte (Lotte Mart: 36+) Homever (Homever: 25+) Mega Mart (Mega Mart: 11)	Local Shinsegae (Dept. Store) launched E-Mart in 1993; Lotte chaebol (inc. Dept. Store) launches Lotte Mart; Carrefour entered in 1996 & exited in 2006 (stores sold to local operator); WMT entered in 1998 and sold to Shinsegae/E-Mart in 2006; Tesco entered in 1999 via acquisition of Samgsung HomePlus HM; Lotte Mart & E-Mart now expanding into Asia
Taiwan	22.9m	1989	Medium	Carrefour (Carrefour: 47) Auchan (RT Mart: 23) AEON (Jusco: 1)	Carrefour 1989; Casino entered 1998 in JV with Dairy Farm (HK) both exit DF (2000) & C (2006); Auchan entered via acquisition of RT Mart in 2000; Casino exited

Source: various company annual reports; various published articles; various retailing industry reports and papers; various websites; Coriolis analysis

HYPERMARKETS – SOUTH EAST ASIA

South-East Asia has a rapidly developing hypermarket infrastructure and government regulation of store openings to protect small shopkeepers has begun in some countries (cf. France in 1970's)

Current hypermarket situation by country

(presence of format; 2007)

Country	Pop.	Year of first hypermarket launch	Penetration and strength of hypermarkets	Key hypermarket operators (store fascia)	Comments/Notes
Malaysia	27.2m	Late 1990's	Medium	Dairy Farm (Giant: 28) Tesco (Tesco Extra: 19) AEON (Jusco: 11) Carrefour (Carrefour: 10)	Carrefour 1994 (partially locally owned); Giant local HM operator acquired by Dairy Farm in 1999; DF then expands rapidly and takes concept to Singapore and Indonesia
Indonesia	231.6m	1996	Low (growing rapidly)	PTM/Matahari (Hypermart: 27) Dairy Farm (Giant: 17) Carrefour (Carrefour: 15)	WMT entered 1996 via franchise agreement with local Dept. Store/SM operator PT Multipolar and exited 1998 (conflict with franchisee/lawsuit; franchisee now market leader; Carrefour enters in 1998; Dairy Farm with SM launched HM format from Malaysia
Philippines	88.7m	1998	Low	Rustan (Shopwise: 6+) SM (SM Super Hypermarket 4) Puregold (Puregold)	Casino planned to entered via acquisition of Uniwide (11 HM) in 2000; later cancelled
Singapore	4.4m	1997	Low (sites)	Dairy Farm (Giant: 8) Carrefour (Carrefour: 2) NTUC (FairPrice Xtra 1)	Carrefour 1997; Dairy Farm opens Giant format (from Malaysia) in 2000;
Thailand	62.8m	1996	Medium-High (22%)	Tesco (Tesco Lotus: 75) Casino (Big C: 49) Carrefour (Carrefour: 24) AEON (Jusco: 7)	Carrefour 1996; Casino acquires Big C in 1999; Auchan sold 1 existing store to Casino 2001; Tesco bought out local operator CP in 1998 (CP still operates HM in China);
Vietnam	87.4m	2005	Low (recently opened economy)	Casino (Big C: 5)	Market in process of opening due to WTO committments; Casino entered 2005 via jv; four local retailers merge (VDA) and plan to open hypermarekts

HYPERMARKETS – INDIAN SUBCONTINENT
In India, partial deregulation, but continued restrictions on foreign ownership, has encouraged a flurry of noise, but only very few hypermarket openings (to date)

Current hypermarket situation by country
(presence of format; 2007)

Country	Pop.	Year of first hypermarket launch	Penetration and strength of hypermarkets	Key hypermarket operators (store fascia)	Comments/Notes
India	1,169m		Very low (recently opened economy)	Pantaloon (Food Bazaar) Vishal Retail (?) Magnet (?) Star India Bazaar (?) RPG (Spencer's Hyper) Reliance (Reliance Mart 1) Shoprite SA (Shoprite 1) Landmark (*announced*) Tesco (*announced*) Carrefour (*announced*) Wal-Mart/Bharti (*announced*) *Others*	Change in laws triggers retail investment boom; limitations still exist on foreign ownership; main players primarily Indian conglomerates (at this point); market evolving very rapidly; Dairy Farm opened 2001 in JV sold share 2003; huge expansion plans announced by multiple players
Sri Lanka	19.3m	?	Very low	Arpico (A. Supercentre)	

HYPERMARKETS – AUSTRALASIA

Australia had two hypermarket experiments in the 1980's, a number of planned ventures that got nowhere and the recent launch of The Warehouse Extra

Current hypermarket situation by country

(presence of format; 2007)

Country	Pop.	Year of first hypermarket launch	Penetration and strength of hypermarkets	Key hypermarket operators (store fascia)	Comments/Notes
Australia	21.0m	198	Very low	Coles Myer (Pick'n Pay: 2) Coles (C. SuperCentre: *planned*)	Coles Myer opened Super Kmart in 1982, grew to 34 units, then separated Coles SM and Kmart "halves" of stores; Pick'n Pay of South Africa entered with HM in 1984, had trouble with unions over apartheid in SA, sold to Coles Myer in 1995; Coles Myer opened a second PNP location in 1998; Coles has recently announced plans to open (reopen) a hypermarket chain across Australia
New Zealand	4.0m	2006	Very low (growth)	TWS (The Warehouse Extra: 3)	Foodland/Progressive Enterprises planned to open a 10,000m2 Countdown Hypermarket at Westgate in 1993; second 9,000 m2 site planned at Otahuhu to open in 1994; stopped by management change; Progressive Enterprises planned to open a hypermarket at Manukau in Auckland sometime in the late 2000's; The Warehouse opened The Warehouse Extra in 2006 in Sylvia Park, 2 additional stores opened to date

Source: various company annual reports; various published articles; various retailing industry reports and papers; various websites; Coriolis analysis

APPENDIX 2 – DETAILS OF HM LAUNCHES IN IDENTIFIED PARALLEL MARKETS

HYPERMARKETS – UNITED STATES EXPERIENCE

The hypermarket/supercenter concept originated in the United States, but there were only a limited number of stores until the mid 1990's...

Experiments with hypermarket/supercenter formats in the United States

(1962-2007)

Fascia	Year	Launch	Outcome
Meijer	1962	Regional 24+ store supermarket chain in Michigan opens world's first hypermarket, Thrifty Acres; store is 100,000 sqft; concept is highly successful and a growth vehicle for company	Stores later renamed Meijer; chain is today the second largest operator of hypermarkets in the US market
Fred Meyer	1968	Regional department store, supermarket and drug store operator in the Pacific Northwest opens Fred Meyer store	Chain acquired by KKR following death of founder; executes on regional roll-up strategy; launches smaller compact "Marketplace" format with limited range of departments; chain acquired by Kroger in 1999; stores still in operation today; Kroger is leveraging concept into other banners
bigg's	1984	Joint-venture between Euromarche ((at the time) #2 European hypermarket operator and SuperValu (at the time #2 US grocery wholesaler and regional discount department store operator (ShopKo))	Supervalu acquired 100% of JV in 1994; chain still in operation with 11 stores in three states (OH, KY, IN)
American Fare	1989	Kmart (#1 discount department store operator in the US market (at the time)) opens 244,000 sqft hypermarket as a joint-venture with Bruno's Supermarkets, a regional supermarket chain	Only 3 stores opened; Bruno's sold out of joint-venture in 1992; Kmart focused instead on Super Kmart format; stores converted to that format
Hypermart* USA	1987	Wal-Mart (at the time) a regional discount department store operator opens 220,000 sqft hypermarket in Texas ; store uses warehouse-type fixtures and racking	Only 4 stores opened; WMT focuses on smaller Wal-Mart Supercenter concept and converts all stores to that brand
Wal-Mart Supercenter	1988	Wal-Mart (at the time) a regional discount department store operator opens 126,000 sqft supercenter in Washington, Missouri to find and test a hypermarket format suitable for smaller towns	Concept in development for 5 years then hugely successful with 2,256+ now in operation; stores are both new builds and conversions of existing discount department stores; Wal-Mart is not the largest retailer of groceries in the United States market
Auchan	1988	Organic entry into US market by #2 French hypermarket operator opening a hypermarket in Houston	Opens second store in Chicago in 1989, which was sold in 1991 to Dominick's; opened a third store in Houston in 2000; both closed in 2003 when Auchan exited the market

Source: various company annual reports; various published articles; various retailing industry reports and papers; various websites; Coriolis analysis

HYPERMARKETS – UNITED STATES EXPERIENCE
The hypermarket/supercenter concept originated in the United States, but there were only a limited number of stores until the mid 1990's… *continued*

Experiments with hypermarket/supercenter formats in the United States
(1962-2007)

Fascia	Year	Launch	Outcome
Big Bear Plus	1988	Big Bear, a regional department store (Harts) and supermarket (Big Bear) operator launches hypermarket; many early stores are department store conversion	Parent company acquired by regional supermarket operator Penn Traffic; opened BBP 21 stores; parent company went bankrupt twice during 1990's; all BBP stores sold or closed during second bankrupcy
Carrefour	1988	Leading hypermarket operator in France opens hypermarket in Philadelphia	Opens second store in New Jersey in 1992; sold both and exited market in 1993
Twin Valu	1989	SuperValu (at the time) #2 US grocery wholesaler and regional department store operator (ShopKo; 87 stores) (and part of bigg's JV) opens 180,000 sqft hypermarket	Only 2 stores opened; SuperValu spins off ShopKo; both stores sold in 1995, following acquisition of bigg's in 1994, as part off a "restructuring plan"
Target Greatland	1990	Target (#3 US discount department store) opens 150,000 sqft store in Minnesota with a limited range of shelf-stable grocery but no perishables	Numerous stores opened, however concept has been phased out in favour of Super Target
Super Kmart	1991	(At the time) the largest discount department store operator in the US market and (at the time) a 21.3% shareholder in Coles Myer (AU) opens 147,000 sqft supercenter	Chain goes into rapid rollout of concept, by 2002 has opening 124 units (out of 2,114 total units), both new builds and conversions; goes into bankruptcy in 2002; closes some SKM sites as part of reorganization; Sears acquires Kmart in 2005 and converts some SKM stores to Sears Grand; currently 55 SKM in operation
Leedmark	1991	Organic entry by French investors and E.Leclerc (#3 France supermarket /hypermarket operator) open 306,000 sqft hypermarket in Washington, D.C.	No additional stores opened; business into liquidation Jan 1994
Big Kmart	1995	(At the time) the largest discount department store operator in the US market in 1995 converted 29 existing stores to Big Kmart format adding an increased mix of frequently-purchased grocery consumables in a "Kmart Pantry" area located near the front of each store	Most traditional Kmart discount department stores converted to this format by 2000
Super Target	1995	Target (#3 US discount department store) opens supercenter in Nebraska	Concept in development for 5 years; now in strong rollout with 177 stores

