X5 Retail Group

Capital Markets Day

Olga Naumova

General Director of Pyaterochka

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Pyaterochka's Value Proposition

Unique value proposition

- Low prices for the goods I need
- Best in fresh category
- The best shopping choice
- Not only food
- Simple & easy shopping
- Conveniently located

Comments

- Conveniently located stores for economic shopping
- Rational choice for economic customers
- Best price/quality balance in the market segment
- Right assortment for everyday purchases
- The most convenient discounter ~ 350 sq. m. on average located in the residential neighborhood
- Optimized subleased areas to create one-stop shopping destination (Cell phones stores, pharmacies, ATMs, etc.)

Conveniently located economy class store

Positioning and Customers

Key competitors

We compete with the stores located within 500 - 900 meter distance from our stores:

- Other discounter chains
- Upscale formats (partially)
- Traditional retail

Positioning vs competitors

- Target positioning - multilocal brand:
  - Vs Magnit - local assortment and local promo
  - Vs. local chains – purchase on the national level and prices
- **Best assortment in fresh category amongst peers** (dairy products, meat and poultry, bread, fruits and vegetables)

Target audience

Target customers

- People, living nearby (500 m)
- Sensitive to prices, rational shopping attitude

Key target audience

- Families, especially mothers with children (0-6 y. o.)
- Pensioners (also as a communication channel)

Additional target audience

- Youths and students

Consumer demand

- Everyday, comfortable shopping with the assortment you need
- Convenient store locations, easily accessible by public transportation or on foot
- **We need to change consumer perception and position Pyaterochka stores as the best price/quality option**

We aim to regain leadership via increased focus on customers, improved assortment supported by a new and more efficient operational model

New Brand Communication

The new communication is not just a renewed logo.

It is a new philosophy within a new company .

Pyaterochka stores don’t only offer convenience and low prices – We are changing!

We want to move closer to customers, we want to surprise with cleanness, freshness and new assortment.

- Every month we have something new in our assortment!
- We have a lot of fresh offerings!
- We have a fresh category director at each of our stores!
- We have new stores full of light!
- We have excellent service!

Our goal is to surprise customers everyday!

Customer Feedback

1. Improve assortment, particularly fresh
2. Improve quality of produce
3. Simplify navigation, and optimize price-tags location
4. Increase checkouts service speed
5. Maintain very competitive prices

We have analyzed and incorporated our customers' feedback In to our new strategy

Source: In June 2013 we conducted a series of interviews with clients in Moscow and selected regions in order to collect feedback and determine key areas that require special focus and improvements.

Key Initiatives Overview

Initiatives	Key steps
Refurbishment	❖ Pilot programs for light and full refurbishment completed ❖ New brand book for store design, in-store navigation and layout ❖ Refurbishment program roll-out
Assortment + Fresh	❖ Work with suppliers, more accurate purchases at the right prices ❖ Introduction of category management principles to purchasing: category reset, new private label strategy, etc
Quality of produce	❖ Quality control service reorganization (reporting directly to Format General Director) ❖ Strict control of deliveries from suppliers at DCs
Customer service	❖ Mystery shopping project – external service quality control ❖ Mentor program ❖ Create unified approach to store operations control
In-store routines	❖ Trainings for store employees on new business processes ❖ Decentralization, establishment of clusters
Pricing	❖ Active category management ❖ Cluster and local approach to pricing will increase flexibility

Refurbishment Program

Program overview

- **Overview.** In April-June we launched two pilot reconstruction projects: full and light 23 stores were refurbished, including 10 in Central region, 10 in North-West and 3 in Ural region
- **Capital expenditures.** Average cost for rebranded store depends on the store condition and required renovation and varies from USD 130 to 360 thousand
- **Preliminary results.** Customer polls and post-refurbishment sales dynamics show positive results of the program
- **Program roll-out.** Starting in October 2013 we plan to refurbish stores in the Central, North-West and Ural regions and then expand the program to other regions
  - 2013: 130 stores
  - 2014: number of refurbished stores will be based on program results (~1,100 stores are expected to be refurbished)

