Our key strengths

The following strengths show how Home Retail Group is well positioned as one of the leaders in the UK retail market.

The market leader

With sales of nearly £6bn in the past financial year, Home Retail Group is the leading home and general merchandise retailer in the UK.

Although we are already the number one in many of our product categories, there is still potential to increase our market share. Our combined position accounts for just 10% of a market valued at £60bn. As many of these markets are fragmented and our market share has built quickly, there are further opportunities for growth.

We are using our retail knowledge and experience to maximise our operational efficiency and strengthen our competitive position. Initiatives in this area include trials of different store formats and ongoing programmes of store improvements.

As we offer multiple product categories via store and non-store channels, we are well placed to serve the changing needs of consumers.

Two strong retail brands with large customer bases

As the UK's leading general merchandise retailer and an icon among consumers, Argos is known for offering choice, value and convenience across a broad range of product categories. Homebase is the UK's second largest home improvement retailer, increasingly known for providing an extensive, more style-led range of merchandise across the broader home enhancement market.

Both retail brands are well placed to meet changes in customer preferences because of their emphasis on customer service and product choice. They are also extending their reach into under-penetrated customer areas and developing tailored formats to serve specific local catchments.

Our Financial Services business drives sales and customer loyalty for both Argos and Homebase. A range of credit and insurance products are available to customers in-store, by telephone and online, making our retail products more affordable and providing customers with additional peace of mind. With more than 1.1 million active store card customers, we are one of the largest store card providers in the UK.

Great choice and value

Customers of Argos and Homebase have access to a massive range of goods at competitive prices.

The breadth and diversity of our product range, across multiple categories and with significant overlap between Argos and Homebase, should help to support sales in the event of a consumer slowdown. While some markets may contract, certain product categories should grow due to technological advances and replacement cycles.

The choice and value of our product range continues to expand for both retail brands. As a multi-channel retailer, Argos is able to offer its customers a level of choice within each product category that is hard to beat. Homebase also offers a wide choice within the product ranges that it sells.

The introduction of mezzanine floors at Homebase stores was part of a wider initiative to maximise store space and allow more lifestyle-led products such as kitchens, bathrooms and furniture to be displayed more effectively. Argos is also trialling the use of product displays for certain key ranges.

The Group's scale benefits allow highly advantageous price positioning for both retail brands. Argos competes on price, offering customers low-cost products. Homebase has a more promotionally-led stance supported by its Spend & Save programme and promotional events.

Additional services help to maximise brand appeal and drive sales for both businesses. Argos has a market-leading home delivery offer, both in terms of service and value for money. Homebase is increasingly offering end-to-end support for home enhancement projects, with kitchen design and installation services available in all stores.

£60bn

The size of the UK **home and general merchandise** retailing market.

10%

Home Retail Group's **market share**.

Integrated multi-channel capability

As the leader in multi-channel retailing, we are well placed to respond to future consumer and retail trends. Consumers are changing how they order and buy goods. We offer many ways to meet their needs through our two retail brands, from in-store to shopping at home using catalogues and the internet. We are continually looking at new opportunities for innovation to enhance the retail experience.

The fully-integrated nature of the Argos offering, supported by highly developed supply chain systems, provides further differentiation and is a model for future retail business. Whether buying in-store, online or over the phone, for collection in-store or home delivery, the experience is noticeably fast and efficient.

At Argos, over 14,000 product lines can be reserved from home for collection from the customer's store of choice through Check & Reserve. By combining the efficiency of pre-ordering with the guarantee of immediate availability, this facility appeals to all time-pressed consumers. The convenience of Quick Pay Kiosks is helping to speed up the shopping process in-store, allowing customers to bypass the till. Quick Pay Kiosks transactions now account for around 17% of Argos store sales.

This same multi-channel capability is being used to provide competitive advantage to Homebase. Homebase's transactional website is modelled on the successful Argos service. Customers can browse more than 10,000 Homebase products online, many of which are available for home delivery using our shared home delivery infrastructure.

The skills and experience behind the Argos catalogue are being applied to create catalogues for Homebase customers featuring furniture, furnishings, flooring, tiling, lighting and decorating products. The Homebase Spend & Save loyalty card provides a tool for direct marketing to four million customers active in home enhancement.

Purchasing, sourcing and supply chain strength

Group operations provide our retail brands with significant competitive advantages.

Due to the size of our procurement operation, the scale efficiencies we can generate and our long-term relationships with suppliers, we can deliver value for money to consumers across a broad range of products while improving profitability in a very competitive market place.

We have one of the largest UK sourcing offices in the Far East. Products we buy from overseas account for over £1.8bn of Group sales, more than half of which is now sourced directly from factories, generating significant savings by eliminating agents and other intermediaries.

Our supplier and stock management structure in the UK and overseas allow us to source low-cost products in sufficient quantities while containing our stock exposure risk. Argos customers, in particular, value our ability to locate exclusive products and advantageous quantities of in-demand items, especially at peak shopping periods.

Shared infrastructure and logistics expertise

The Group's investment in a shared infrastructure and logistics expertise for both retail brands makes our business efficient and resilient in challenging market conditions.

Argos and Homebase derive significant competitive advantage from their ability to leverage a shared infrastructure that supports their brand propositions, improves cost efficiency and accelerates profitable routes to growth. This strength allows both brands to enter new product categories quickly and cost effectively and build market share more rapidly than their peers.

Over a number of years we have made significant investment in home delivery and believe that this gives us a unique advantage over competitors who do not have our scale or expertise. Argos Direct is the UK's largest 'two-man' delivery operation, making four million deliveries a year. All Argos products are available for home delivery, as is a growing proportion of the Homebase range. The scale of our operation means that our costs are low and we are therefore able to charge a highly competitive flat fee for delivery, regardless of size, quantity or destination.