HYPERMARKETS – UNITED STATES EXPERIENCE
Recently three new hypermarket/supercenter concepts have been launched into the US market

Experiments with hypermarket/supercenter formats in the United States
(1962-2007)

Fascia	Year	Launch	Outcome
Sears Grand & Sears Essentials	2003	Sears, leading department store operator, opens 225,000 sqft hypermarket in Utah	Sears acquires Kmart in 2005 and converts some Super Kmart stores to Sears Grand; currently 74 Sears Grand/Sears Essentials stores in operations
H.E.B. Plus	2004	Regional supermarket operator (#1 supermarket in Texas) launches 109,000 sqft supercenter format in Texas; 3 additional larger stores (~161,000 sqft) opened in 2005	Concept in rollout with 13+ stores now open
Kroger Marketplace	2004	Kroger (#1 US supermarket operator) and owner of Fred Meyer supercenters (among others) launches Kroger supercenter in Ohio; stores offer less non-food range than many competitors	New openings and conversions of existing large stores ongoing; Kroger's Smith's division launches Smith's Marketplace with wider range than KM

Additional hypermarket chains identified by not profiled: Smitty's, Phoenix; Holiday Mart, Hawaii (by Daiei of Japan); Acme SuperCenter, Ohio; Holiday Plus, Minneapolis

Source: various company annual reports; various published articles; various retailing industry reports and papers; various websites; Coriolis analysis

HYPERMARKETS – CANADA EXPERIENCE
Canada has had a number of hypermarket launches over the past 35 years, with mixed success; the concept is currently being pushed by both Loblaw (#1 SM) and Wal-Mart (#1 DDS)

Experiments with hypermarket/supercenter formats in Canada

(1973-2007)

Fascia	Year	Launch	Outcome
Hypermarche	1973	Oshawa, a regional supermarket operator launches hypermarket in Montreal, Quebec	Four stores opened; general merchandise later eliminated from stores, leaving only traditional grocery; chain acquired by Steinberg (regional department store and supermarket operator)
Food Terminal	1978	Knob Hill Farms (regional SM with 4 stores) opens Food Terminal hypermarket in 1978 in Mississauga, Ontario	Total of 6 HM opened (ranging from 225,000-340,000 sqft) between 1978-1992; in 2001 owner sells chain in pieces to Loblaws for RCSS (3 sites), Wal-Mart, Home Depot & T&T Supermarket (fast growing Asian SM chain)
SuperValu The Real Canadian Superstore	1979	Kelly Douglas (regional supermarket operator)(at the time 68% owned by Loblaw; #1 supermarket operator) opens Super Valu The Real Canadian Superstore	Stores spread throughout Western Canada, gaining share from incumbent supermarket Safeway; trigger multiple price wars; Loblaw takes full ownership of Kelly Douglas in 1989; continues expansion; today there are 97 RCSS in Canada; other large format Loblaw stores being converted to banner; RCSS in growth mode as a defensive move in response to WMSC opening in Canada
Super Carnival	1983	Burnac Corp. (grocery wholesaler) opens 120,000 sqft Super Carnival supercentre in Quebec City, Quebec	Opens 15 units across Quebec and Ontario; starts price war and gains market share (~12% in Quebec City); sells 12 Quebec stores to Metro-Richelieu in 1988; sells 3 Ontario stores to Loblaw in 1989; Loblaw converts to their SuperCentre format
the supercentre	1984	Loblaw introduces 100,000 sqft "the supercentre" format in Ontario region; format is 75% grocery, 25% non-food	Loblaws opens 13 stores in Eastern Canada (primarily Ontario); company struggled to get non-food right; loses C$35m in three years; reduces size of 8 of 13 stores from 100,000 sqft to 60,000-90,000 sqft and reduced non-foods range and inventory; stores later converted to RCSS
Ultra-Mart	1986	Steinberg (regional department store and supermarket operator) opens 58,000 sqft supercentre format	Steinberg opens 11 units; in 1990 sells Ontario operations (SM/HM) to A&P (Ontario #1 supermarket operator)
Maxi & Co	1997	Provigo (#1 supermarket in Quebec) opens 85,000 sqft. supercenter format	Loblaw acquires parent Provigo in 1998; gradual expansion of chain has continued (16 in 2006)
Wal-Mart Supercenter	2006	Wal-Mart Canada (#1 discount department store) launches Wal-Mart Supercenter format into Canada	Concept currently in roll-out across Canada

Source: various company annual reports; various published articles; various retailing industry reports and papers; various websites; Coriolis analysis

HYPERMARKETS – UNITED KINGDOM EXPERIENCE

The hypermarket effectively failed in the United Kingdom in the 1970's only to be successfully re-launched recently

Experiments with hypermarket/supercenter formats in the United Kingdom

(1974-2007)

Fascia	Year	Launch	Outcome
Carrefour	1974	Carrefour opens store in Carephilly, Wales in joint-venture with local wholesaler	Carrefour opened in Caerphilly, Wales in 1974 in jv with local wholesaler (WD&T acquired by Linfood/Dee Corp./Gateway); Gateway/Carrefour jv open 6 HM (Bristol, Eastleigh, Swindon, Caerphilly, minsworth & Telford) and buy 2 (see below); stores turn over £148m in 1984 (£25m/store); Carrefour sells down to 10% in 1978 and out in 1983; Gateway sells HM to ASDA in 1980's; stores converted to SM only to be converted back in many cases to Asda WMSC
SavaCentre	1975	Sainsbury (UK #1 SM) and BHS (#2 department store) open hypermarket in SavaCentre joint-venture	Concept rolled-out slowly; Sainsbury acquired BHS 50% share in 1989 and takes full control; separate brand ended in 1999 and all 13 stores are rebranded Sainsbury and "form core of new Large Store Format Group"
Tesco Hypermarket	1976	Tesco opens store in 100,000 sqft Tesco Hypermarket in Irlam, Manchester	Second store opened at Pitsea, Essex; third 90,000 sqft store near Newton Abbott, Devon rejected by local council in 1977; [unclear if/how many more were opened from available record]; appeal to Secretary for the Environment fails; Sainsbury and Coop also have large store permits rejected in 1977; reduction in range of general merchandise; stores converted to hypermarket format (Tesco Extra) in late 1990's
Castlecare Hypermarket	Late 1970's	Castlecare & Macgay opens three hypermarkets in North of England	Linfood/Carrefour buys two (Boroughbridge and Castleford) and converts to Carrefour banner
Tesco Extra	1997	Tesco launches Tesco Extra hypermarket format in England with openeing of 90,000 sqft. store in Pitsea, Essex	Tesco leverags international experience with format in other countries; format is successful and now operates 147 stores in the U.K. market
Asda Wal-Mart Supercentre	2000	ASDA launches ASDA Wal-Mart Supercenter following acquisition by Wal-Mart in 1999; first 93,000 sqft. store opens at Patchway, Bristol	Format is successful; Asda now operates 23 hypermarkets across U.K. Market (Asda states getting sites is a challenge)

HYPERMARKETS – AUSTRALIA EXPERIENCE

The hypermarket failed in Australia in the 1980; however a return to the concept is (was?) planned by Coles

See Appendix 3 Australia Experience for detailed discussion

Experiments with hypermarket/supercenter formats in Australia

(1982-2007)

Fascia	Year	Launch	Outcome
Super Kmart	1982	Coles Myer (#1 SM at the time; #1 DDS; #1 DS) partially owned (at the time) by Kmart (USA) launches Super Kmart store combining existing supermarket (Coles) and existing DDS (Kmart)	34 opened over next decade; concept ended and stores converted to separate Coles SM and Kmart DDS
Pick'n Pay	1984	Pick 'n Pay (#1 SM/HM South Africa) enters Australian market opening 1 HM in Brisbane	Apartheid-related Union troubles prevent planned national expansion; single HM remains in operation for a decade; HM then sold to Coles Myer who open a second PNP HM in Brisbane; both stores still in operation today; PNP later re-enters Australian market (following end of Apartheid) through acquisition of Franklins supermarket chain from Dairy Farm
Venture?	[1994]	Foodland Associated (WA based grocery wholesaler with partial ownership of NZ SM) acquires troubled department store chain with plans to use this as a basis for a HM concept	Stores also planned for New Zealand (see NZ page) under Countdown Hypermarket name; management changes terminate project
Coles Supercentre	[2007] [2008]	Coles Group (#2 SM; #1 DDS) plans to open HM in Australia	Plans 80 units across Australia; plans on hold due to current (Sept 2007) ongoing takeover battle

Source: various company annual reports; various published articles; various retailing industry reports and papers; various websites; Coriolis analysis

HYPERMARKETS – NEW ZEALAND EXPERIENCE

The Warehouse has opened three hypermarkets in New Zealand in the last two years under The Warehouse Extra banner

Experiments with hypermarket/supercenter formats in New Zealand

(1993-2007)

Fascia	Year	Launch	Outcome
Countdown Hypermarket	1993	Progressive (#2 supermarket) planned to open 10,000 m2 Countdown Hypermarket at two sites in Auckland (Westgate and Otahuhu)	Management changes at FAL (departure of David Fawcett) leads to cancelling of plans; conventional stores opened instead
The Warehouse Extra	2006	The Warehouse (#1 discount department store operator in NZ) opens The Warehouse Extra store at new Sylvia Park mall in Auckland	3 stores opened to date across upper North Island; both Foodstuffs (#1 SM NZ) and Woolworths Australia (#1 SM AU; #2 DDS AU; #2 SM NZ) acquire 10% share in TWS; CCNZ denies permission to acquire 100%; case currently in court
Countdown Extra	?	Plan to open a store in Manukau	Proposed site objected by competitors; store has not yet opened

APPENDIX 3 – AUSTRALIAN EXPERIENCE WITH HYPERMARKETS

PAST HYPERMARKET VENTURES
Australia has had two failed hypermarket experiments in the past, one venture that didn't get off the ground and one currently planned launch

Comparison of Australian hypermarket ventures
(various)

Company	Format	First store opened	# of HM at max	Turnover at max	Initial intentions	Outcome
Coles Myer	Super Kmart	1982	34	$1 billion $580,000/store/wk	"a significant force"	"Internal conflict" Poor profitability Disbanded
Pick'n Pay	Pick 'n Pay Hypermarket	1984	1 [+1]	$55 million $1m/week	10+ stores nationwide	Union boycott Sold to Coles Coles opens second store
Foodland Associated	Venture	[planned 1994]	-	-	75 stores within 10 years	Never opened
Coles Group	Coles Supercentre	Planned 2007 (now 2008)	-		80 stores	On hold pending acquisition by Westfarmers