Expected effect

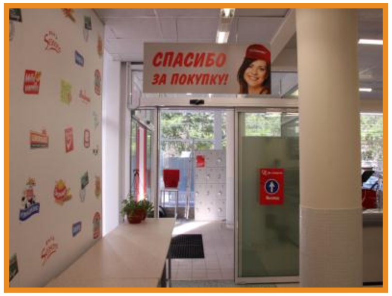
Increase in LFL sales

Increase in fresh category sales

Increase in FROV category sales

Improvement in losses

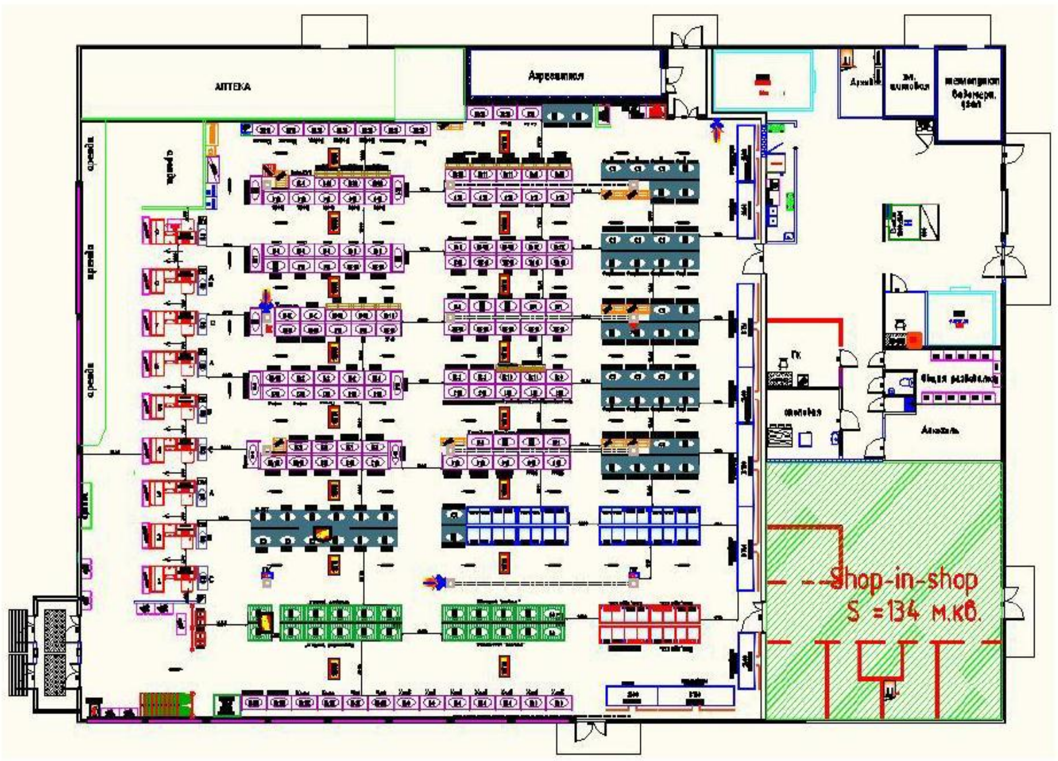
Selling space optimization



New Store Design

New Store Lay-out

Store lay-out scheme



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Comments

- More “fresh” in store
- Store director is also Fresh director and always on the trading floor
- Less back office space and more selling space
- New equipment
- Well-designed and presentable shop-in-shop stores in the sublease area vs old-fashioned and unattractive stores now

X5 RETAIL GROUP | Assortment Composition Principles

Introduction of category management principles

- Reorganization of commercial department to Category Management model
- Introduction of over 300 new SKUs, in October we begin weekly assortment updates of up to 50 new SKU's

Strong federal assortment complemented by local brands and private label products

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Differentiation of category roles

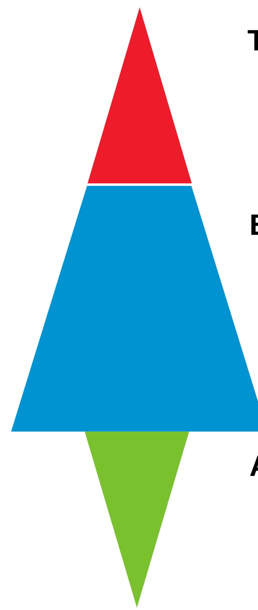
Federal

Private label | Local

Strong federal assortment
- Four key assortment modules for different store types are based on the store size

Local assortment tailored to local clients' needs and market position of Pyaterochka in region
- The higher market share of Pyaterochka, the smaller share of local assortment

Strengthening of private label positions with two-level offer
- Red price brand as a basic offering
- High-quality private label offering and more upscale brands as a substitute to branded products



