

FIRST RETAIL GROUP



NIDO LIVING

CONCEPT ANALYSIS AND PERSPECTIVES

MARCH 2019

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FIRST RETAIL GROUP LTD

First Retail Group Ltd are specialist strategists to the retail, hospitality and tourism sectors.

Based in New Zealand the company works globally for leading retail and consumer brands, major property owners and developers, local and central government organisations.

First Retail Group have delivered projects for a number of retail and property clients in the large-format retail sector, particularly around the home improvement category.

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SNAPSHOT SUMMARY

NIDO LIVING plans to bring together popular categories and curated, unique products, specific to the needs of homemakers, designers' and developers in a grand-format shopping destination.

This would be New Zealand's largest single retail store providing an integrated solution for these markets - commanding interest and attraction from domestic consumers and trade customers.

NIDO'S proposed differentiated proposition aligns with the traits of other rebel retailers' who are disrupting traditional channels and re-setting consumer expectations through exclusive brands, scale and depth of offer, strategic price-plays, digital visibility and experiential shopping environments.

LEADERSHIP & CULTURE *DNA of the business supports success*

As a founding Mitre 10 Mega operator, NIDO'S creators are pioneers in home improvement retailing. The Mega concept has grown to lead its sector and become recognised globally for its success.

This entrepreneurship helped cement the brand in New Zealand's culture, while their understanding of the categories likely to drive the greatest relevance, visitation and profitability supports NIDO'S potential to replicate similar performance and endurance of the concept.

POSITIONING

The proposed NIDO concept does not mirror any one retailer or anchor on a specific category. Instead it plans to deliver a synergistic, solution-set of products that people buy on a weekly, monthly or less frequent basis, along with services and shopping environments not available elsewhere.

NZ consumers are tiring of the sameness in retail and increasingly craving new experiences & offers.

NIDO'S proposed range differentiation would create a unique and defensible position by limiting comparison, while aspirational marketing themes and store experience strategies would create greater perceived value for consumers.

CROSS-CATEGORY APPEAL *Risk is spread across multiple categories*

Given the planned range of essential, habitual, discretionary and premium products, NIDO has the potential combined attraction of major retailers - such as Bunnings, M10 Mega, Briscoes, Harvey Norman & Noel Leeming, while benefiting from unique products that would set the store's offer apart.

The proposed scale and proposition of the NIDO'S single, integrated offer could be related to a big-box retail centre combining these and other homemaker categories through individual tenancies.

RESILIENCE *What can help the business resist external challenges?*

BUILT FOR OMNICHANNEL. Online driving attraction, validation & conversion from the outset
REGULAR VISITATION VALUE. Assembly of popular categories that have habitual need and demand
DIFFERENTIATION. Unique products that are unable to be compared for value at competing retailers
CATEGORY SPREAD. A range of allied, trans-seasonal categories that have universal appeal
ASPIRATION. Leveraging the trends driving New Zealand consumers' spending decisions
CAPACITY. Scale that provides consumer confidence of availability, immediacy, selection and value

RATIONALE

Cross-Category Resilience	NIDO'S proposed range has frequent visit potential - beyond occasional purchases - specific to those stores selling predominantly furnishing goods
Adaptability.	Organisational agility and skill to rapidly align promotions, range, proposition and business model to meet dynamic shifts in trends and consumer demand
Commercial Sales	B2B providing consistent baseline-sales, underpinning the business model

COMPETITOR IMPACT *Likely impacts if a competitor of scale enters the marketplace*

NIDO'S positioning and range is different to IKEA, however its target consumer demographic is similar.

If IKEA opened in North or West Auckland, impact would likely be similar to that experienced by home improvement stores, when a competitor launches. This typically impacts trade up to 20% initially, then returns to regular levels within 12 months. In this case, impacts could be lessened as both IKEA and NIDO locating in the same area may create 'cluster value' - benefiting from each other's draw and attracting consumers from a wider catchment through combined convenience and proposition.

If IKEA opened in South Auckland, we would anticipate the impact to be diffused given NIDO's broader offer, more frequent demand potential and geographical distance.

REVERSE IMPACT *Potential benefits to NIDO if an IKEA store opens in NZ*

An IKEA opening could benefit retailers such as NIDO by stimulating interest in home improvement and concentrating more of consumers' discretionary spend into the category, overall. IKEA would be the catalyst in initiating spending, with other retailers then benefiting as purchases develop into projects.

IKEA'S flat-pack, self-assembly model contrasts with the majority of NIDO's proposed range being completely built-up, but still available ex. stock. This could be a differentiating edge for the brand.

IKEA'S limited opportunity to leverage scale in store numbers, or operational synergies of central warehousing in NZ may compromise their ability to deliver pricing comparative to their Australian business. More expensive products could challenge IKEA's value proposition and goodwill.



2 REPORT EXECUTIVE SUMMARY

NIDO is planned to deliver New Zealand's largest and most integrated home interiors, lifestyle and everyday consumable solution through a unique retail format & online channels.

Combining successful retail formulas including; M10 Mega, Briscoes, Noel Leeming, Harvey Norman, KMART and IKEA, NIDO plans to offer exclusive ranges of furniture, floor coverings, houseware and manchester with emphasis on style, differentiation, affordability & availability.