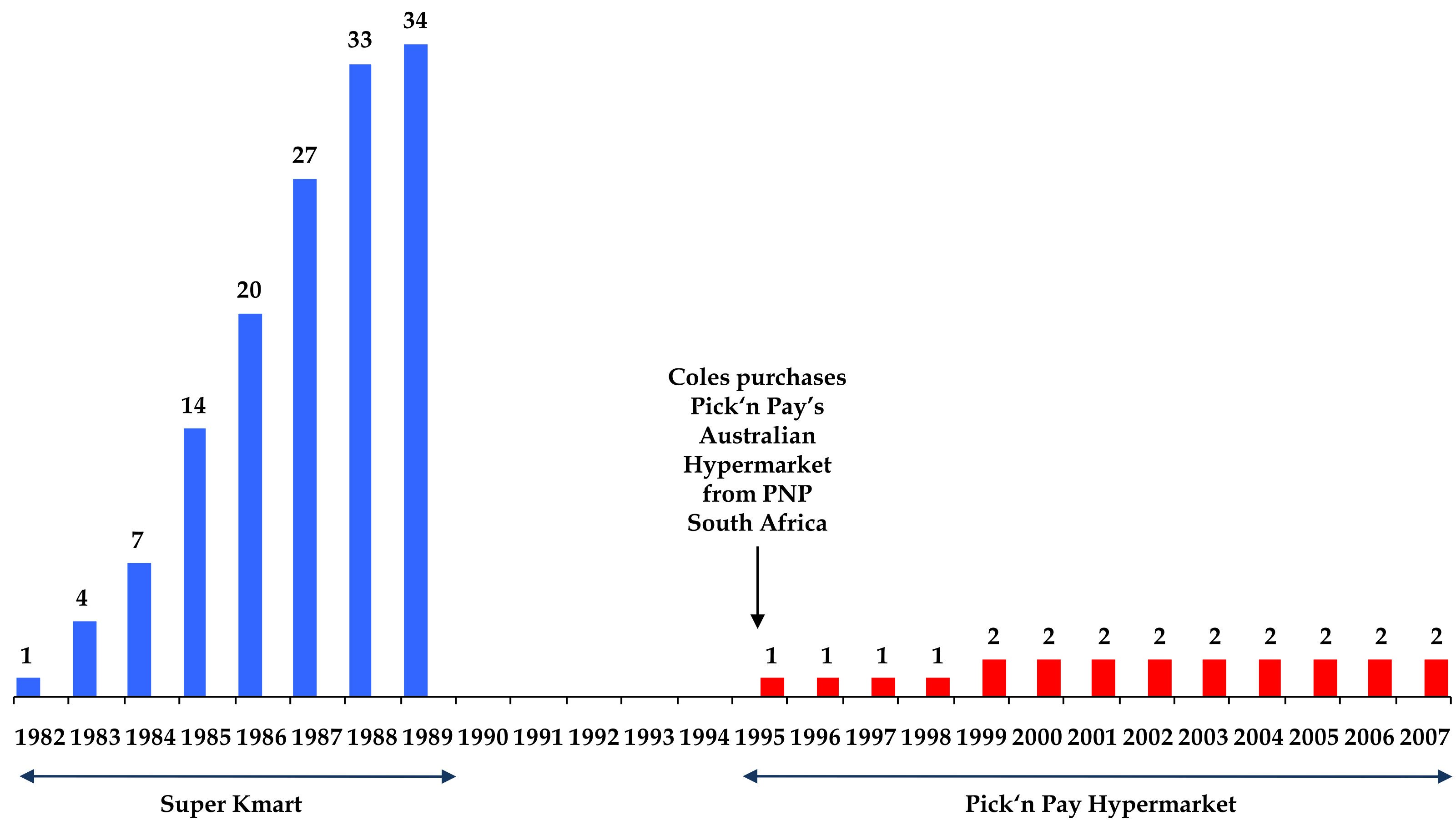
super K mart

NUMBER OF COLES MYER HYPERMARKETS

To date Coles has operated two distinct hypermarket operations: Super Kmart and Pick'n Pay (which was acquired from its South African parent) and now plans a third (Coles Supercentre)

Coles Myer/Coles Group hypermarket store numbers

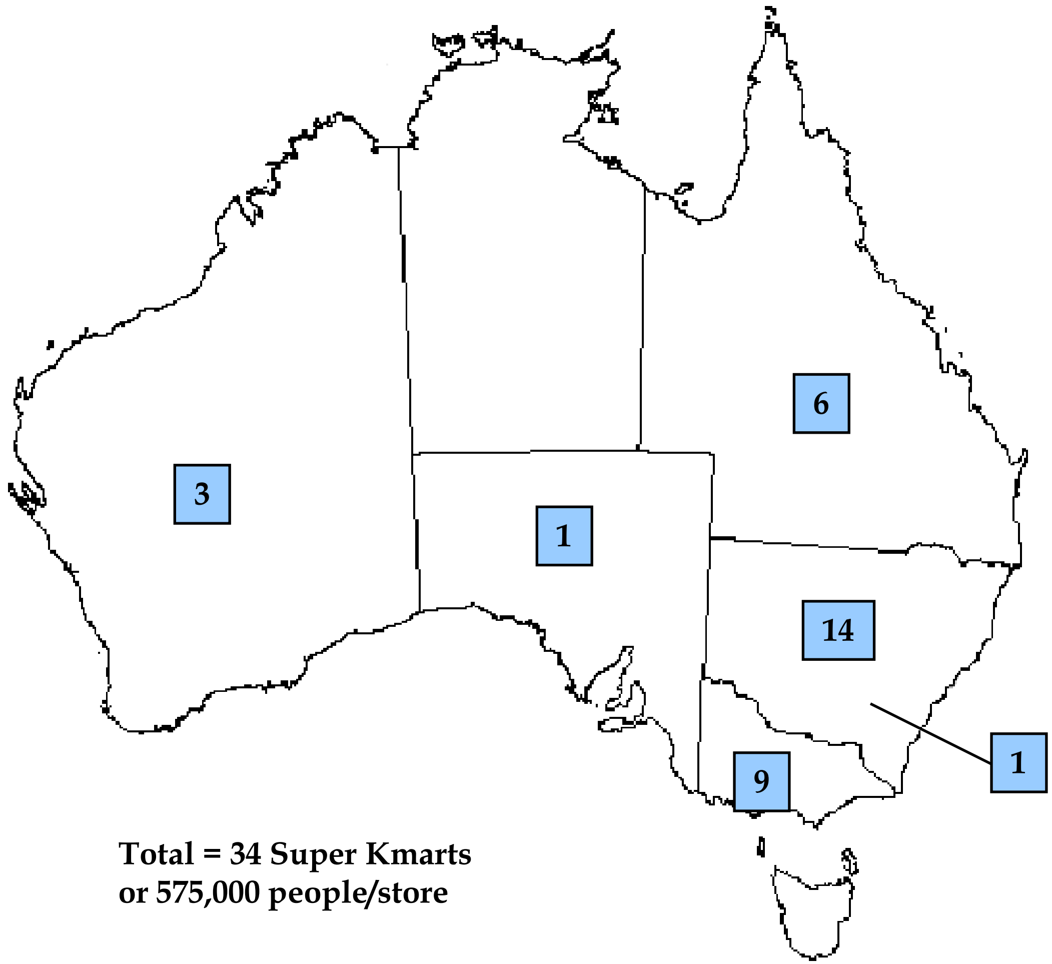
(Units, actual, 1982 – 2007)



Source: Various annual reports; various published articles; Coriolis analysis

STORE LOCATIONS
At its height, Super Kmart had thirty four stores spread across five states and the ACT

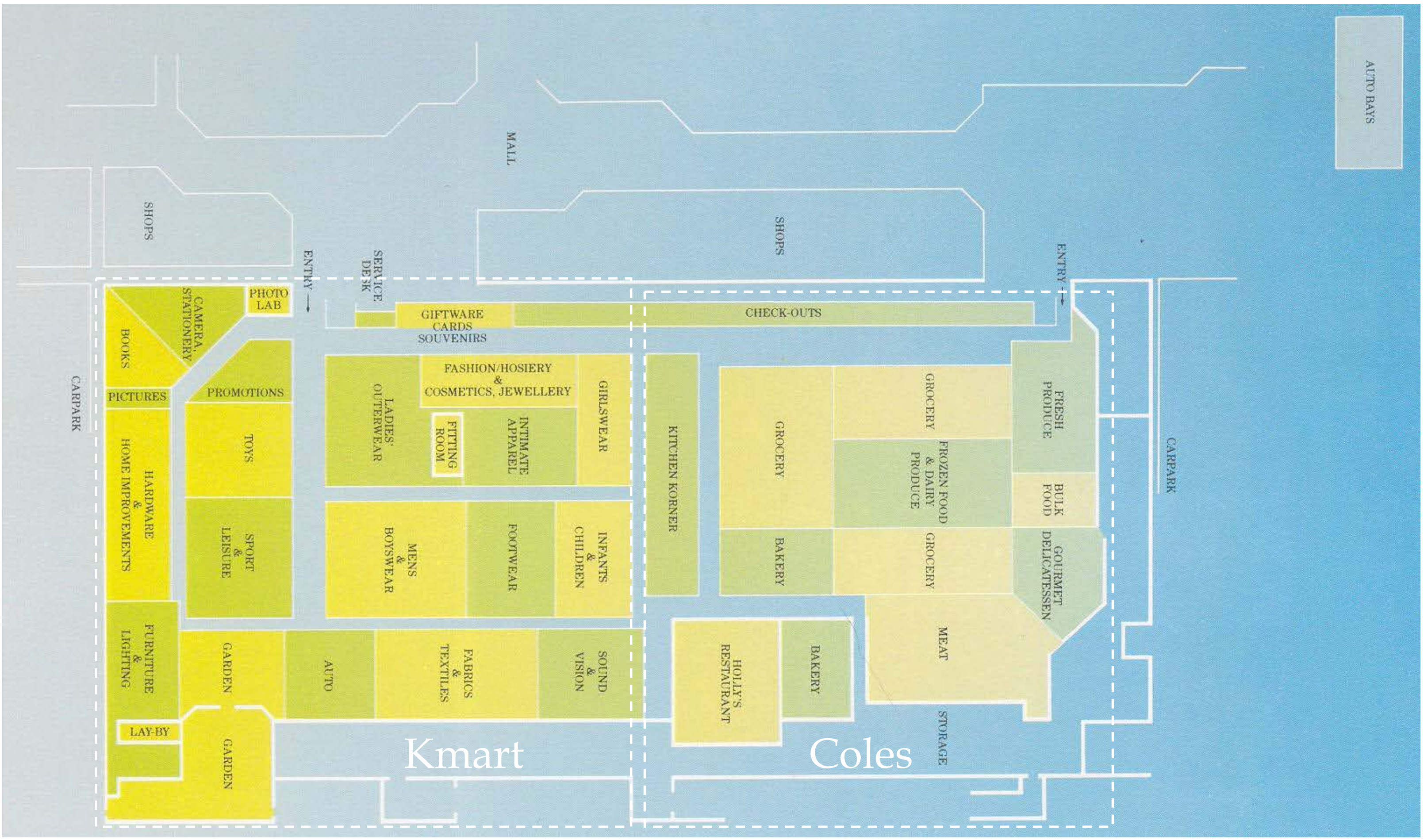
Super Kmart store numbers by state
(Units, actual, 1989)



