CAC XI : RIO DE JANEIRO

Item 'H' : Introduction to Retail Session

1. The first slide shows the contributions to the Group's 1988 Turnover and Trading Profits from the Retailing activities.

   It also shows the forecasts for the growth rates over the next five years included in the respective plans.

   As in the case of the Tobacco figures, there are some differences from the figures given by David Allvey in that the Plan figures for BATUS are based on US rather than UK accounting while the starting point for BATIG is based on figures adjusted to eliminate special items in that year.

   As a result, the growth rates shown for profits for both BATUS and BATIG are rather lower than those shown on Tuesday. However, in each case, they still represent a significant improvement in margins over the period.

2. Key features of the table are:-

   (a) The importance of the contribution from Argos, Saks and Marshall Field's, which together accounted for almost 80% of the total profits from retailing in 1988.

   (b) The large number of loss makers including Ivey's, Breuners, Peoples and the two discontinued businesses The Jewellers Guild and Thimbles (included under the Corporate heading in BATUS). Also, the low margins for Horten.

   (c) It should also be noted that the figures for Imasco represent the Group's 40% share only, which means that in absolute terms Hardees is slightly larger than Argos. In addition, the sales figures for Shoppers Drug refer only to the Imasco revenues rather than to the systems-wide sales for this franchise operation.

3. Looking to the prospects for the next five years:-

   (a) The growth rates in Argos, although impressive, are lower than the actual rates achieved over the past five years. The main dangers to these figures may lie in the degree of market penetration that has been achieved and in increased competition in some of the key product areas in which Argos has been most successful.

   (b) The forecasts for Saks and Marshall Field's show growth rates for sales which are not dissimilar from the rates experienced in the five years 1983 to 1988. Where there is a major difference, however, is in the rates of profits growth which are forecast. Here, the rates shown need to be compared with virtually no growth in Saks in the period since 1983, while profits growth was only 2% faster than sales in Marshall Field's rather than the 6% difference shown in the plan.

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(c) The forecasts for Horten represent a combination of two separate projections for the 39 store Galeria chain and for the residual 13 stores included under Horten-Extra. The growth rates for each chain are similar with more emphasis on improved margins than on rapid growth. However, there is an aim to lay the foundations for more rapid growth in the Galeria chain in the future and there is also an aim to dispose of the Horten-Extra chain at an appropriate time. Another key issue for Horten which is not evident from the Table is that this is still a low return business and on current plans the returns on net assets in the Galeria stores is forecast to reach only 12.4% by 1993, raising some question as to the viability of the concept.

(d) In Imasco, the plans show a rationalised Peoples Drug chain returning to profits with continuing rapid expansion in Shoppers Drug, Hardees and UCS.

4. The key issues for discussion suggested by the Chairman are summarised on the next slide, with the issues for the individual businesses leading through to the more general questions as to whether the Group has the capability to add value to its retailing businesses and, following on from this, whether there are realistic growth options for B.A.T Industries in Retailing.

5. One way in which the Centre can add value is by assisting the operations in formulating viable plans for their activities, by ensuring that each business meets the following criteria and that it:-

(a) is based on a clearly defined concept which has been researched and tested to ensure that it is attractive to the target customer group;

(b) has strong systems support;

(c) pays sufficient attention to staff training and communication to maintain efficiency and achieve an effective delivery of the concept to the customer;

(d) has a defined competitive advantage over other retailers competing for the same customers;

(e) has achievable plans to meet the B.A.T Industries' criteria, specified in the Guidelines.

6. The Centre can also add value by encouraging the exchange of information and experience between the Group's retailing businesses. This was the thinking behind Project Exchange, set up after the last Chairman's Advisory Conference and designed to assist in the upgrading of performance in Information Technology, Consumer Research and Training.

[The Chairman to suggest to delegates that they should concentrate on the two overall questions - can we add value to retailing and are there good opportunities for us in this sector, meeting the Group's criteria for returns and for growth. To start the discussion on adding value, Tom Long will summarise the progress that has been made on Project Exchange.]

RS/DJA 29th April 1989

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