In addition, the grand-format store will also sell appliances, kitchens, office furniture and premium ranges - broadening appeal and relevance while creating a single-source solution.

What would separate NIDO from traditional retailers in these markets is scale and selection. Alongside larger products, the store plans to encourage habitual visitation by offering many of the most frequently trafficked categories in home improvement retailers, such as M10 Mega and Bunnings.

Decorating, cooking and laundry, pet and other consumable lines are planned to complement NIDO's prime categories. Along with the large in-store, quick service café, these products are anticipated to drive weekly visitation - anchoring the brand as a frequent destination.

APPEAL AND ATTRACTION

At 26,000 sqm, NIDO would be New Zealand's largest single store bringing together an exclusive range of value-priced, design orientated products for the home, apartment or office. Scale and offer are anticipated to be key aspects in attracting consumers from the local area and beyond - a necessary factor in sustainability and endurance of the business model.

To date, no other retailer in Australasia has combined this depth and breadth of product which would be a key differentiator and attractor. A variety of compelling price points across the categories are planned to cater for all demographics, ensuring quality and contemporary styling are affordable and within reach for all consumers.

Shoppers are drawn to new and unique retail formats and offers. The launch of major fast fashion brands into the Auckland market over the recent years have resulted in euphoric support, visitation and record-breaking sales - comparative to others opened globally.

The success of these new entrants demonstrates the appetite New Zealand's aspirational consumers' have for unique shopping experiences, differentiated products and compelling value propositions.

PERFORMANCE

The proposed store includes popular categories from across the furnishing and home improvement sector. Larger retailers in these markets, such as Briscoe's are benefiting from continued strength in spending driven by a steady housing sector, home makeover programmes dominating the media and consumers spending more on 'nesting' categories that NIDO's range is planned to encompass.

NIDO's proposed model of aggregating a large number of categories into a retail experience on an epic scale has not been done before in New Zealand, however similar concepts overseas provide perspective on what the concept could achieve here.

Consumers are increasingly time poor and wanting solutions to their needs. The future success of retail relies on scale, convenience, inspiration, experience and value propositions.

NIDO would be the largest single destination in the country for home improvers, bringing together the most popular categories under one roof in an inspiring and experiential environment. Situated in Auckland's growth corridor, with easy access to the wider region and further afield, the new store would reach beyond traditional boundaries.

As a physical destination the store's scale would be impressive - attracting shoppers to make the journey while it's digital presence will help consumers discover the proposition, inspire them and help make early selections online.

RISK MANAGEMENT

Success relies on consumer attraction and conversion, curation of range, product quality and alignment with trends. Independent expertise at the Board and management level would assist Directors' develop the brand, product categories and customer journey, strategically.

Scale of the business will require specialist key roles, robust systems, careful recruitment and training that unifies knowledge and service delivery. Skills and talent are vital in delivering the range and shopper experience necessary to set NIDO confidently apart in the market.

Comparative retail categories and domestic competitors continue to perform well, while international brand IKEA has announced their future market entry - supported by potential they have recognised in the New Zealand marketplace.

Given NIDO's differentiation in range, store experience and overall proposition it is likely the brand will develop its own niche - bringing together synergistic categories in a convenient and experiential environment - quite different from what consumers will find elsewhere.

Configuring the building to enable reverse scalability will ensure the store can retreat, tactically, if necessary, enabling other tenancies to occupy prime ground floor space in what is already a pivotal retail area - supporting a growing local population.

SUMMARY

NIDO is an ambitious but achievable concept that reflects the evolution of shopping - anchored by scale, convenience, experience and competitive pricing.

The home products categories have seen little in the way of innovation or new brands entering the market, yet still continue to perform strongly. NIDO's integrated offer is likely to be well received by New Zealand consumers, hungry for differentiation, inspiration and value.

Just like M10 Mega achieved, when their superstores transformed the hardware category, NIDO, has similar potential to revolutionise the lifestyle and home improver categories through its scale, integrated offer and experiential shopping environment.



3 OVERVIEW

This document has been prepared by First Retail Group for Magson's Investments Ltd – developers of the proposed NIDO Homemaker Centre, Lincoln Road, Henderson.

The analysis and perspectives in this report are based on independent statistical, economic and planning reports, commercial concepts, developed design and other documentation provided by Magson's Investments Ltd., including:

1. Home Products Superstore – Peer Review and Retail Impact Assessment Covec Ltd - February 2013
2. Peer Review of Reports Supporting a Home Products Superstore – Mark Tansley Associates Ltd – April 2013
3. Home Products Superstore – Retail Impact Overview – Property Economics Ltd – August 2015, Updated in January 2019
4. Project Everest – Economic Overview & Model Analysis - McGrath Nicol –2017
5. NIDO – Store Design and Layout Concepts - Studio Gascoigne – 2017
6. NIDO – Big Idea Concept Development – 2018 – Impact Public Relations
7. NIDO – Food and Beverage Strategy – 2019 - Consultant Catering

4 REPORT BRIEF

This report assesses consumer acceptance and key requisites to ensure commercial performance and endurance of the proposed concept, based on information supplied, current and anticipated trends and understanding of other businesses in comparative segments.