Total = 34 Super Kmarts
or 575,000 people/store

STORE LAYOUT
Super Kmart was essentially a Coles supermarket plus a Kmart department store

Super Kmart store plan
(1988)



STORE DESIGN
Super Kmart used bright and bold signage

Super Kmart interior photo
(Port Adelaide, 1987)

INITIAL CONCEPT
Coles had big hopes for the Super Kmart concept

- **"These stores represent an exciting new development for the company and we believe they offer the best retail facilities available in this country."** *Brian Quinn, Managing Director, Coles, August 1984*
- **"All of our market research shows that this is the sort of store consumers want, and we engaged international retail design consultants to assist us in incorporating the latest trends in layout and atmosphere… We are convinced this is the way to the future."** *Graeme Seabrook, Managing Director - Discount Division, Coles, October 1985*
- **"Super Kmart is a rapidly expanding division developing large hypermarkets refined from the original European hypermarket concept to suit Australian needs and offering a wide range of both food and nonfood products… All new stores will feature a new and extremely effective interior design which has been well accepted by consumers."** *Coles Myer Annual Report, 1986*

GROWTH WITHOUT PROFIT
Super Kmart struggled to reach adequate profitability

- "The heavy cost of this new store development has impacted on the group's profitability due to the small base of established stores. During the year, Super Kmart management became a separate unit with its own Managing Director although it will continue to depend on the Kmart and supermarket divisions for buying and other services. The establishment of a separate administration and promotional team will assist Super Kmart in developing its own identity and we are confident that this division will make substantial contributions to profit in future years." *Coles Myer Annual Report, 1986*

- "The Super Kmart Group is now operated with management separate from Kmart. Although the product range in general merchandise is almost identical, the Super Kmart also offers a full range of discount food and grocery items, including fresh produce, meat, delicatessen and bakery. The Super Kmart chain has been expanding rapidly and is still in the development stage. Although sales are growing strongly, the contribution to profit is at present minimal. This situation is expected during the development stage, but these stores should contribute strongly to profitability in future years. Super Kmart is recognised as the leading hypermarket in Australia, with stores equal to any of their type in the world. Strong emphasis is being placed on customer service and staff training. Nine new stores were opened this year and total floor space is already approaching half that of the total Kmart chain… Super Kmart has substantial potential for contributing to sales and profits in the future." *Coles Myer Annual Report, 1987*

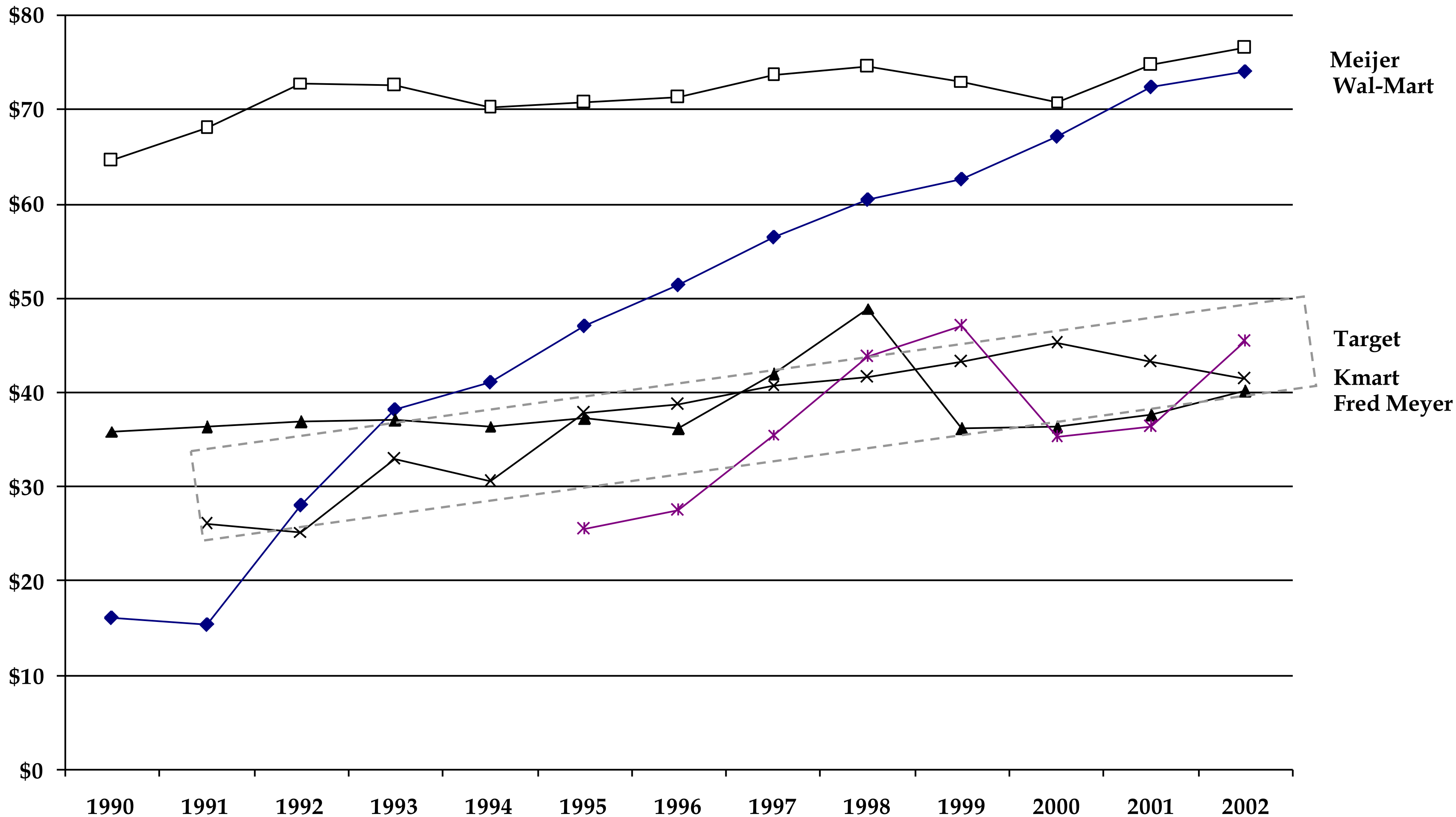
RELATIVELY LOW STORE SALES
The average Super Kmart has sales of $30 million per year, low by international standards

- **"The Super Kmart concept was introduced in 1982 and already comprises 33 stores operating in five states and the ACT. These large, modern hypermarkets offer a very wide range of food and general merchandise. Sales from Super Kmarts will exceed $1 billion during the current year. Five stores opened during 1987/8 and two new stores will open during 1989."** ***Coles Myer Annual Report, 1988***

$1 billion / 33 stores = $30m store/year or $580,000 store/week which is low by international supercentre/hypermarket standards

SIMILAR EXPERIENCE IN US MARKET
Kmart also struggled in the US market to develop a high volume supercenter store format

Average annual sales/supercenter by chain in the US market
(US$, millions, 1992 – 2002)



Source: Coriolis analysis

CONVERSION TO COLES + KMART

All Super Kmart's were closed and converted to separate Coles and Kmart stores

- "Coles Myer Ltd has abandoned the hypermarket concept - begun in the early 1980s under the Super Kmart name where shoppers could purchase anything from electrical goods to a bottle of tomato sauce. As part of a dramatic restructuring of Australia's largest and most powerful retail group, the name and the concept have been wiped out. The Super Kmart operations will be split into two separate retail trading components - a standard Kmart store and a Coles' New World supermarket. The move, announced yesterday, marks the end of Coles' attempt to bring hypermarkets - combined supermarkets and discount department stores - to Australia." *Sydney Morning Herald, May 1989*

- "As part of the restructuring of the company's operations, the administration of each business was assessed and a decision made to discontinue the Super Kmart trading name. The company does not anticipate achieving a substantial increase in the number of hypermarket stores in Australia and after careful analysis it was decided that the existing stores would be better administered under the Coles New World and Kmart structures, rather than continuing to develop an independent administration with substantial duplication of functions. Sales increases have been achieved in the former Super Kmart stores since the change." *Coles Myer Annual Report, 1989*

- "The food component of 34 former Super Kmart stores was integrated into the Coles New World network… During the year Kmart absorbed the general merchandise component of 34 former Super Kmart stores." *Coles Myer Annual Report, 1990*

SUPER KMART FAILS
A number of reasons are given for the failure of SuperKmart

- **"Internal conflict"**
- **High cost of advertising separate chain**
- **Cost of separate management structure**
- **Unclear brand image of Kmart vs. Super Kmart**
- **Expensive leases**

CONVERSION TO COLES + KMART
A number of reasons are given for the failure of SuperKmart; internal issues are the most cited

- "They [Super Kmart] ran for a period of the early '80s to the early '90s, so possibly about a decade. The customers loved them, and I think it's interesting when you look back at why they didn't work - it was about how the company was structured. And that's why this time it's going to be different." *John Fletcher, MD Coles Myer, Interview, Sept 2006*

- "The problem in the 1980s was that each of the company's retail brands operated as individual fiefdoms with open hostility between senior executives. "They didn't even speak to each other"… the Super Kmart of the 1980s was doomed to fail because of the prevailing corporate culture… The reality is that the model was also compromised by real estate decisions that saw the superstore format opened in shopping centres." *Inside Retailing, Jul 2006*