Target — 20-35%
- To increase traffic and support positioning

Basic — 65-75%
- To fill-in the basket

Additional — 5-10%
- To increase gross profit

Overall assortment depends on store size, location and market position

Pricing Strategies

1 Cluster pricing	2 Local pricing	3 Consumer baskets
❖ Price clusters = Assortment clusters ❖ Based on competitive environment and Pyaterochka market positions ❖ Balanced offering for consumer	❖ For stores with different level of competition ❖ Lower prices and higher frequency of competitors' prices monitoring for stores located in close proximity to competitors ❖ Higher prices in stores with no competitors in the neighborhood	❖ First price products ❖ KVI ❖ Private Label ❖ Back Basket

- Quick and smart reaction to changes in market environment
- Attract additional customers to the stores
- Benefits from stores located in areas with low competition

We use a differentiated approach to pricing that takes into account competitive environment, X5 positions, category type and role in consumer basket

In Store Processes

Store benchmarking	❖ Outperformers vs. bad performers ❖ Develop action plan on the base of the analysis
Auto-ordering	❖ Introduction of auto-ordering decreased the time store directors spend for ordering per day ❖ Store directors may spend more time on the floor: controlling business operations, monitoring fresh and communicating with customers
Store departments	❖ Processed meat department with dedicated employee is replaced with self-service section ❖ Additional labor-hours to be dedicated for customer service
Employees	❖ Optimization of employee instructions for day-to-day duties ❖ More training hours on in-store operations for employees and store directors

Improvement in store routines and processes is crucial to our goal of moving closer to the customer

Cluster –Main Business Unit

New organizational structure

- **Division** – up to 10 clusters and 1,000 stores
- **Cluster** – up to 12 supervisors and 120 stores
- **Group** – 1 supervisor – up to 8 stores
- **Store level** – 1 store

Key organizational principles

Organizational structure and decision-making process is based consumer demands

New organizational principles

- Cluster is the base business unit responsible for P&L
- Stores are united in clusters on the base of the following criteria
  - Distance form DC ~ 200 km
  - Logistics supplies volume (~16-17 mln.RUB) per store
  - Current and potential market share

We plan to establish 3 cluster types

- Start-up (0-25 stores) - insufficient number of stores and high potential for organic development, focus on growth
- Development (25-80 stores) - average number of stores and moderate potential for development, focus on increasing efficiency and continuing expansion
- Operational (80-120 stores) - significant number of stores and limited development prospects, focus on efficiency

New Operating Model

New "Pyaterochka" operating model – 4 key functions

Format General Director

- Format's concept
- Strategy and development targets
- Expansion to new regions
- Store lay-out concept
- Culture of consistent improvements

Operating activities

- Stores quality – operations and execution
- Increase in stores' operating efficiency (routines and HR)
- Interaction with customers

Development and Infrastructure management

- Organic development
- High-level support of stores' infrastructure
- Assets management
- Efficient use of commercial real estate

Category management

- Planning and strategy of categories development
- Interaction with suppliers
- Category promotion: assortment, pricing, promo, merchandising and private label
- Inventory management

Logistics

- Supplies of the stores
- Warehouse operations
- Inventory management according to category management principles

Supporting functions

- Finance
- HR
- IT
- Security

Pyaterochka Logistics - Moscow Region

Initiatives Overview

1. **Supply chain (Logistics/Category management)**
   - Increase in centralization level & supply frequency
   - PLU (multi box)
   - Supply chain modeling
   - Assortment rotation & work with suppliers
2. **In-store operations**
   - In-time merchandise display
   - Relevant stocks
3. **Logistics operations**
   - Decrease in delivery time (from order to delivery)
   - Service Level
4. **Key tools**
   - Auto-ordering & Forecasting (SAP/JDA)
   - Availability monitoring
   - Planograms

Current & Target Results

- Increase in centralization level
- Improvement of availability
- Decrease of turnover days and inventory
- Decrease in delivery time – from order to store
- Optimization of supply routes - decrease in transportation routes length

Increase in Freshness & Service Levels
Decrease in Opex

Developing Personnel

Recruitment

- Initial skill assessment
- Cooperation with universities, participation in recruitment fairs,
- Improvement of Company's image as an employer
- Decentralization of staff recruitment to clusters
- Decrease in outstaffing
- Focus on trainings

Training programs

- Assessment centers and career planning
- Performance review
- Coaching and distance training
- Candidate pool for key positions
- Trainings on management techniques, labor productivity, introduction, motivation and staff retention

Corporate culture

- Promotion of corporate culture and strategy
- Focus on Company's values
- Support favorable image of Company as an employer through non-monetary benefits
- Flat organizational structure in stores
- Focus on internal communications