Commentary includes:

1. Outlining market and consumer trends
2. Assessing anticipated performance of the proposed retail format
3. Identifying key consumer trends and sentiment
4. Assessing past estimations of commercial performance
5. Exploring endurance and resilience initiatives as prudent risk management

The analysis focuses on primary elements of success for the proposed store:

ATTRACTION & EXPERIENCE – Drawing shoppers, converting sales & creating advocates,

PERFORMANCE - Ensuring consumer support, sales, profitability and sustainability.

RISK MANAGEMENT – Early identification of potential issues and solutions



5 FORWARD

NIDO is a large-format retail concept, planned to bring together a comprehensive selection of design-led homemaker products and everyday consumables, in an experiential, value-orientated consumer offer.

Similar formats overseas have appealed across wide demographics and drawn consumers beyond their immediate catchments - becoming dominant & influential in their marketplaces.

The homeware sector is one of the most successful and resilient of all retail categories. Market leaders, Briscoe & M10 MEGA have enjoyed sustained growth in profitability and store numbers over the past decade – despite a challenging economic environment.

Stimulated by continuing housing development, consumer appetite for home improvement and 'nesting' products, these categories have out-performed others on a consistent basis, indicating strength, resilience and endurance.

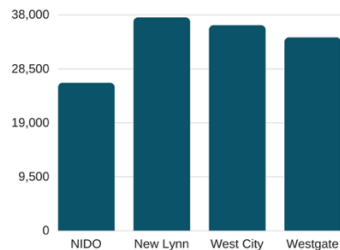
Increasingly, consumers are moving toward more frequent refreshment within their home environments - inspired by the media, along with greater availability and affordability. This has led shoppers into stores with greater frequency - resulting in an increasing amount of disposable income spent on homemaker categories.

5.1 SCALE AND INFLUENCE

NIDO's proposed store would be the largest integrated offer of home-goods under one roof in New Zealand and among the biggest throughout Australasia.

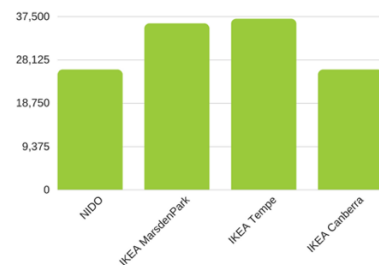
At 26,000sqm of retail, café and product storage, this store would be a destination in itself and become a rapidly recognised player in the homeware sector, through scale and differentiated proposition.

Proportionally, NIDO would be comparable in size to IKEA Canberra – a store that serves an audience of 406,000 people across the Australian Capital Territory.



Scale comparative to neighbouring shopping centres

Scale comparative to Australian homemaker centres



5.2 PROPOSITION

NIDO mirrors successful homemaker concepts such as M10 Mega, Briscoes and global brand IKEA. A key difference will be the integration of categories, inspiring room setups and ranges and experiences that encourage regular and habitual visitation.

The proposed store would become a destination in itself with an extensive range of differentiated products to equip a home, apartment or office, stylishly and economically.

While other retailers provide some of these ranges, the scale, offer and uniqueness of the NIDO store is likely to draw consumers, provide confidence and stimulate sales conversion.

Retail is changing as consumers increasingly blend online and instore browsing and purchasing. While this has compromised some categories, bulky goods – such as homeware, furniture and appliances have benefited from consumers' online research and purposeful shopping trends - where stores still have a key role to play in final selection and fulfilment.

Digital visibility and functionality is a fundamental for success of the NIDO concept. This will enable consumers to understand the proposition, browse, compare and buy products online, however the in-store experience is one area the brand is equally focused on excelling in.

The immediate availability of products, with stock warehoused on-site further differentiates from competitors, supporting destination value and providing an edge over buying online.

NIDO propose an experiential shopping environment, with over 100 room set-ups, interactive workshops and access to design professionals that will differentiate the store nationally and provide an inspiring and immersive environment for shoppers. It is these factors that will drive destination value and support endurance for the concept - much as it has done for international brands that have similar business models.



6 APPEAL AND ATTRACTION

6.1 CONSUMER APPETITE

New Zealand's homeware market is dominated by well-known retail chains Briscoes, Farmers, The Warehouse and Kmart.

For the majority of these brands, little has changed over the past decade in these category's proposition and store experience, except for Kmart, which has transformed its range, merchandising formats and value proposition.

Kmart's enhanced emphasis on contemporary homeware with own-brand, design-led products and headline pricing have captivated consumers, transcending demographics and becoming a dominant and recognised player in the category.

From a poorly performing chain less than five years ago, to becoming a talked about, high trafficked, profitable and growth orientated business, simple changes have helped the business achieve success in a competitive market.

Kmart has closely mirrored the contemporary range development, merchandising and pricing models of international brands such as IKEA. NIDO is planning to leverage similar strategies and influences in order to stand apart from others in the marketplace.

There is already recognised consumer demand for a wider offer similar to IKEA's range of homeware, soft furnishings and furniture. Consumers are also tiring of the 'sameness' in ranges between brands such as M10 Mega, Bunnings and those in the wider homemaker market.

New Zealand shoppers are increasingly connected, travelled and expectant of the unique design, value and convenience of larger format retail experiences that bring together wider ranges for value and convenience.