- "Bob Dalziel, a former managing director of Coles Myer's discount department store division and now the chairman of Just Jeans Group, and Harris Scarfe told a seminar held by retail advertising agency IdeaWorks earlier this month that hypermarts would be returning... Mr Dalziel was working at Coles Myer when it established the Super Kmart hypermart chain in 1982. Thirty-three stores were set up. Each one was between 11,500 and 14,000 square metres and, at its peak, the Super Kmart chain turned over $1 billion a year. Although Super Kmart generated good sales, the division lost money because of expensive leases and the high cost of advertising a separate chain. Its brand image was unclear, leaving consumers confused about the different positionings of Kmart and Super Kmart. In 1989, Coles Myer killed Super Kmart, folding its stores into the Kmart and Coles New World (now Coles supermarkets) chains." *Neil Shoebridge, The Australian Financial Review, March 2003*

- "Despite the move away from the hypermarket retail concept, Coles Myer's chairman and chief executive, Mr Brian Quinn, said that Coles Myer remained committed to the "one-stop shopping" retail concept but said that after a detailed examination of the cost/benefits of Super Kmart, it had been decided the development of a separate management structure could not be justified." *Sydney Morning Herald, May 1989*

- "Australia's biggest retailer says bundling supermarkets and discount stores into hypermarkets has been successful overseas. Coles Myer chief executive John Fletcher says the company pioneered the original hypermarket concept but it was abandoned after it led to an internal conflict… "I think we've got lots of things we want to focus on which is around providing customers with convenience and value and hypermarts would be just another opportunity at some point in time." *ABC News, Sept 2006*

Pick 'n Pay hypermarket

KEY CHARACTERISTICS
The Pick'n Pay hypermarket appears to have had good customer counts and sales

Key characteristics of Pick'n Pay Hypermarket in Brisbane
(Various dates)

Ownership	**Pick 'n Pay South Africa (later Coles)**
Annual turnover	**$50-55 million**
Weekly turnover	**$1 million**
Average transaction	**$25**
Weekly transactions	**40,000**
Sales mix	**70% grocery / 30% non-food**
SKU/Lines	**45,000**
Employees	**600**
Checkouts	**75-80**
Shopping trolleys	**2,500**
Parking	**1,800**
Total store area	**20,005m^2**
- Retail	**15,870m^2**
- Storage/Office	**4,136m^2**
Site area	**10 hectares**
Specialty shops	**33 stores in attached mall**
Catchment	**200,000 people within 25 minute drive**
Total cost	**$40 million including outfitting and stock**

CONTROVERSY
Pick'n Pay attracted controversy even before it opened

- "The Federal Government will be asked to prepare a detailed social impact study on the proposed Aspley hypermarket. The Australian Labor Party state secretary, Mr Beattie, said yesterday's 106-member ALP state council meeting in Brisbane noted that the proposed hypermarket would affect employment and business opportunities in north Brisbane. Mr Beattie said hypermarkets could destroy local supermarket and shopping complexes, leaving large numbers of workers unemployed and businessmen bankrupt. He said state council also asked the Federal Government to evaluate further the social and economic impact of these developments, generally financed from overseas." *Courier-Mail, March 1984*

- "We understand they took $1 million on opening day - and expect to take more today. The consumer dollar can only go so far, so where has that million dollars come from? We can safely assume a lot of it would normally have been spent with small business. Many small shopkeepers could be forced to close - and that's throughout Brisbane, not just around the Aspley area. The phones have been running hot with members expressing extreme concern about the whole situation. They also realise that if the hypermarket is too successful, the other supermarket chains will start a price war. Believe me, if that happens the people of Brisbane will find that when they want that bottle of milk or loaf of bread on the weekend they will have to travel a long way to find a small store that is still open." *Bill McCulloch, Manager, Queensland Retail Traders and Shopkeepers' Association, Nov 1984*

INITIAL SUCCESS
The first hypermarket in Brisbane was a major success

- **"We will discount every single thing we are allowed to discount... We will bring food prices down further than supermarkets. The secret of a hypermarket is to be demonstrably lower in food prices. We achieve it with mass volume and mass people. The component of clothing and hardware has to be about 30 percent of our business at a slightly higher margin which enables us to sell food lower. We have to strike very hard deals. We are very vociferous on price fixing by suppliers and on cartels who try to carve up a market - but all with the objective of trying to keep prices down."** *Raymond Ackerman, Chairman, Pick 'n Pay South Africa, February 1984*

- **"More than 25,000 people flooded into the giant Pick 'n' Pay shopping complex in Aspley in the first four hours. In an estimated $1 million spending spree that was organised chaos from start to finish, thousands of shoppers from around Brisbane and as far away as Gladstone and the Gold Coast kept the store's 75 cash registers ringing all day. While thousands of shoppers inside the huge supermarket piled their shopping trolleys high with bargains, thousands more queued patiently outside for up to an hour before being admitted in groups of about 500. St John Ambulance officers treated more than 30 people who fainted in the crush. One man was taken to hospital after he collapsed with a suspected heart attack. With thousands of cars pouring in from all directions, police had to call in extra help and broadcast an appeal to motorists to stay home an hour before the doors opened. Exhausted shoppers wryly joked that they had been in the complex for more than three hours "and still not seen everything" while waiting up to 45 minutes to pass through the checkout counters."** *Courier-Mail, November 8th, 1984*

- **"Most shoppers were here for three reasons today: to see what Australia's first hypermarket is all about, to stock up on our grocery specials - many of which are selling at less than what we paid for them - and to get in early for their Christmas presents. That's hypermarket shopping - one-stop shopping for everything."** *David Goldberg, Managing Director, Pick'n Pay Australia, November 1984*

COMPETITION
Woolworths and Coles initially downplayed the competition

- "They're just another retailer… Mr Ackerman will find very different trading conditions to those in South Africa. He is in for the biggest surprise of his life from the Australian retail industry. Our price structures are the cheapest in the world and consumers prosper every week by shopping in our stores." *Jim Levinge, Queenstown State General Manager, Woolworths, February 1984*

- "We've fought back plenty of opposition before and I think we can do it again… I think there is room enough in Brisbane for the hypermarket, and I don't think we are going to lose too many customers because of it." *Ian Campradt, Store Manager, Super Kmart Chermside, November 1984*

- "Coles chairman, Mr Bevan Bradbury, said Queensland had been a flat state for the company in the half mainly as a result of the Queensland power dispute, although it is likely that the loss leading the company adopted to fight off the new competition from Pick N Pay also affected profits in this area. Coles had decided to convert a K Mart and New World operation into a Super K Mart operation at Chermside to combat the new opposition and that outlet had performed exceptionally well. "They (Pick N Pay) haven't taken any business away from Coles," he said." *Courier-Mail, March 1985*

- "While thousands of shoppers swarmed through the new hypermarket complex for their bargains, thousands more shoppers were creating just as much havoc at its rival - the large Super-K Mart in nearby Chermside. "No worries here," said Bert Glasson, Kmart state director. "Our customers stuck by us today in their thousands. It was a tremendous reaction. By 8.15 a.m. both our car parks were full. We believe people came here on purpose to show their support. After all, we are a tradition for the people in this area. We have been here for 15 years." When asked if specials such as potatoes at 9 cents a kilo had influenced shoppers to visit the Super-K store yesterday, Mr Glasson denied any suggestions of a price war with Pick 'n' Pay. "Our prices were not cut to attract today's crowds - It's quite simple - no one discounts like Kmart. There were no special prices today - they have been low for months. We have always had low prices - we always will." *Courier-Mail, November 1984*

PRICE WAR
Pick'n Pay started a price war in Brisbane

- **"Our policy is that all prices will be low, and it will be up to the consumers to make the ultimate decision. That's what a hypermarket is all about cheap prices. If our competitors drop their prices to match us, the consumer will ultimately benefit."** *David Goldberg, Managing Director, Pick'n Pay Australia, November 1984*

- **"A bread price war erupted in Brisbane yesterday. Three large supermarket chains cut prices by up to 15 cent a loaf after the Aspley Hypermarket announced a price cut for standard white sliced loaves from 85 cent to 74 cent. Coles Super K-Mart, Jack the Slasher and Woolworths dropped their price to 70 cent within hours. Hypermarket managing director, Mr David Goldberg, said retail price maintenance - the setting of maximum and minimum prices - should be abolished with retailers allowed to set their own selling price. He hoped other retailers would join Pick'n'Pay in the fight to end retail price maintenance."** *Courier-Mail, December 1984*

- **"We've already shown we're good competition and have made Coles more competitive."** *Raymond Ackerman, Chairman, Pick 'n Pay South Africa, February 1986*

- **"Turnover at Woolworths' four Northside Brisbane stores was above last year's figures… Trade at Stafford City was not affected by the hypermarket and was better than expected. Their recent advertising of Coca-Cola one litre bottles at 39 cent is fairly desperate. It's what's called a desperation ad - anything to get a customer in."** *Jim Levinge, Queenstown State General Manager, Woolworths, January 1985*

- **"If there's a price war, there's a price war, tough. When we had our Hypermarket in Aspley in Brisbane [in the 1980s], we had one store and we had a price war, and we managed to survive."** *Sean Summers, CEO, Pick 'n Pay South Africa, June 2001*

SITES DIFFICULT
Pick'n Pay struggled to find suitable sites

- "David Goldberg, Managing Director of Pick'n Pay Australia, said yesterday Aspley would be <u>the first of 10 hypermarkets his company planned in the next six or seven years</u>. He said that while it was the first, it was not the 'guinea pig' because Pick 'n Pay was certain it would succeed. He said Brisbane could eventually support two or three hypermarkets, Sydney as many as seven and Melbourne four. Mr Ackerman admitted yesterday Brisbane was not first choice for the company's debut in Australia. He said he <u>had wanted to kick off the concept in Sydney and Melbourne, because of their greater populations, but had been unable to find sites</u>. But Brisbane fitted the company's criteria of having at least 200,000 population with a high rate of vehicle ownership, within 25 minutes driving time." *Courier-Mail, February 1994*

- "If we could get what we consider the ideal site, we would be there tomorrow." *David Goldberg, Managing Director, Pick'n Pay Australia, November 1985*

ANTI-APARTHEID UNION ACTION
Pick'n Pay's growth was halted by anti-apartheid action by Australian unions…

- "Industrial action by an Australian union has compelled Pick 'n Pay, the South African supermarket chain, to abandon plans to build a hypermarket in Melbourne. Mr Raymond Ackerman, Pick 'n Pay's managing director, failed during a recent visit to Melbourne to persuade the Plumbers' and Gasfitters' Union to lift its ban on construction work at the planned hypermarket. The ban on construction work was enforced in protest against South Africa's apartheid policies. Pick 'n Pay, which pioneered hypermarkets in South Africa 10 years ago, opened a Brisbane store last year. This was accompanied by strong anti-apartheid protests by competing traders." *Financial Times (London), February 1986*

