

Management Discussion and Analysis

INDUSTRY REVIEW

The beginning of 2002 saw a continuous decline in the economic and the retail environment. The prolonged hardships experienced in Hong Kong precipitated in a vicious cycle that resulted in increasingly cautious consumer spending.

Deflation created increasing pricing pressure that in turn precipitated progressively more difficult retail environment. Hong Kong's economy was more depressed than anytime in recent years. The unemployment rate as well as the number of personal bankruptcies reached its historic high to 7.2% and 6,973 in the fourth quarter of 2002.

Economic figures released by the Government's Census and Statistics Department indicated that the total retail sales in December 2002 dropped by 1.9% in value and 0.7% in volume when compared with December 2001. The figures of furniture and fixture sector were even worse, 13.4% and 10.5% drop in value and volume respectively were found. Weak property market persists, number of first hand and second hand residential transactions dropped by 3.8% in value and 3.0% in volume in 2002 when compared with the prior year. The Composite Consumer Price Index for December 2002 declined by 1.5% when compared with December 2001.

SALES PERFORMANCE

In terms of our product mix, furniture and household products accounted for HK\$335.1 million or 37.7% and HK\$554.8 million or 62.3% respectively of our total sales of HK\$889.9 million for the year under review. The five largest product categories by sales value for our household products were (1) Ready to Assembled Furniture, (2) Small Electrical Appliances, (3) Bathroom, Laundry and Cleaning, (4) DIY Products, and (5) Home Fashion. According to a recent market survey conducted by ACNielsen, our (1) Sofas, (2) Dining Tables or Chairs, (3) Guest Room Cabinets, (4) Tools, (5) Racks, (6) Movable Storage Accessories, and (7) Washroom Products enjoyed leading market share (1st rank) in terms of value in Hong Kong. In particular, our market share in Movable Storage Accessories is over 40%, which is almost 3 times of the follower in the 2nd rank.

BUSINESS REVIEW

During the year under review, we opened 5 new retail outlets in strategic locations at Metro Plaza, Carnarvon Plaza, Olympian City, Sau Mau Ping and Yau Oi. We conducted in-depth research to confirm high customer traffic. Our network was covered by a total of 48 outlets in Hong Kong at year end. We also opened our first retail outlet in Guangzhou in September, marking our first venture outside of the Hong Kong territory.

We continued to develop and operate our business according to the five key weapons for the retail world: brand power, product mix, logistic strength, customer service and shopping environment.

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MAPPING OUR STRATEGY

To cope with the increasingly challenging environment, we continued to engage independent market research agencies to conduct market studies to enhance our appreciation of changing customer needs and expectations in order to review and refine our market positioning and strategy. Ongoing “Mystery Shopper” Surveys at our stores conducted by these agencies helped us monitor and gauge customers’ shopping experience and our customer service.

STRENGTHENING OUR BRAND POWER

Despite concerns with the state of our economy, consumers continued to raise their expectations and their standard of living. During 2002, we focused on repositioning Pricerite’s brand positioning among value-seeking consumers.

Pricerite is one of the most well-known and leading retailer chain stores in areas of home furnishings and household products in Hong Kong. During the year, we continued our efforts to build Pricerite into the most preferred brand in the furnishing and household categories in the Greater China Region.

In order to safeguard our operating margins and to maintain our pursuit of brand leadership, we invested substantial efforts and resources to realign Pricerite from its previous “price-driven” positioning into a “value-driven” brand.

To overcome the difficulties imposed by the harsh business environment, we further integrated our brand building efforts with enhancements in our shopping environments and our merchandise.

ENRICHING OUR PRODUCT MIX

During the year, we continued to build our ability to deliver value, quality and lifestyle solutions to our customers. We formed a new dedicated Product Planning Team. Staffed by well experienced and qualified professionals, this team began our drive to enhance our merchandise through strategic product sourcing.

We continued to increase our level of global direct sourcing to further reduce our middleman’s cost in the supply chain.

We launched a product mix improvement programme together with new store categorisation for our Furniture Department. Our broader furniture range can now be clearly demarcated for those consumers seeking modern and contemporary design or the more traditional designs.

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We further enhanced our house-brand items that enjoyed tremendous consumer goodwill. We increased the breadth of the range as well as redesigned the packaging to better leverage on our increasing brand value.

We continued to expand our product ranges to seek out vacant niches and to fulfil customers' needs. In the household product category, we introduced the SOHO series (Small Office, Home Office) of stylish products to tap the increasing trend for small and medium sized enterprises and home offices. Along with the overall revamping of our furniture range, we further introduced our Kids series of children furniture.