We anticipate a unique, large-format integrated homemaker proposition would achieve early and sustained success, should the operators be able to deliver quality products, contemporary design influence, value proposition and a unique shopping experiences akin to the likes of IKEA, Pottery Barn and others that have pioneered 'trademark' propositions that consumers have embraced.

6.2 SOLUTION CENTRE

The proposed NIDO concept broadens appeal and attraction further, with the inclusion of decorating products, appliances, consumables and other lifestyle and home improvement categories. These reflect the already successful Mitre 10 Mega and Bunnings store offers, which have become staple, regular weekend destinations for many New Zealand consumers.

NIDO's planned spread of categories include both considered and convenience products. This achieves appeal and relevance for consumers making larger, infrequent purchases, as well as

those purchasing products they would otherwise buy from home improvement or large format discount stores – such as The Warehouse or Kmart, on a weekly basis.

NIDO's proposed concept enables scalability - delivering furnishing and home improvement product solutions to satisfy customers as their needs and budgets develop.

The business also plans to become a major player in the commercial supply market, through contract furnishing into the healthcare, educational, office and accommodation sectors. This diversity supports greater economic resilience through removing seasonality and spreading risk.

These strategies provide NIDO with the potential to continue servicing consumers and trade as tastes and budgets change - supporting customer succession and retaining goodwill

6.3 CONVENIENCE

West Auckland is one of Auckland's key growth corridors with major residential development underway. These developments are already providing commercial benefits for businesses in the area.

Good road links connect NIDO's site with North Auckland and East Coast Bays, while new motorways make it easier and faster for central and southern Auckland consumers to reach the area.

Lincoln Road's already strong draw as a home-maker centre, further supports destination value for local and regional customers.

NIDO would create cluster-value where retailers within like categories will further congregate.

A critical mass of competing and complementary businesses forms a defensible proposition against consumers instead opting to purchase on the internet. In a cluster, shoppers enjoy the benefit of convenience, range and competitive pricing – similar to what they would achieve shopping online.

6.4 EXTENDED REACH

The NIDO concept is anticipated to appeal to consumers from across the Auckland region, but likely to radiate further to also include the Waikato, Bay of Plenty and Northland areas as secondary catchments, too.

Increasingly, consumers from these areas are travelling to Auckland to purchase furnishing products and homeware due to range, availability and the perception of more competitive pricing.

The NIDO store would benefit from a well-known location, efficient road links, parking and destination amenities of value to those travelling for major purchases or unique products.

6.5 COMPARATIVE RANGE REPRESENTATION

	Furniture					Manchester		Curtain	Electrical			Storage	Decorating		Accessories		Speciality		Consumables
	Lounge	Dining	Bedroom	Outdoor	Office	Bedding	Bathroom		Appliances	Whiteware	Lighting	Storage	Paint	Pictures	Tableware	Cookware	Pets	Toys	Cleaning
NIDO	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
Briscoes				•		•	•	•	•		•	•			•	•			
Warehouse	•	•	•	•	•	•	•	•	•	•	•	•	•	•		•	•	•	
Kmart				•		•	•	•	•	•	•			•	•	•	•	•	•
Bed Bath						•	•	•								•			
Wallace Cotton						•	•	•											
Adairs						•	•	•							•	•			
Farmers	•	•	•	•		•	•	•	•	•				•	•	•		•	
Stevens															•	•			
Big Save	•	•	•	•		•													
Smith's City	•	•	•	•		•	•	•	•	•									
Harvey Norman	•	•	•	•		•	•	•	•	•					•	•			
NOOD	•	•	•			•	•	•							•	•			
Early Settler	•	•	•	•				•											
Hunter	•	•	•	•															
Target	•	•	•	•															
Danske Mobler	•	•	•	•															
Noel Leeming				•		•			•	•									
Mitre 10 Mega				•				•	•		•	•	•	•	•	•	•		•
Bunnings				•				•			•	•	•				•		•
Citta Design	•	•				•	•				•	•	•						
IKEA	•	•	•	•	•	•	•	•			•	•		•	•	•			