- "From our point of view the bans are very unfair, but it does not change the company's plans to pursue our long-term expansion in Australia... We will continue to fight to build our hypermarket at Taylor Lakes [VIC] and look at alternative sites if this project is scrapped." *Gareth Ackerman, Acting General Manager, Pick'n Pay, February 1986*

- "The sacrifice by Pick'n'Pay is small compared with the benefit to the struggle against apartheid." *John Rutherford, Assistant Secretary, Plumbers and Gasfitters Employees' Union, February 1986*

- "We have always thought Australia was attractive… Pick 'n Pay representatives will be in Australia early next year to assess growth opportunities… We would have had 10 hypermarkets in Australia by now if we had not been run out by anti-South Africa sentiment." *Raymond Ackerman, Chairman, Pick 'n Pay South Africa, September 1993*

ANTI-APARTHEID UNION ACTION
… making it unable to open any additional stores

- "South African retail giant Pick'n'Pay is considering a second Brisbane hypermarket because of industrial troubles in Victoria. The Pick'n'Pay chairman, Mr Raymond Ackerman, said the company believed it would not have the same difficulties in Queensland as in Victoria, where building unions have banned work as part of an anti-apartheid campaign. It is now looking at several Brisbane locations, including a shopping centre proposed on a former lion park at Loganholme. Mr Ackerman said the building unions were unfair in their action against Pick'n'Pay, which he described as an active corporate campaigner against apartheid in South Africa. "We've done more than anyone else in South Africa to fight apartheid," he said. Almost 60 percent of the firm's South African executives were black or colored. The company started in Brisbane with plans to open up to 10 hypermarkets throughout Australia. Building industry unions banned development of the $35 million Taylors Lakes site, near Melbourne, last August as part of an international campaign against apartheid. They decided on Tuesday night that the bans would stay in force while there was South African involvement in the project. The Plumbers and Gasfitters Employees Union, which initiated the bans, said yesterday Pick'n'Pay would not be exempted from the anti-apartheid campaign. The union secretary, Mr John Rutherford, said the decision was taken after discussions with Mr Ackerman and contact with South African trade unions and black liberation movements in Australia. Mr Rutherford said black South Africans were not convinced of Pick'n'Pay's commitment against apartheid." *Courier-Mail, February 1986*

- "Union action has forced postponement until September of a decision on another Queensland hypermarket. Pick 'N Pay Hypermarket's general manager, Mr Peter Rice, said union action against the company was affecting a decision on nine new hypermarkets planned throughout Australia. He said the company had been forced to abandon work on its second hypermarket at Taylor's Lakes in Victoria after bans by the federal Plumbers' and Gasfitters' Union. Pick 'N Pay management had met the union three times and the union had agreed the bans were unfair, but they could not change union agreements on action against South Africa. Mr Rice said that despite its discount selling policies, Pick 'N Pay was being denied discounts available for bulk buys because of a loophole in Trade Practices legislation. Despite the volume purchases, they were being denied warehousing discounts because they had only one outlet." *Courier-Mail, April 1986*

STUGGLED TO GROW
Pick'n Pay struggled to find a way to grow in the face of union bans

- **"We have no immediate expansion plans… Consolidating our position is a higher priority than expansion. If a second hypermarket was built in Brisbane, it would be the same as the Aspley hypermarket... There is definitely room for another hypermarket, but there is a need to plan expansion for staff development and to make additional profits… But there is no deadline. We would rather get on and consolidate the business we have… Our Melbourne partner, JGL Investments, is assessing sites in Brisbane, Sydney and Melbourne."** *Gareth Ackerman, Acting Managing Director, Pick'n Pay Australia, February 1986*

- **"We are committed to staying in Australia and still intend to open nine more hypermarkets in Australia. I'm sure we will find a way around the present impasse in a couple of months and get moving on our expansion program."** *Gareth Ackerman, Acting Managing Director, Pick'n Pay Australia, April 1986*

TEN YEARS IN OPERATION
Pick'n Pay operated its one Australian hypermarket for ten years

- "Excitement and a large measure of anxiety was what Pick'n Pay provoked in the retail grocery industry before and after it opened in November 1984. The anxiety was felt by competitors who did not want Pick'n Pay to realize its ambition of having 10 of the huge stores open nationally in 10 years. When it opened, Pick'n Pay was the biggest independent retail outlet in Australia. It is still probably the biggest single-level retail store of any type in Australia, with the exception of one or 2 department stores. Its 11,367m2 trading floor, 2 football fields of area, contains a supermarket, and what might be described at a discount department store with clothing, appliances, furniture, hardware, and other nonfoods sections. The sales mix is the other way around - 70% groceries and 30% non-foods. The retailing is serviced by 71 checkouts." *Retail World, November 1994*

- "Pick'n Pay's general manager Peter Rice and perishables chief Selwyn Friedman and many other executive bag boys and shelf fillers are on the floor because it is the 4th day of the first week of the hypermarket's 10th birthday sale and it is organized bedlam that will give Pick'n Pay record-breaking A$3.5 million sales for the week with another week to go. It is shaping up to be the most successful supermarket sale in Brisbane's and Queensland's history, although Pick'n Pay is much more than a supermarket. About 40,000 of the week's 85,000 customers will be people who always shop at Pick'n Pay, mainly locals who are bonded to the hypermarket by its size, range, variety, prices, excitement, entertainment, and its cohesion with its community. Rice says the week's A$3.5 million sales will be a record exceeding every pre-Christmas week in the 10 years since Pick'n Pay opened." *Retail World, November 1994*

SOLD TO COLES
Ultimately the store and brand was sold to Coles Myer

- **"The supermarket component of Brisbane's <u>Pick'n'Pay Hypermarket is about to be sold to a division of retail giant Coles Myer</u>. Coles Supermarkets has agreed to buy the supermarket - located within the Hypermarket complex in the north Brisbane suburb of Aspley - for an undisclosed amount. Experts said the price would be in the "tens of millions". A spokesman for Coles Supermarkets said yesterday it would "trade it under its current name because the Pick'n'Pay name is quite famous in the area". No staff would be cut, although Coles managers would be appointed. Pick'n'Pay Hypermarket general manager Peter Rice refused to comment. It is understood he has resigned. "<u>We see Pick'n'Pay as having the winning formula</u> and we'd just like to see the business run as it was," the Coles spokesman said. "All the staff have been retained." He said Pick'n'Pay would be "the biggest store that Coles operates by a long margin."** *Courier Mail, October 1995*

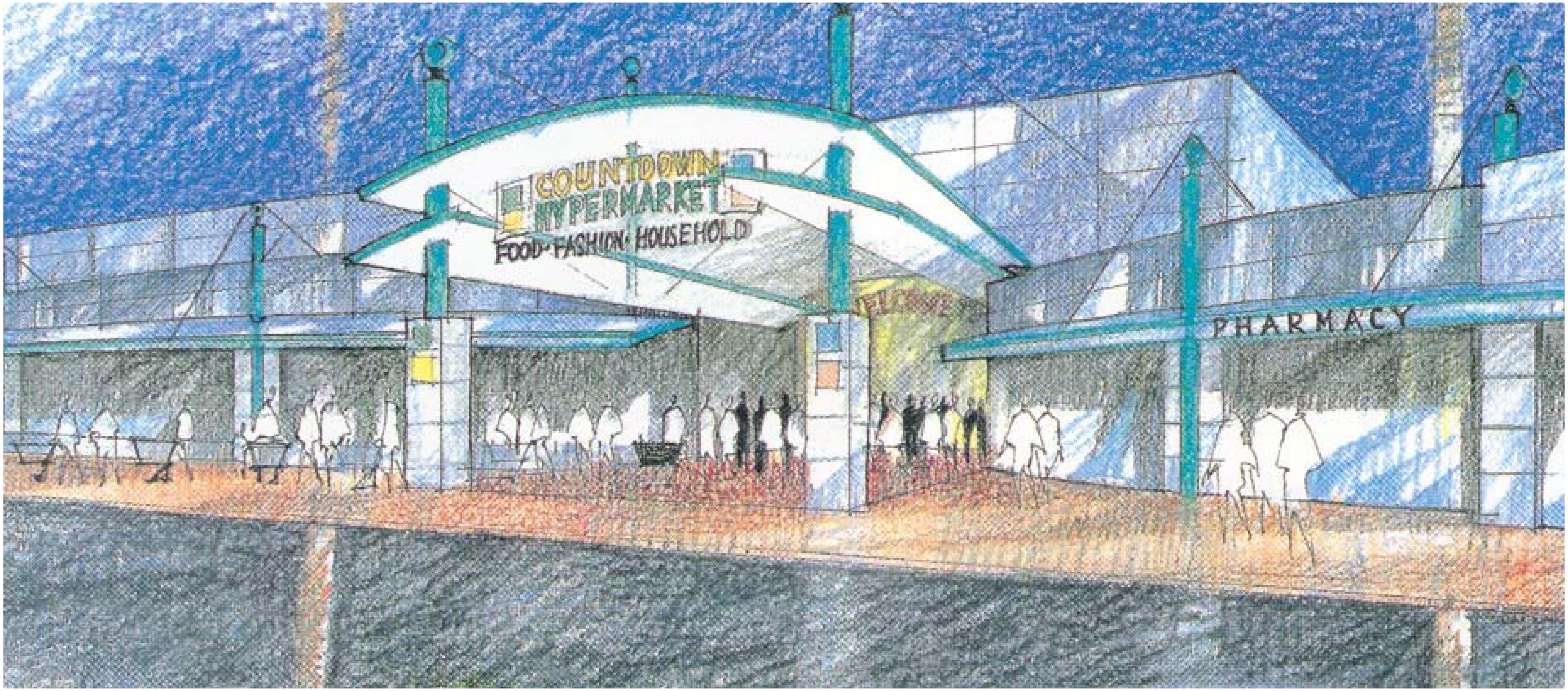
- **"Coles Myer has bought another chunk of the grocery market for an estimated but unconfirmed A$10m. Its prize is Australia's biggest single independent supermarket, the 22,000 sq m, 11 year old Pick'n Pay hypermarket in Aspley. With the sale of Pick'n Pay to Coles Myer, Australia's hypermarket era has died. Opened 11 years ago, the Brisbane hypermarket was intended to be one of 10 in Australia within 10 years. A combination of unforeseen circumstances frustrated the ambition."** *Retail World Nov 6, 1995*

- **"Pick 'n Pay was forced to abandon its expansion into Australia due to union opposition. Pick 'n Pay was on the verge of building a second Hypermarket in Melbourne when the plumbers union rallied together to bar them from the site. The company eventually turned its back on one of its prime businesses, the superb Brisbane store."** *Pick'n Pay website (http://www.picknpay.co.za/aboutus/st_yesterday.html)*