By being flexible and efficient, our delivery operation gives our customers exactly what they want. We offer a choice of three daily delivery slots for bulky products, make weekend and evening deliveries and will also dispose of old appliances and beds. Our delivery success rate is 98% and we are targeting improvements to capture the balance.

£900m

Sales Argos makes via the **internet**.

+50%

Growth in internet **Check & Reserve** sales.

A winning team

The heart of our business is our 53,000 colleagues, all of whom are focused on meeting the needs of our customers. At every level of our business, they share a common commitment to getting things right first time, being friendly and efficient and providing good customer service in our stores, over the telephone, online and in customers' homes.

The Group is led by a strong management team that combines long-term experience of the organisation with service in the wider retail sector. The high levels of retail expertise within our retail brands and Group operations contribute to the Group's consistently high levels of performance relative to the rest of the UK retail sector. We encourage professional skills and the career progress of our colleagues through targeted learning and development to ensure that the Group is always well equipped to deal with change.

Our competitors

The Group faces competition from many sources. Our competitors include:

- Established national specialists, such as B&Q, Wickes and Focus in home improvement, Currys and Comet in consumer electronics and domestic appliances, MFI and IKEA in furniture, Woolworths and Toys R Us in toys, H. Samuel in jewellery and Woolworths and Wilkinsons across broader general merchandise
- Supermarkets, such as Tesco, J Sainsbury and ASDA, which have been growing share in certain parts of the non-food, non-clothing market, building on their regular footfall and the increased space given to these ranges
- Online retailers such as Amazon.co.uk, who represent a small but growing share of the non-food, non-clothing market
- Specialist independents, such as regional and local chains selling single product ranges such as toys and jewellery.

We expect our markets to remain highly competitive in the future. Yet the barriers to entry for new market entrants are high, particularly in relation to establishing sourcing and distribution operations on the scale required to be competitive in the long term. As we have demonstrated at Argos and Homebase, economies of scale are key to generating attractive customer propositions, as well as operational cost benefits for the Group.

Product markets	Argos	Homebase	Group position	Market size
Home enhancement				
Housewares	✔	✔	1	£9.1bn
Furniture	✔	✔	1	£8.6bn
Home improvement (DIY/fitted kitchens/bathrooms)	✔	✔	2	£11.5bn
Horticulture, garden furniture and outdoor living	✔	✔	2	£3.2bn
General merchandise				
Small domestic appliances	✔	✔	1	£1.4bn
Consumer electronics	✔	✔	2	£15.5bn
Large domestic appliances	✔	✔	3	£4.0bn
Toys	✔	✘	1	£1.9bn
Jewellery	✔	✘	1	£3.4bn
Sports and leisure equipment	✔	✘	1	£1.2bn

Note: All market positions are for calendar year 2007 and by retail sales except for jewellery, which is measured by volume.

Group growth strategy

The Group has a clear agenda to deliver long-term growth. We will leverage our purchasing scale, retail brands and multi-channel approach to grow market share in key growth categories within the general merchandise market.

Growth through leveraging purchasing scale

- Building upon market-leading positions by enhancing and developing the product range and offering in core areas
- Using shared scale and expertise in sourcing and logistics and joint product ranges to provide value for money and wider choice.

Purchasing scale continues to be leveraged with particular benefit from the Group-wide overseas buying operations. Buying directly from overseas has grown to 31% of Group sales, of which 18%, or over £1bn, is directly sourced from manufacturers, with the balance being purchased via overseas agents. Over 7,500 product lines are sourced directly via our overseas buying offices, and these are spread across the majority of the Group's product categories. While cost pressures may build, such as from raw material prices or from foreign exchange rates, this will impact the market generally and Home Retail Group will utilise its substantial scale, skills and direct control over its supply chain to continue to extend advantage over its competitors and provide further benefit to its customers.

A continuing programme is driving wider cost synergies across the combined Group. Areas of focus include corporate procurement, media buying, IT services and property management. There has also been increased focus on the distribution infrastructure across the Group. Examples of benefits include combined fleet purchasing, shared backhaul (vehicles returning from store deliveries with collections from nearby suppliers) and relocating certain Argos Direct outbases to other Group facilities.

Growth through increasing market share in targeted large product markets

- Capitalising upon the strength of our retail brands to identify opportunities in product markets, particularly large, fragmented markets
- Utilising the inherent flexibility of the Argos and Homebase retail formats
- Using shared infrastructure efficiently to make products available to customers quickly and easily.

The Group has become the number two in the growth market of consumer electronics, with Argos clearly demonstrating the strength of its customer offer with excellent sales in areas such as video games systems, LCD TVs and 'satnav'. 'Big ticket' categories such as furniture and white goods are likely to exhibit more difficult conditions due to the weakening in the housing market and general consumer confidence; however, the Group will capitalise on the combined buying scale, a market-leading home delivery infrastructure, new product presentations and its in-house financial services operation to continue to drive market share growth. Homebase also expects to continue its market share progress in kitchens, and Argos in the sports and leisure market.

At the same time as targeting share growth in 'big ticket' categories, emphasis will still be placed on maintaining strong positions in 'smaller ticket' categories. Such categories remain key to the overall performance of the Group, given that in both businesses average basket values are approximately £20 to £30.

No.1

Market position in furniture, housewares, small domestic appliances, toys, jewellery, and sports and leisure equipment.

31%

Overseas buying as a percentage of Group sales.