6.6 APPEAL AND ATTRACTION - RECOMMENDATIONS

SUCCESS	RECOMMEND	CONSIDER
<p>CREATE ASPIRATION IN BRAND, RANGE & EXPERIENCE</p> <p>Achieving universal relatability and belonging to the brand so consumers rapidly embrace NIDO's culture and proposition.</p> <p>DELIVER A COMPELLING VALUE PROPOSITION</p> <p>Emphasising value-priced, contemporary products that are inspiring, affordable– enabling consumers to make NIDO a favourite destination for everyday products and special purchases.</p> <p>DEMONSTRATING ACHIEVABILITY</p> <p>Clearly demonstrating to consumers', the ease of decorative transformation using products from across the NIDO ranges.</p> <p>DIFFERENTIATION DRIVING DEMAND</p> <p>Demonstrating quality products with modernity that are unique in the marketplace through design, value and availability. Emphasising NIDO's exclusivity in over 90% of product lines.</p> <p>Demonstrate and relate design heritage, along with producer and customer stories to support relatability.</p> <p>BROADEST POSSIBLE AUDIENCE</p> <p>Digital visibility and e-commerce capability to expand the store's customer catchment and performance potential.</p> <p>PRODUCT CURATION</p> <p>Engaging and retaining recognised design experts as brand ambassadors - demonstrating and validating flair and style representative of local tastes and aspirations.</p> <p>Developing a design board of experts, trend and thought leaders, who can guide sourcing and buying decisions.</p>	<p>INSPIRATION ANCHORING THE SHOPPING JOURNEY</p> <p>Leveraging the proposed unprecedented scale and number of room and house settings as a key part of NIDO's shopping experience.</p> <p>DESTINATION VALUE CREATING PRIORITY</p> <p>Emphasising the store's edge over others, such as scale, inspirational room settings, immediacy of supply, in-house design expertise and consistent value proposition.</p> <p>DIGITAL EXPERIENCE MIRRORING INSTORE</p> <p>Ensuring consumers' online user experience is best-in-category, through range and availability visibility, customer reviews and ease of purchase (pick-up instore or delivered)</p> <p>HABITUAL VISITATION POTENTIAL</p> <p>Delivering a unique food and beverage offer that creates daily destination demand through quality products, affordability, range, convenience and environment.</p> <p>Encouraging regular store visitation through constantly changing room settings, new ranges arriving weekly and instore activities designed to engage and inspire customers.</p> <p>CUSTOMER INTERACTIVES</p> <p>Regular customer events that share design and styling principles, using products from the NIDO ranges.</p> <p>CONSUMER ADVOCACY</p> <p>Becoming a brand that's recognised for exceptional customer experiences through an engaged, talented, empowered and empathetic workforce.</p>	<p>LOCAL PARTICIPATION AND RESPONSIBILITY</p> <p>Anchoring the store with unique social initiatives to stimulate recognition and create heart-of-community positioning.</p> <p>GUEST DESIGNERS</p> <p>Working with upcoming New Zealand designers to create 'signature' ranges that communicate and validate NIDO's offer as contemporary, unique and in-vogue with current trends.</p> <p>EDUCATIONAL PARTNERSHIPS</p> <p>Alliances with local tertiary organisations to foster and develop design skills within NIDO's creative spaces.</p> <p>MEDIA DOMINANCE</p> <p>Ensuring NIDO's brand ambassadors are the 'go to' people when media discuss design, housing and lifestyle trends.</p> <p>COMMERCIAL ALLIANCES</p> <p>Securing product placement and fulfilment opportunities with nationwide home-building franchises to leverage promotion, visibility and validation by already trusted brands.</p> <p>CUSTOMER CENTRICITY</p> <p>Bering the first Australasian retailer with a 'customer board' made up of consumers across a range of demographics that help with key range and service decisions.</p> <p>Demonstrate that ranges, services and store experience are driven by customer feedback with shopper needs and expectations influencing all the company does.</p>



7 PERFORMANCE

7.1 PRODUCTS THAT DELIGHT AND INSPIRE

Sales performance is wholly reliant on NIDO's product range and overall proposition resonating with consumers, driving sales and creating shopper advocacy within the market.

This requires careful curation in category development, buying and pricing in order to deliver products that will inspire customers and quickly convert interest into sales.

Ideally the company should include independent design and trend advice in key ranging and purchasing decisions – ensuring broader perspective - necessary in engaging the diverse and expectant consumer audience anticipated for the store.

7.2 DIGITAL VISIBILITY AND PERFORMANCE

Upwards of 70% of shopping destinations and consumer purchases are influenced digitally.

From social media to electronic direct mail, search engine priority and e-commerce, buying journeys increasingly begin online before customers reach the store.

Comparative brand, IKEA have prioritised online, which while only delivering on around 5% of their overall sales, is increasingly used as their catalogue, resource for consumer inspiration and information that reduces the need for staff interaction in non-revenue earning tasks.

Similarly, NIDO must have a robust digital strategy at its core, recognising this is the brand's window to its immediate market and beyond, its virtual catalogue and a key sales conduit.

To achieve success, the company should aim to deliver an online presence and performance that mirrors the best of what competitors in all leading comparative categories are achieving.

7.3 CAPABLE AND ENGAGED WORKFORCE

NIDO differs from traditional homeware stores in that scale, range, flair and differentiation are key pillars in the overall offer. This will require talented, decisive and persuasive staff who can inspire consumers and deliver the confidence that supports sales conversion – particularly in higher value products and larger, special order and combination-of-product, purchases.

A comprehensive personnel selection, induction and training programme should build and unify knowledge, delivery and process – ensuring consistency and accuracy in all customer interactions. It will also enable the business to successfully empower frontline team members to deliver higher service levels and better customer experience than its competitors.

Maintaining engagement, skills and talent will be reliant on developing a positive work culture and likely require team-based performance incentives.

7.4 STORE EXPERIENCE

Sales conversion, high value transactions, goodwill and consumer advocacy are primary goals for the business. Achieving this is reliant on having the right proposition and delivering enjoyable and memorable shopping experiences beyond NIDO's competitors.

Exceptional experiences, across all interactions with the business must set NIDO apart – and be a continuing reason why consumers return and refer their friends – ensuring endurance of the concept.

NIDO's assistive approach should also differentiate from other value-orientated retailers that adopt a low-touch sales and service model, with little customer interaction by staff.

7.5 ACTIVE SALES CONVERSION

NIDO's commercial model aims on at minimum, achieving a sales conversion of 42.5% of those visiting the store. This mirrors performance from similar retail formats, overseas, however in this case, could be higher, given wider the catchment and attraction. Consumers that travel further distances are typically more purposeful and productive.