PURCHASED PICK‘N PAY
Coles Myer later built a second Pick‘n Pay store in response to consumer demand

- **“Coles Supermarkets will establish the country's second Pick'n Pay Hypermarket, in a Brisbane south-side shopping centre. It will be the first expansion of the Pick 'n Pay banner since it was bought by Coles two years ago. The new store will replace existing Coles and Kmarts at the centre. The arrangement will ease the competition between three shopping centres within six kilometres of each other that have between them three Coles and two Kmarts. The new Pick'n Pay store at Sunnybank Hills Shopping Centre will total 13,248 sq m, including 9,500 sq m of selling area, holding a fresh food and grocery range, general merchandise, homewares, whitegoods, audio visual, lighting and hardware, and a 2,000 sq m garden centre. Works are to begin immediately, to be completed by Christmas 1998. Industry sources report the Sunnybank Pick'n Pay will be part of an ongoing expansion program for Coles.”** *Australian Financial Review, February 1998*

- **“The only reason we have [a second store] is that we've identified a strategic need on the south side of Brisbane. <u>People have been travelling from the south side to shop at the Pick'n Pay on the north side</u>... The difficulty was in finding a site big enough… No additional stores are planned.”** *Peter Merritt, Queensland State Manager, Coles, February 1998*



FAL Annual Report 1993

FAL HYPERMARKET TIMELINE
Foodland tried to create a national chain of 75 hypermarkets in the early 1990's as part of an attempt to become the third force in Australian supermarket retailing

Key events in FAL/Venture hypermarket timeline

(Year. Month)

1991.7	FAL buys 29% of Vox Stores ("Australia's largest furniture and electrical goods retailer")
1991.9	FAL makes $116.4m bid for IHL Wholesalers of South Australia
1992.4	Coles floats Progressive on NZSE (acquired for A$472m from Brierleys in 1988 after outbidding Magnum)
1992.5	FAL purchases Countdown and Rattrays from Magnum Corporation for NZ$175m
1992.8	FAL, Action Holdings and Vox acquire Venture stores (52 stores)
	Foodland acquires controlling stake in listed R&I Property Trust
1992.9	FAL, Action Holdings, Vox and Skari Developments create joint-venture
	Skari owns 81 Farmers/DEKA stores, 11 Toy Warehouse stores and four James Smiths department stores
1993.2	Davids Holdings sells 50% of Australia Liquor Marketers (ALM) to FAL
1993.6	FAL merges New Zealand operations into publicly listed Progressive; FAL owns 57% of Progressive
1993.7	FAL purchases all of Venture Stores (43 stores) for a "nominal amount" (one dollar)
	<u>FAL announces intention to build up to 75 hypermarkets in Australia within 10 years</u>
1993.8	Potential four way merger of FAL, Davids, IHL and QIW announced
1993.11	FAL acquires 100% of Farmers Deka
1993.12	Proposed mega-merger collapses acrimoniously
	Merger viewed negatively by Trade Practices Commission due to high NSW share
	Davids Holdings announces plans to float on share market
1994.2	Venture Stores placed into receivership with $52.1m exposure for FAL
1994.4	FAL MD David Fawcett quits following disagreement with FAL Board
1994.4	Graeme Hart/Rank Group make $450m bid for FAL supported by Coles (Coles takes AU; Rank takes NZ)
1994.7	Acquisition attempt ends after Coles acquisition viewed negatively by Trade Practices Commission
…	
2005.11	FAL broken up with Woolworths (AU) buying New Zealand operations and Metcash buying Australian

NUMEROUS ACQUISITIONS
Foodland made a large number of acquisitions during the early 1990's

– "Food wholesaler Foodland Associated Ltd's $NZ175 million ($126 million) trans-Tasman expansion "isn't about to stand still", according to managing director Mr David Fawcett. "There is a lot of market between Perth and New Zealand and I am hopeful that one day we will have a presence in those states, in both retail and wholesaleing," Mr Fawcett said. <u>Foodland announced on Monday it had agreed to pay $NZ175 million for Magnum Corp Ltd's grocery operations in New Zealand</u>, comprising the 20-strong Countdown supermarket chain and the J. Rattray and Son wholesale business. The acquisition will lift Foodland's annual turnover by $NZ950 million ($677 million) to more than $A1.6 billion and enhance its 1992/93 earnings by an expected $A20 million before interest and tax. Foodland's existing <u>bid for control of the $31 million R&I Property Trust</u> aside, Mr Fawcett forsaw a period of consolidation as the group digested the Kiwi assets. "I can't imagine Foodland doing anything until we are satisfied we have realised our expectations and earnings projections from the New Zealand businesses," he said. Foodland has made no secrets of its ambitions to build a national presence in Australia. Mr Fawcett argues the vision should be achieved through a <u>merger of Foodland's retail arm, Action Holdings Ltd, and Brian Coppin's WA-based national houseware retailer, Vox Ltd</u>, 25.2% owned by the group. "It makes a lot of sense to me. I believe that by the end of this decade Action and Vox will be the third force in retailing in this country," he said. Foodland's expansion ambitions have been driven by diminishing opportunities in WA, where it now has 55% of the wholesale grocery market. Last year, it <u>launched a $130 million share swap for South Australian wholesaler Independent Holdings Ltd</u>, but the bid became bogged down in acrimony and eventually closed in March with Foodland entitled to only a handful of Independent shares. Mr Fawcett is by no means dismissive of WA as a source of other opportunities for his company. He is particularly hopeful of exploiting the strategic link with Vox as a means of expanding Foodland's general merchandising business, which accounted for only 3.15%, or $25.46 million, of Foodland's $808.3 million of sales in 1990/91. "From July to September we expect to take in $20 million in stock through Vox alone and I wouldn't be surprised if we give $50 million a nudge for the year," he said. *Courier-Mail, May 1992*

WHOLESALE MEGA-MERGER
Foodland then proposed a mega-merger of Australia's four independent wholesalers

- "The four-way merger of independent wholesalers proposed by Perth-based Foodland Associated Ltd last week should be completed within 12 weeks, managing director David Fawcett said. "I think it should be complete within 12 weeks," and takeover documents should be issued in about six weeks, Mr Fawcett said yesterday. And the combine should be able to lift bottom-line profit by up to 70 percent over about three years, he said. The first-year net profit has been forecast at $105 million. The combined group will have a market share of 26 percent and $8.5 billion in grocery sales, behind only Woolworths Ltd which has about 30 percent. Current plans are that Foodland will issue the David family with about $450 million in shares for the New South Wales-based Davids Holdings Pty Ltd, giving the family about 35 percent of Foodland. It will then launch takeover offers for South Australia's Independent Holdings Ltd and Victoria's Composite Buyers Ltd pitched at $6.45 a share, valuing Independent and Composite at $200 million and $160 million respectively. Mr Fawcett dismissed the suggestion that retail giant Coles Myer Ltd would be in a position to block the mergers. "I don't know whether they can. I wouldn't be so sure.' K-Mart, Coles Myer 21 percent shareholder snapped up 10.8 percent of Independent Holdings in late June and earlier this year Coles Myer itself bought 15 percent of Queensland-based wholesaler QIW Retailers Ltd. This was widely seen as stymieing a takeover offer for QIW by Davids which was then stalled by legal action which is still to be resolved." *Courier Mail, August 1993*

HYPERMARKET KEY
A hypermarket store format was seen as a key to competing with Woolworths and Coles

- **"<u>It is vital we develop new larger format stores than can compete directly with the chains</u>. Our strategy therefore is to develop hypermarkets… Hypermarkets will be controlled by the company and it is important to understand that this format will not replace convenience or local neighbourhood shopping. The hypermarkets will be located, where possible, in regional centres or stand-alone sites in a head-to-head confrontation with Coles Myer and Woolworths… These hypermarkets will be aimed at a broad primary and secondary draw area."** *David Fawcett, Managing Director, FAL, October 1993*

VENTURE ACQUISITION
Foodland acquired Venture Stores as a building block for its hypermarket concept…

- "Foodland Associated Ltd yesterday confirmed Venture Stores was incurring losses, was in need of a fresh capital injection and that it had bought 100 per cent of the discount retailer for "a nominal amount". Managing director Mr David Fawcett described the move as positive and used it to unveil his plans for a "hypermarket" concept to incorporate "the best features of a supermarket and a department store". Only last week Mr Fawcett declined to discuss the fortunes of Venture because FAL, through its wholly owned subsidiary Action Holdings, was only an indirect owner through its 25 per cent stake in the New Zealand company Farmers Deka Ltd. Venture went into receivership last year after failing to restructure itself, and Farmers acquired control under a buyout orchestrated by FAL. Fellow Perth retailer Vox, in which FAL has a 30 per cent stake, holds another 25 per cent of Farmers Deka. The rest is owned by Maori-controlled Skari Developments." *Sydney Morning Herald, July 1993*

- "The Venture store in Coburg may soon become a "hypermarket" in a new bid to revive the retailer. The Coburg store underwent a major revamp recently, which saw clothing - once the staple product of the discounter - becoming less important. The move was part of a trend to the US-style "hypermarket" - with the features of both a supermarket and a department store. The Coburg store is one of 13 in Victoria which have changed hands several times and fallen in and out of receivership in the past 12 months. And yesterday ownership changed again when Foodland Associated Ltd bought the Venture business from one of its partly-owned New Zealand companies. "The existing operation is a very important foundation upon which we can build the exciting new hypermarket concept," Foodland managing director, Mr David Fawcett, said yesterday. Yesterday's acquisition is the latest in a series of purchases as Foodland moves a step closer to its ambition of becoming Australia's third force in retailing, next to Coles Myer and Woolworths. It also follows last week's announcement that Foodland had organised a new $160 million line of credit. Venture, a fifty-five store discount chain, is Australia's fifth largest retailer. It went into receivership last year with debts of $85 million before Farmers Deka bought it out. Mr Fawcett said he expected Venture to make a loss for the year ending June 1993, with turnover of about $230 million. However, the group was expected "to return a modest profit in the next financial year". *Herald Sun, July 1993*

VENTURE ACQUISITION
… continued

- **"Venture Stores is now a wholly owned subsidiary of FAL. Venture operates 44 discount department stores retailing general merchandise and hard grocery items… FAL is the major shareholder (22.78%) in Australia's largest furniture and electrical goods retailer, Vox Ltd. Vox trades as Archie Martin Vox, Chandlers, Errol Stewarts Warehouses and Billy Guyatts. It also operates the Kresta Blinds group throughout Australia… [The General Merchandise] division has been a real success story during the year due principally to the sales made to Venture and Vox. FAL is continuing to source more and more product for these two companies."** *FAL Annual Report, October 1993*