Change in motivation

- Increase in variable component of store managers' compensation
- Transfer of payroll responsibility to cluster level
- Wage benchmarking vs market
- Non-monetary motivation
- Linking goals and KPIs

Expected results

Team building – Store director – Supervisor – Regional director (HR talent pool, motivation, training)

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Increase in engagement and loyalty of personnel

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Decrease in labor turnover and more expertise on the operational level

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Increase in labor productivity

HR strategy is focused on improving customer service in our stores

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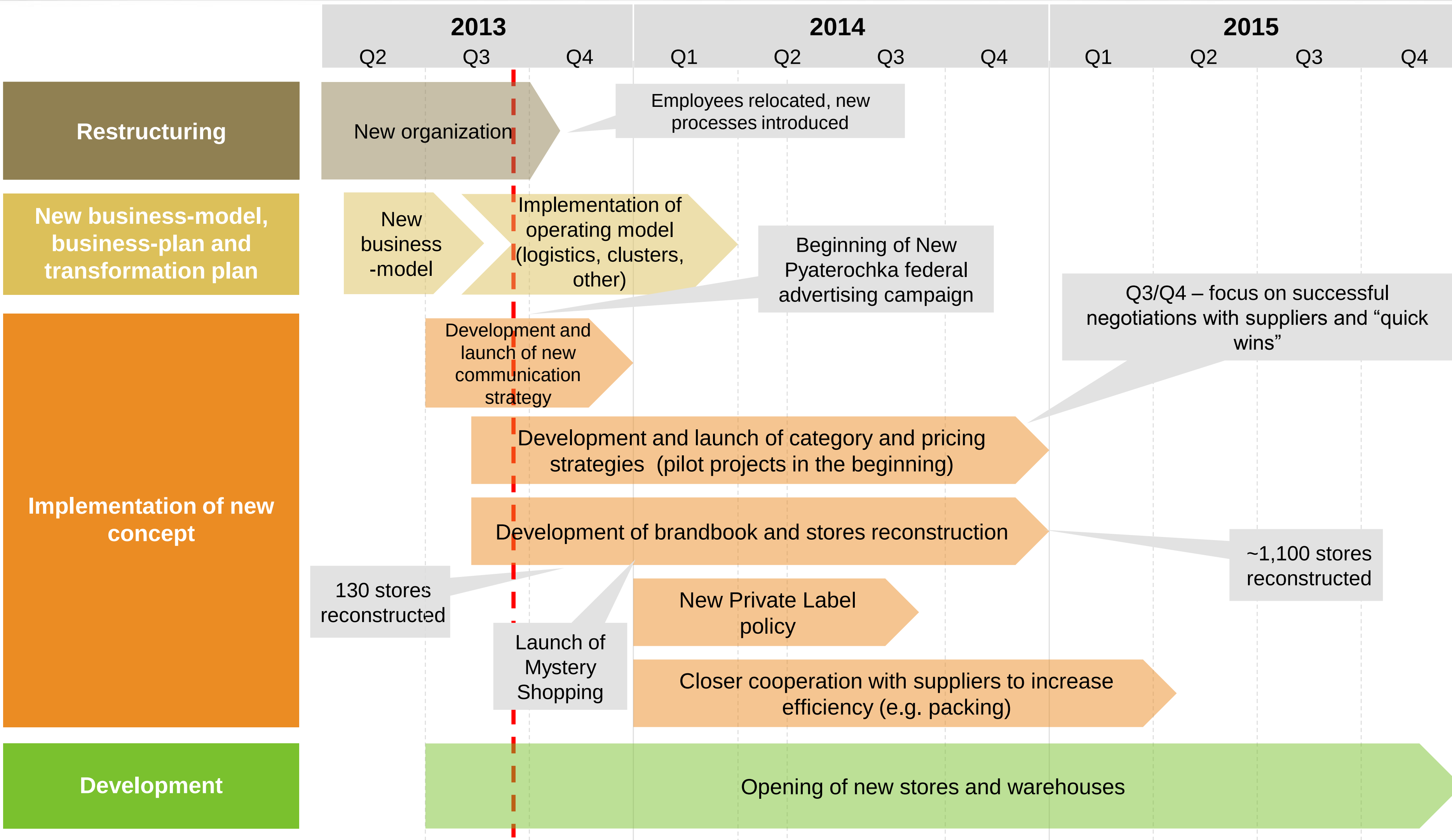
Transformation Schedule



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