Sales conversion will be reliant on having products that resonate with the market, information and merchandising that enables self-selection and strategic intervention by staff members that encourage and support decisions. These could include prompts around finance, delivery, assembly or styling advice, that will help turn browsers into buyers.

Active sales conversion differs from IKEA's business philosophy that is largely dependent on customers' managing the selection, suitability and validation process themselves, with the primary staff interaction at check-out.

NIDO's training programme should be comprehensive and focused creating a unique 'trademark' level of service, that develops connection, builds engagement, engenders trust and secures sales conversion.

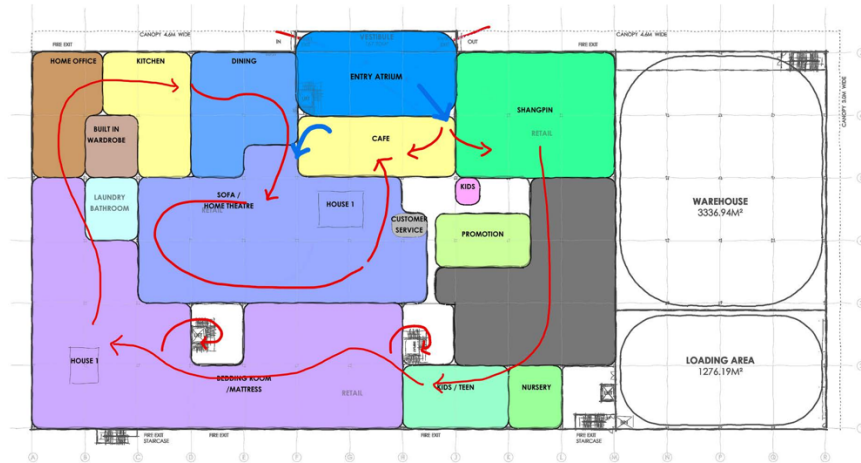
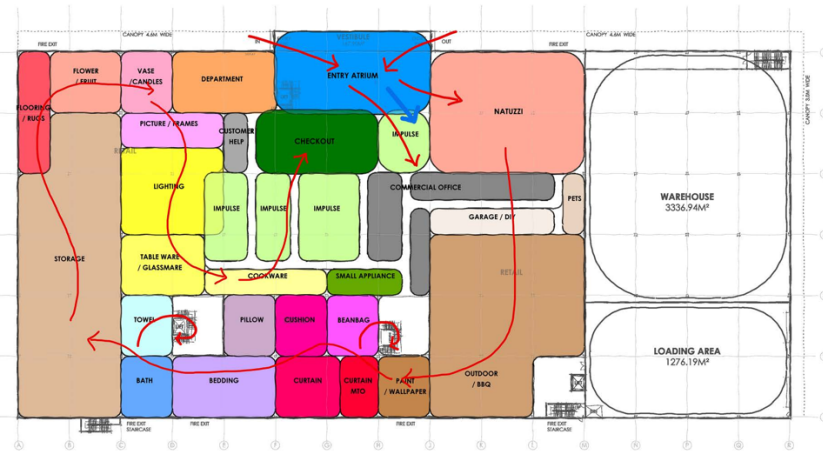
7.6 OPERATIONAL PERFORMANCE

NIDO's Directors bring a high degree of experience in managing retail operations, along with of value in closely defined systems and processes – such as those that have contributed to Mitre 10 Mega's success

Similarly, NIDO will need to have robust operations manuals at the core of its training and process management. This will ensure consistency from staff and minimise potential for errors which would be financially impactful and also likely to damage customer goodwill.

PERFORMANCE – RECOMMENDATIONS

SUCCESS	RECOMMEND	CONSIDER
<p>DIGITAL VISIBILITY AND PERFORMANCE</p> <p>Prioritise social media presence, search optimisation to achieve priority across all key categories and an online store that demonstrates range and supports purchasing as the core element of the marketing strategy</p> <p>FLEXIBILITY AND SCALABILITY</p> <p>Flexibility in order to increase or reduce areas dedicated to various categories based on opportunity and performance.</p> <p>PEOPLE CULTURE</p> <p>Develop a high-performance, modern work culture where staff are empowered to make decisions that deliver outstanding customer experiences at every interaction with consumers.</p> <p>TALENT ATTRACTION AND RETENTION</p> <p>Promote, demonstrate and maintain a vibrant workplace where everyone's contribution is valued, and personality, skills and talent make a measureable difference to NIDO's customers lives.</p> <p>ACTIVE CONVERSION</p> <p>Training and performance monitoring to stimulate sales conversion during consumers' journey through the store, helping lift and sustain average transaction values.</p> <p>SYSTEMISATION</p> <p>Robust sales, stock, operational and financial systems that ensure consistency in approach and delivery by all staff members.</p>	<p>BRAND ESTABLISHMENT AND RECOGNITION</p> <p>Ensuring consumers rapidly understand and embrace NIDO's differentiated offer and destination value, comparative to competitors within their respective categories.</p> <p>QUICK WINS</p> <p>Marketing priority toward the key categories that drive engagement and visitation, based on experience with the Mitre 10 Mega and knowledge of competitor activity.</p> <p>CONSUMER EDUCATION</p> <p>Using events and activities to closely engage consumers - stimulating participation, sales, goodwill and advocacy.</p> <p>HABITUAL VISITATION</p> <p>Leveraging the café as a destination in its own right - attracting consumers to the store and driving benefit to the wider retail offer.</p> <p>STAFF PERFORMANCE INCENTIVES</p> <p>Team-driven financial benefits in achieving sales, customer experience and advocacy as key performance measures.</p> <p>FINANCE</p> <p>Creating simple financing solutions that encourage consumers to consider NIDO as a confident single destination for more of their overall spend.</p>	<p>SHARED SUCCESS</p> <p>Assess future potential and benefit of staff having a financial stakeholding in some parts of business, helping retain skills, talent and goodwill.</p> <p>IN-HOME SOLUTIONISTS</p> <p>Develop a team of task-ready mobile representatives to deliver fee-based services including delivery, installation, assembly, design advice and home staging.</p>