FAILURE
The failure of Venture Stores led to the collapse of the hypermarket dream

- "However, Mr Fawcett conceded that the withdrawal of Davids and Independent [from a proposed merger] had delayed moves by Foodland to launch the hypermarket concept in Australia using Venture Stores as a platform. Foodland announced last June that it planned to build up to 75 hypermarkets (covering up to 10,000square metres each) in Australia within 10 years. Mr Fawcett said the final format of the merger would have to become clearer before Foodland made its hypermarket commitments." *The Melbourne Age, January 1994*

- "Foodland Associated Ltd has put its exposure to the Venture Stores failure at more than $52 million, an amount higher than most stockmarket analysts predicted. Late on Friday, after markets had closed, Foodland issued a statement which said the unaudited financial position of Venture at January 29, on a going-concern basis, showed liabilities of $52.1 million and total tangible assets of $50.4 million. The assets included stock valued at cost of $40.6 million. Foodland's 1992-93 profit was $41 million. Venture was placed under the control of an administrator last week after Foodland decided to withdraw financial support from the east-coast mixed clothing and grocery chain which was to have been Foodland's vehicle into hypermarket retailing. The stockmarket savaged Foodland after the announcement, taking its price down to $6.30 a share and cutting its market capitalisation to less than $600 million at the end of last week. Foodland said one of its options was to replace the ANZ as the first-ranking secured creditor for the $16.5 million by paying out the bank and taking an assignment of its security. Friday's statement noted that when Foodland acquired Venture in July 1993 the investment was valued at $12 million." *Australian Financial Review, February 1994*

- "In our Australian businesses, the disappointment for the period arose from attempts to achieve significant growth in revenue in general merchandise which proved to be unsuccessful. Extraordinary losses (net of tax) of $29.9 million were incurred in the failed Venture Stores and an abnormal loss of $13.8 million was incurred on the disposal of the investment in Vox Ltd." *Don Humphreys, Chairman, FAL, July 1994* coles SuperCentre

COLES NEW STRATEGIC DIRECTION
In 2006 Coles released their "transformation strategy" which included the SuperCentre

- "What is a super centre? They do happen to be the fastest growing format around the world. They are about 9,000 square metres. So to give you an idea, that is about three times the size of a supermarket. And what a super centre does is combine the best of food, merchandise and apparel and in some states, liquor, under one roof. Why do they work? Because the customers want them." *John Fletcher, MD Coles Myer, Interview, Sept 2006*

- "Our growth strategy will increase the return from our existing store network and create new opportunities to grow our business ahead of the market through reinvigorated stores, <u>the creation of SuperCentres</u> and a differentiated product offer.

- Our new customer initiatives will include the development of SuperCentres – destination shopping locations offering food, general merchandise and apparel under one roof.

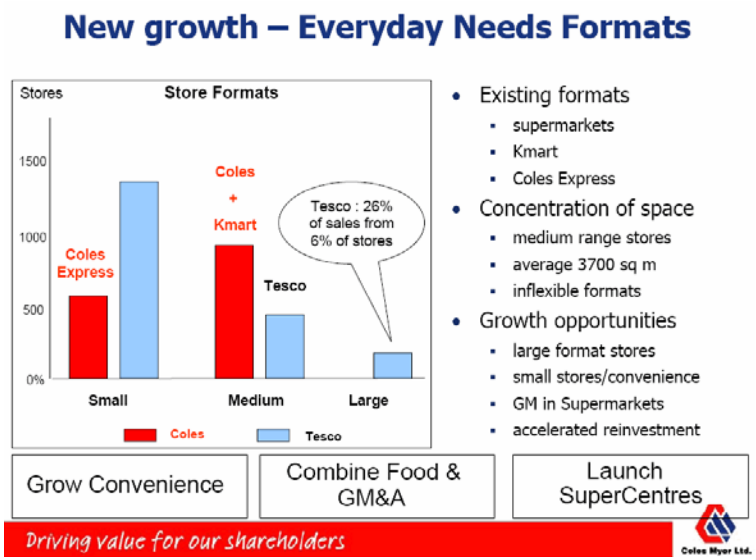
- Customers will be able to choose where they shop according to their needs and know exactly what shopping experience to expect.

- Next year, some of our Kmart stores have the potential to be integrated into SuperCentres, offering customers an easy and convenient destination shopping experience. *Annual Report, 2006*

- "[There is a] real estate advantage for SuperCentres with co-located supermarkets and Kmart stores. Large format stores are growth opportunities" *Rick Allert, Chairman, Coles Myer, Shareholder Presentation 2006*

- "The company has examined international retail trends in developing its growth strategy, and is now looking to emulate an approach used successfully by the British retailer Tesco and US giant Wal-Mart." *Inside Retailing, Sept 2006*

COLES NEW STRATEGIC DIRECTION
Coles saw the opportunity for a large format store and cites British chain Tesco as an example



Source: Coles Full Year Profit Presentation to shareholders, 2006

POTENTIAL AUSTRALIAN MARKET SIZE

Coles told analysts that the Australian market had the potential for "80 stores", which implies an expected density of 260,000 people per supercentre,

Potential supercentres in Australia based on different density assumptions
(People, thousands)

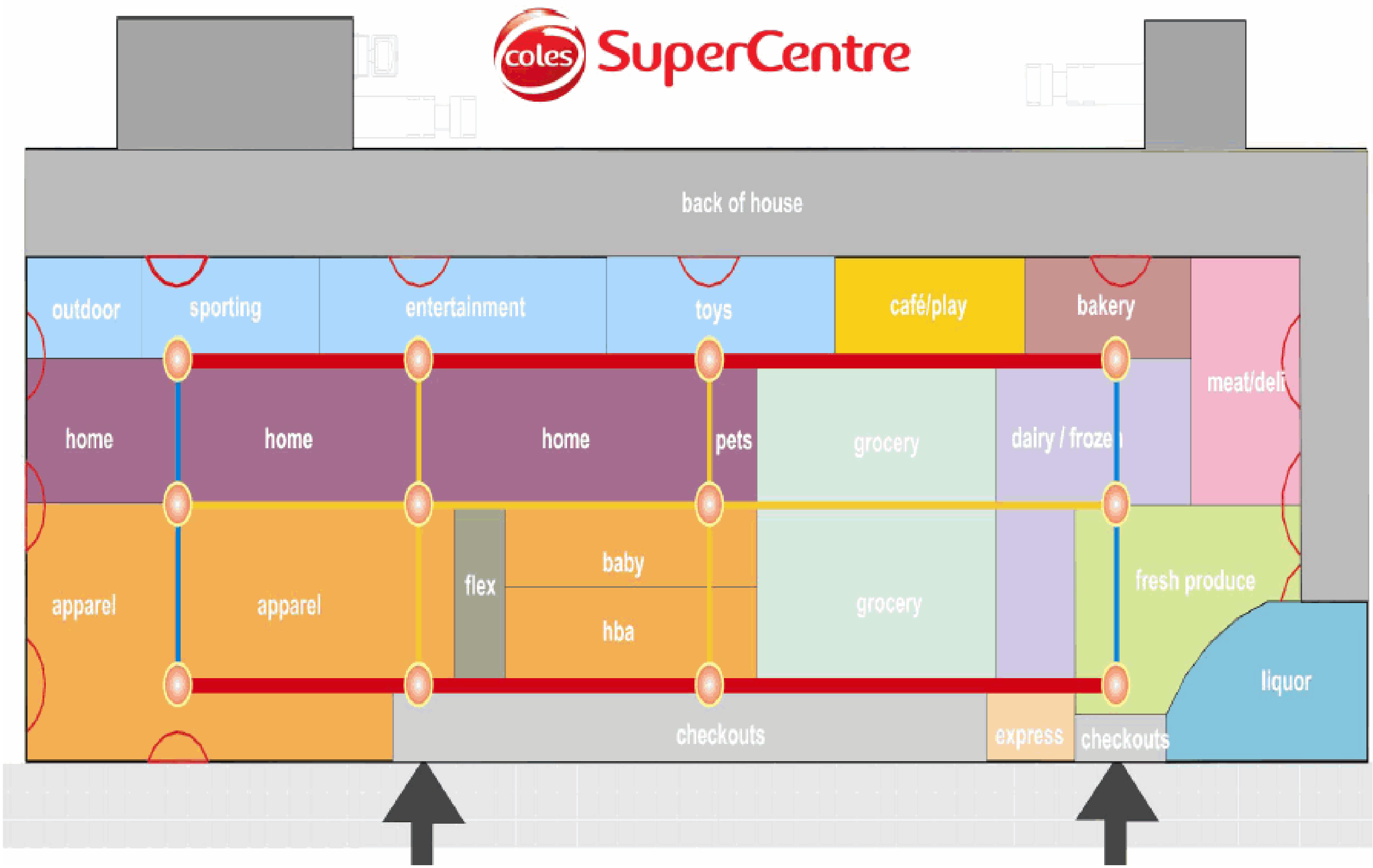
		Population per supercentre/hypermarket						
	State Population	75,000	100,000	125,000	150,000	200,000	260,000	575,000
New South Wales	6,817,000	91	68	55	45	34	26	12
Victoria	5,110,000	68	51	41	34	26	20	9
Queensland	4,165,000	56	42	33	28	21	16	7
Western Australia	2,051,000	27	21	16	14	10	8	4
South Australia	1,514,000	20	15	12	10	8	6	3
Tasmania	490,000	7	5	4	3	2	2	1
ACT	336,000	4	3	3	2	2	1	1
Northern Territory	208,000	3	2	2	1	1	1	0
Implied Total	20,691,000	276	207	166	138	103	80	36

Note: Population figures 2006 Source: ABS; Coriolis Analysis

COLES NEW STRATEGIC DIRECTION

The planned Coles Supercentre includes general merchandise departments, covering approximately 60% of the floor space, and the remaining 40% covering grocery departments

New growth – SuperCentres



COLES OWNERSHIP
Coles ownership upheaval has put Coles Supercentre plans on hold (possibly indefinitely)

- **"The Coles everyday needs business concept and the development of the supercentres is effectively in limbo until the company concludes its ownership review…But we are re-examining our priorities in order to deliver our short term objectives and prepare the business for longer term growth. This means the timing of some components of our growth strategy, such as investment in our fresh offer in supermarkets, will be brought forward while the timing of others, like the development of supercentres, will be pushed out… We now envisage the first one opening in 2008 rather than later this year."** *Inside Retailing, Mar 2007*

- **"Super centres would almost certainly not be part of the Wesfarmers approach after taking over Coles Group."** *Richard Goyder, CEO, Wesfarmers, Australian Financial Review, Aug 2007*