BUILDING OUR LOGISTIC STRENGTH

We maintained our logistic enhancement programme during the year with improvements in our electronic stock replenishment system maintaining supplier fulfilment rate maintained at a high level of 95.0%, an improvement of 0.8% over the previous year.

We further introduced morning fills to complement existing night fills to ensure that our network was well stocked. We also reviewed our partnership with our logistic distribution agency and a new agreement was signed to further enhance distribution efficiency and cost control.

ENHANCING OUR CUSTOMER SERVICE

To improve customer service and to enhance our team spirit, a leading training consultancy firm was invited to conduct a tailor made "Service with Hearts" company-wide training programme. A total of 600 frontline staff attended with additional "Train-the-Trainers" Workshop conducted to improve training skill of our supervisory staff.

A further Top Management Alignment Workshop was conducted for our executive team to ensure that our management team share the mission of the Group. An additional Winning Team Seminar was delivered to our back-office staff to enhance team spirit.

To supplement the training from the professional consultancy, our in-house training team conducted further hard skills workshops to our frontline staff during the year including: professional service standards, complaints and rejections handling, professional selling and social style selling. All workshops were reinforced with additional field coaching in stores.

To encourage our staff to further enhance our customer service, a series of incentive and goal setting programmes were organised. These included the outstanding store of the month and customer service goal for the month. External and internal mystery shoppers were arranged to give rating. A further best service staff award was launched to provide recognition and encouragement to outstanding service frontline staff.

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In addition, we increased our frontline staff positions to include trained product demonstrators to enhance DIY product knowledge of customers.

We also created Customer Service Centre to provide priority handling and follow up on customer requests and feedbacks.

We completed our specification and planning for our CRM programme to increase customer loyalty. We aim to launch the programme in 2003.

A review and planning for a major site enhancement for our e-shop was completed. The enhanced site will be launched during the first quarter of 2003. We planned to introduce our CRM programme via our e-shop ahead of our offline retailing operation. This CRM programme will be introduced at store level soon after we have gathered consumer feedbacks and systems fine-tuning.

We have also extended our customer base to corporate clientele to leverage on our merchandising ability and our buying power. A dedicated team of senior staff was put in charge of the development of this B2B programme.

IMPROVING OUR SHOPPING ENVIRONMENT

During 2002, our Visual Merchandising Team continued to upgrade our store environment. Room setting was introduced to display our furniture products to provide additional ideas and inspirations to customers. We began our development of a model shop to provide a standardisation platform for product displays for our network.

Our new store design concept was implemented in our 5 new stores. Feedback on the contemporary design with the use of plasma, digital display pillar, special lighting and colour-mix were encouraging.

ENHANCING OUR RESOURCE BASE

We placed high value on human capital which was essential to quality customer service. Our employees were remunerated according to their performance and working experience.

Our goal is to upgrade our people to knowledge workers through extensive training that provides them with insights into areas of our business operations beyond their own immediate positions and areas of responsibilities. We aim to further derive improvements in service quality by building an enterprising and interactive workforce. We are certain that through our efforts to empower our people with the necessary knowledge and skills, we shall reach new levels of success.

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PRICERITE CHINA

We opened our first store in the Mainland with the opening of our Guangzhou store in September 2002. With the different consumer demographics, we utilised this opportunity to enlarge our overall product mix. To better position ourselves for the broad demographic profiles and significantly different consumer requirements, a new Chinese brand name was created together with new store layout and designs developed specifically for the Mainland market.

OUTLOOK AND PROSPECTS

HONG KONG

We will continue to increase our competitiveness in the challenging market place through improvements in our five key weapons.

We will review network strategy with greater considerations on demographic, household income, rental trend, customer traffic and store distribution factors. We may consider closing some of the stores with less traffic or overlapped location coverage and aim to consolidate our network to bring greater focus on enhancement of store efficiency and sales per footage.

We will continue to upgrade our store environment and shopping experience through improving product signage, POP, merchandise display, display equipment and re-design of store layout. We plan to renovate selected major stores to provide more enjoyable store environment to customers. We aim to roll out our new brand image implemented in 2002 in our new store across the entire network during the course of 2003 and onwards.

CHINA

Moving forward, our China team will continue to conduct in-store and roadshow based consumer research focusing on fine-tuning our retail model. Our team will move forward testing out new ideas as well as fine tuning our retail model be it our merchandise, promotion strategies as well as shopping environment.

Furthermore, while we will continue to leverage on the supply chain management established for our Hong Kong business, we recognize that further development within Pricerite China or at the Pricerite Group level is necessary to ensure that our operation will cater for the unique mainland market demands. In this area, we shall proceed with care ensuring that we will optimise on our group's built-in capability and minimise overlaps in management structure.

Our intention is to arrive at an appropriate model using our Guangzhou store during next year before rolling out to other major centres.