8 RISK MANAGEMENT

8.1 GOVERNANCE

NIDO's founders are recognised pioneers in the evolution and development of large format retail stores in New Zealand. Their experience in retail operations, consumer behaviour and supplier management is significant and respected in the home improvement categories.

The NIDO business requires additional, specialised knowledge around categories and services that are new to the owners' existing skill sets. This will be necessary for success of the model.

8.2 RISK MONITORING

The concept's performance poses anticipated, dynamic and ongoing risk from competitor activity, economic conditions influencing demand, supply channels and operational cost increases, among others. These risks will be similar to others trading in like categories.

The NIDO business should develop a comprehensive risk schedule that monitors and reports regularly to the Board and financial stakeholders on issues and potential impacts. This will enable continued risk awareness and support tactical and strategic responses at management and operational levels.

8.3 MARKET REACH

Commercial performance relies on reaching beyond the traditional catchment of surrounding suburbs and town centres. Instead, NIDO must be a destination in its own right - attracting consumers from across Auckland and into the Bay of Plenty, Waikato and Northland regions, along with national awareness.

Reaching geographically and demographically diverse markets requires digital visibility and functionality, along with favourable consumer commentary to drive interest and visitation.

8.4 CATEGORY PERFORMANCE

NIDO has significant depth and breadth in categories and plans for a significant number of individual product lines as a key differentiator. Not all these categories or products will be successful as the store establishes trading patterns and understands consumer demand.

It is likely some categories will deliver greater demand than anticipated, requiring more space and products, while other ranges may be removed from the overall offer. The company will need to closely monitor performance of categories and lines in order to optimise ranges. Close attention should be paid to category performance, ensuring the store best meets its market, while not being impacted by non-performing ranges.

8.5 DEFENSIBLE POSITIONS

NIDO can ensure positive community recognition by taking an early lead on social initiatives.

This includes support for and active participation in local events, along with sourcing guidelines and transparency into supply partnerships – particularly where these are delivering welfare benefits to those producing the goods.

8.6 SCALABILITY AND BUILDING REDEPLOYMENT

The developers should provision for all eventualities when designing the building – both for scaling up or managing retreat to a smaller retail format.

The determination of dedicated retail area has been based on the owner's experience developing Mitre 10 Mega stores and analysis of comparative store formats in Asia and Australia by specialist retail designers Studio Gascoigne.

Whilst large by comparison with New Zealand stores, it is not by overseas standards – even in areas with populations similar to Auckland.

NIDO's proposed interior design enables flexibility in layout, in particular the spaces allocated to various departments. This will be necessary in optimising performance of the store, by dedicating greater area to higher yielding categories and reducing the size of lesser performing ranges.

Structural provisioning on the foundations are planned to enable an additional level of parking to be added if this is required.

The owner has planned the building so it could be suitable for splitting into smaller tenancies on the ground floor should this be required.

Similar, successful adaptations have occurred recently in Australia with redeployment of the Master's Hardware stores into home centres, supporting a combination of individual retailers including Spotlight, Chemist Warehouse and Anaconda (Camping and outdoor products)

The busy, Lincoln Road location, increasing local population and potential synergies with neighbouring retailers are likely to support good demand and rental return from these sites.

9 EMERGING COMPETITOR DYNAMICS

9.1 IKEA'S FUTURE ENTRY

IKEA formally announced its future entry into the New Zealand market in January 2019¹. No location has yet been identified for its first store, however this is expected to be in the Auckland region.

Timing has also been vague with comments suggesting any opening is more than two, but less than ten years away. Equally, the company has stated that they don't yet have a plan but do have a dream – indicating that development is still at an early stage.

The company has suggested its first foray may have greater emphasis on its digital catalogue encouraging consumers to experience the brand online. This is likely to help better identify the products most likely to appeal to NZ consumers ahead of a more comprehensive offer.

IKEA would compete with NIDO over many categories, but not those that would necessarily drive frequent and habitual visitation – such as toys, pet supplies and cleaning products. Also, it does not sell appliances.

Given current progress on NIDO's site, the local brand will enjoy first-mover advantage – enabling it to engage its market, build recognition and develop goodwill ahead of others.

