

## **President and CEO Matti Halmesmäki's answers to questions at Kesko's Q4/2014 media and analyst briefing 4 February 2014**

**Anni Lassila, Helsingin Sanomat: There is a lot of talk about e-commerce. You have been in that business for a long time. Do you have any figures about your own online sales?**

Halmesmäki: We have reported all figures openly, but I think they are included in Anttila's figures. We have not been growing as much as the market, although the number of visitors is still high. There are probably two reasons. We have not been able to renew enough, increase our selection, and create the kinds of user experiences that the customer wants, but it is also the case that international online stores are active in Finland. However, I think we could have a competitive edge in the sense that we are a trusted actor. I believe Customs will be increasing their spot checks on deliveries from foreign online stores to see if taxes and customs duties etc. have been paid. An important issue is who can make the trade profitable. In any case, I will not allow this trend to be dismissed as hype. The change will only accelerate, and competition will become tighter. We have purchased a new top-of-the-class IBM platform for our e-commerce last year. We have the semi-automatic warehouse in Kerava that collects products for both department stores and consumers simultaneously. It is among the best in Europe. We are still working on the new SAP-based ERP system. Anttila department stores will start using it in March, and NetAnttila is planned to move to it on 1 September. Then we can make entirely different working models for logistics, multi-warehousing and partner warehousing. We have set up many online stores in the Group, but we can also sell products from other units through Anttila. The big question in e-commerce is how to manage big selections while keeping the prices competitive and stocks in order. Of course, in e-commerce, it is possible to avoid a big portion of costs related to physical stores, such as personnel costs and rents, although return rates are very high for certain products etc. When considering e-commerce, our starting point is a multi-channel approach. However, price competition is tough in e-commerce, and in a multi-channel approach, you also have to take into account the pricing of the products in your brick-and-mortar stores. There is a problem of having to both harmonise and differentiate your stores. Everyone knows that if the same product can be purchased at a significantly lower price from an online store of the same brand, it is not good for the brick-and-mortar store. Our purchasing power is great and the coverage of our delivery network is the best in Finland, so we can deliver our products anywhere, regardless of where there are Itella offices etc. The answer was quite long, but the issue is very acute and important.

**Jarmo Koponen, YLE uutiset: You said city centre department stores as a store type are in trouble. Does that mean the Anttila department stores to be closed are just such city centre brick-and-mortar stores?**

Halmesmäki: There are surely different situations. Our starting point has been that K-citymarket is a hypermarket store type, while Anttila is a city centre department store. But a

lot of commerce has moved to shopping centres. If you think about stores in big shopping centres such as Jumbo, Sello, Iso Omena, Skanssi etc., do they count as city centre stores or not? In general, stores that have to create their own flow of customers must have a very desirable brand, and then it often is the case that secondary and tertiary brands suffer. K-citymarket has a huge flow of customers, and I think we have a lot to improve on how to sell high-quality products to the customer flow of K-citymarket. On the other hand, competition is increasing also for Intersport, but they have been able to keep up excellent customer satisfaction and level of activities. The same also goes for Budget Sport. Service is still valued highly, but it is a fact that when it is so easy to compare prices, there is the threat of becoming just a showroom – people go to brick-and-mortar stores to see and try the product, such as an expensive item of the building and home improvement division, but then they go and see where to get it more cheaply. These are serious issues to consider. This may not be an issue in furniture trade yet. Sales moving online is probably most pronounced when the product is expensive and clearly distinguishable and has a strong brand, such as home electronics. It could also depend somewhat on the clientele, although that is under change, as well. These days, everyone regardless of sex and age is active on the internet, and people are used to buying online. Also, there are constant efforts to make buying online easier. You should also check that the payment systems are such that it is safe to make payments. Building trust is important also in e-commerce.

**Pirkko Tammilehto, Kauppalehti: How will the concept in Anttila and Kodin1 change? How will they be enhanced? And another question, do you have any figures on this year's capital expenditure?**

Halmesmäki: Just yesterday we decided to make capital expenditure in two big food stores in St. Petersburg. They are always something like €30 to €40 million each. We had already decided to make capital expenditure there previously. I would say that capital expenditure will be somewhat higher than last year. In Finland, these projects always tend to take a long time. Even though we are ready to start, appeals and such may postpone the start by several years. As for Anttila, we will need to consider to whom we will want to sell and what and how much cooperation we can find e.g. with Kodin1. It is important, however, that the profiles of K-citymarket, Anttila and Kodin1 remain distinct and clear. There are many considerations, such as functional considerations, but also the stores' appearance, presentation, selections, order of products in the store, marketing, and so on. Everything needs to improve in order for them to be competitive.

**Riikka Kalmi, Taloussanomat: What is the number of personnel in Anttila, and does the reduction of one third of stores translate into the same proportion also in personnel?**

Halmesmäki: If I remember correctly, the total number of personnel in Anttila is a little over 2,000, of which a little over 1,000 in the department stores. You can estimate from there what it could entail if the plan concerns one third of the stores. I think they will have to look

into enhancement measures also more widely, but this plan concerning the stores is now the most acute issue.