9.1.1 IKEA – NZ MARKET - POTENTIAL CHALLENGES

IKEA's commercial model typically relies on being able to develop multiple stores, supported by a centralised logistics warehouse and administration, within countries, to drive operational economy and efficiency. Australia is a good example of this where the ten stores nationwide are supported by a 75,000sqm central warehouse in Sydney

The New Zealand marketplace will be challenging for an international business such as IKEA. Sites of scale, audience and connection with large audiences are rare and expensive – particularly in Auckland.

The company has developed smaller sites in well established markets such as the US and UK, however this future concept leverages larger nearby superstores as logistics support. Smaller stores also challenge IKEA's experiential large-format, experiential retail model, which is a key part of the buying experience and differentiation.

9.1.2 IKEA - IMPACTS & OPPORTUNITIES

Given NIDO's unique proposition across Australasia and that IKEA is not yet established in New Zealand, there are no benchmarks to determine the impact IKEA's entry could have on the incumbent. The nearest relative example is likely those of large format home improvement stores – such as Bunnings or M10 Mega, when a competitor launches.

If IKEA opened in North or West Auckland, proximity competition could see trade in comparative categories impacted up to 20% initially, then return to pre-competitor levels within 12 months.

In this case, impacts could be lessened as both IKEA and NIDO locating in the same area may create 'cluster value' – attracting consumers from a wider catchment through combined convenience and proposition, with each then benefiting from the combined draw and destination value.

If IKEA opened in South Auckland, we would anticipate the impact to be diffused given NIDO's broader offer, more frequent demand potential and geographical distance.

9.1.3 MARKET MESSAGING - DIFFERENTIATION

NIDO's marketing themes must engage quickly with the marketplace, enabling consumers to understand the stores offer, differentiation in range and value proposition.

The store should not be described or seen as a copy of IKEA. This could make consumers feel they are buying second-rate products when the Scandinavian brand has already established as the benchmark in its well-defined channel – particularly around self-assembly.

Instead, the use of well-known local brand ambassadors, an emphasis on contemporary design and New Zealand influenced style would ensure the NIDO brand and proposition stands apart in its own right.

9.2 AMAZON

Amazon is anticipated to launch in New Zealand in the near future, offering goods from domestic and international retailers.

While this is likely to add further competition for local businesses, it creates opportunity for those with unique products, such as NIDO, to use the marketplace as a window to wider markets.

We would anticipate strong demand for NIDO's ranges, based on the performance of similar unique retailers, using the platform to successfully extend visibility and customer catchment.

¹ IKEA Press Conference – Auckland – January 2019 – Jesper Brodin

9.3 RISK MANAGEMENT - RECOMMENDATIONS

SUCCESS	RECOMMEND	CONSIDER
BOARD STRUCTURE A professional board that includes independent members representing category-relevant retail, design and financial disciplines, supporting the owners in key decisions.	UNIQUE AND UNRIVALLED Ensure NIDO is not be seen as a 'me-too' of IKEA's business model, but an edgy, design-led, value priced retailer with the broadest range and delivering the strongest destination value.	LEVERAGE OTHER DESTINATION DRIVERS Consider developing a retail space and frontage for a highly trafficked business such as Chemist Warehouse, adding further destination value and relevance.
RISK REGISTER Identify primary risks for the business which should be monitored and reported on monthly, with onward visibility to all financial stakeholders in the business.	DESTINATION VALUE Market NIDO as solution centre by demonstrating depth and breadth of offer to consumers – being seen as much as having regular destination value (as Mitre 10 Mega does), to major purchase relevance – as stores such as Harvey Norman have.	MARKET RESILIENCE Working toward a ratio of 80% retail and 20% commercial sales which ensures the business spreads risk associated with vagaries in any one market.
TECHNOLOGY PRIORITISATION A robust information technology backbone, enabling and control and visibility of performance across the business.	DESIGN AT HEART NIDO's store and products must demonstrate originality, quality and value in order connect with aspirational consumers.	ADDITIONAL INCOME OPPORTUNITIES NIDO could consider other product-related income opportunities – such as home or apartment staging services, furniture rental or leasing.
CATEGORY REVIEWS Structurally review all categories for performance, value to the overall offer and future potential on a quarterly basis – ensuring continued contribution and benefit.	DIGITAL PILLARS Online visibility, functionality and transactional capability will be vital in articulating NIDO's proposition, demonstrating range and converting sales – either instore or over the internet.	AMAZON MARKETPLACE Consider being a part of Amazon Marketplace to further extend profile, audience and sales.
WIDEN GEOGRAPHIC REACH Promote NIDO as a national destination for design inspiration, furnishing and lifestyle solutions - demonstrating scale and differentiation. This will lessen reliance on the immediate and regional audience alone.	DYNAMIC DEPARTMENTS The store must be configured to enable simple layout changes, enabling Management to jettison non-performing categories rapidly and efficiently without wider disruption.	BUILT-IN SCENARIO SOLUTIONS Enabling ready adaptability for the building to be split into smaller, higher value tenancies, should the business need to scale smaller.
COMMUNITY CONNECTION Develop unique cultures and initiatives that anchor NIDO's relationship with its community, other businesses in these categories will be unlikely to replicate.	ASSURANCE OF PROVENANCE Product origins must be known and verified to satisfy any consumer or media scrutiny around sourcing and workers' welfare in those countries producing lines for NIDO.	

