

Update Bulletin

StoreNext Market and Product Strategy

August 9, 2002

First, StoreNext thanks all the Dealers who were able to come to “Sunday School in Las Vegas” (the Dealer Special Session just before ICRDA/SDA last week). From start to finish, it was a day full of PowerPoint ... but, you know, it was a *good* sort of PowerPoint since everyone walked away knowing how this unprecedented succession of new releases will grow StoreNext Dealer businesses from coast to coast.

Then on Monday, Austen Mulinder and Barry Shaked – StoreNext’s Chairman and CEO – met privately with the Dealers to answer questions about the new company and our strategy and direction.

And then the fun began with the most dramatic reception any of us can remember. We were initiated with a supernatural ride in a room-sized chamber that was lined with the ancient artifacts of a lost civilization. Our purple-robed guide intoned – rather like Orson Welles –



“Your eyes may see, your ears may hear, but your *mind ... will ... not ... believe...!*”¹ Then we were released into a torch-lit subterranean grotto, with magicians, spinning hallways, spirit-infused secret catacombs and huge orbs of fire twisting and roaring up through the four-story cavern. (The best line of the night goes to the Dealer who shouted out, “It’s Gordon Enfield!” as a massive ball of flame exploded high overhead.) It was another – and maybe the best – in a long string of nights to remember from our peerless events team.



For those who were unable to attend (the business meetings anyway) here are some points regarding StoreNext’s “go-to-market” strategy. In talking with Dealers, we’ve got a lot of input about what they need to be successful. So we have developed a set of tactical and strategic plans to make this happen.

First – the big picture.

- What’s the goal? The objective is for StoreNext and our Dealers to dominate the Independent Grocery market. Nothing less. This means our Dealers will absolutely dominate their markets and grow their businesses dramatically – the potential is absolutely there to double or triple the size of Dealer businesses. This will happen because our Dealers will have the products to win more deals, to attack markets they can’t get to now, and to sell much more product into these accounts.

¹ Which was nothing particularly new for the Dealers, having spent the entire previous day with Marketing people.

- And in general, why are Independents going to buy from you? Mostly for the same reason as always – because of your knowledge, experience and strength in support, the way you take care of your customers.
- StoreNext’s part in this is to fill your basket with products that do two things – first, products that relentlessly drive cost out of their business, and second, products that make them grow faster, make more money, and take and keep shoppers from their competitors. Our term for this is “differentiated business performance” and it means just that: grow faster, make more money, and take and keep shoppers from their competitors.
- The sooner Dealers can encapsulate this strategy and get it out to your prospects, the better off you will be. The reason is that competitors will certainly latch onto these ideas and attempt to grab them for themselves. So you need to get there first to avoid finding yourself in a me-too situation. This does not mean that these competitors have either the products or the strong Dealers they need to carry off this aggressive strategy, but we all know the value of words. As Bernard put it, “they want to ride the same cart but they don’t have the horses.”
- Who *is* StoreNext’s market? And what are we going to do to win this market?
 - First, the primary market where we all have worked together to the point where the Dealers are number one – the kind of “medium independent grocery” or Tier III. This is where the majority of our success has been with ISS45 over the years, and it remains a core business for StoreNext and the StoreNext Dealers.
 - Second, and an area where we have to move upward into – the Tier II business. Here, we’re talking about small chains from, say, 10 stores pushing up toward 100 stores. We’ve had some important wins in the 20-40 store range, and there are some major announcements coming up shortly on wins there – and bigger – just in the last few days.
 - Here is where there are a lot of 2127 chains also, where NCR did a good job and was very successful 5-15 years ago. In fact, we look at the 2127 opportunity – with as many as 5,000 stores – almost as a market in and of itself, requiring a targeted program so our Dealers get the major share here.
 - Then there’s Tier IV. This is very small grocery, but there are 10,000-12,000 stores here. Here is where easy sales cycles driving high sales volume can add major revenues and profits to a Dealer’s business.
- What will StoreNext be doing for these markets?
- First, Tier II. This is an absolutely critical market with many successful small and medium chains with high profits and it is key to Dealer growth and profitability.
 - Here is where the focus is on **V8** and major ISS45 “extensions,” and here is where StoreNext Dealers have access to the best. Tier II businesses are most likely to demand Self Checkout, Fuel, Electronic Shelf Labels, powerful back offices, sophisticated on-line CRM and Mobile Computing – all big sub-systems that drive major investments and revenues. We have a major drive on for each of these systems with general releases either done or available in the short term:
 - Self-Checkout: the PSI self-checkout interface is already available, and interfaces to Optimal Robotics and maybe even NCR’s self-checkout are well along.
 - ISS45 Fuel already has close to 300 stores installed. Our first Dealer site goes in this month, and will test our support routes and how Dealers can work with the product. Dealers will “certify” with StoreNext to sell and support Fuel, and Dealers can establish partnerships with other fuel-

certified StoreNext Dealers to satisfy users if they do not have the technical expertise. General Release could be as early as October.

- The GLOBALabel Electronic Shelf Label system is almost through its trial period and we expect General Release in the next quarter.
 - StoreNext has become Retailix' exclusive channel for the Bass-Legacy RBO product, bringing a combination of the former "MerchaNT" system and RCS' EBO product. A powerful new release is due in the next 60 days that will have deep integration to ISS45, and we believe that RBO will be the best option in many markets and segments going forward. We need to give full credit to other systems such as S4 and TCI, however, and realize that many Dealers will – for the good of all – continue to market these products also.
 - The Corema Loyalty CRM system – this is the product that drives the ultra-sophisticated CRM initiatives at Big Y, REI, Safeway etc. – has been repackaged especially for Dealers with Tier II business. All the features of the "big guys" is available now in a "Wintel"-scaled offering that Dealers can represent, while Fujitsu will perform all the detailed sales and implementation tasks. Our first wins together are already well along, and this will add tremendous credibility and power to a full-solution offering, particularly in Tier II campaigns. Corema Loyalty is available today.
 - StoreNext has already repackaged our original ISS45 Mobile Computing package with the state-of-the-art speed of Cisco 802.11b RF and the TeamPad 7510 – and then knocked something like 20% off the price to boot. This package lets users do anything in the aisles that they could do in the back office. But there's another outstanding product on the way – Pocket Office. This system, running on the Fujitsu iPad, will provide an amazing suite of exclusive applications, running on a low-cost but high-performance lightweight hand-held. This is the kind of system where the ability to reduce cost while providing superior customer service will cause users to have two or three in a store. In fact, a Tier I customer just committed to a major iPad purchase, planning to use six per store. The applications going into the Pocket Office portfolio are truly dazzling, and – against our puritan work ethic – will sell themselves. Pocket Office will be available in Q4 – maybe early Q4.
- Naturally, there will be plenty of marketing material for you to understand each one of these systems thoroughly, and it is easy to see that they can drive Dealer businesses to an unprecedented level while giving Independents the kind of applications they need to compete – and thrive – against the industry giants. StoreNext is putting the pedal down on this process, and Dealers must do the same in order to take advantage of this unprecedented opportunity that our business presents.
 - A critical point: *all* StoreNext products will continue to be carefully packaged and documented to make it as cheap and easy as possible for Dealers to sell, support and manage.
- Of course, these all play into sophisticated Tier III users also. But for Tier III, maybe the most important thing is to have the PoS features squarely in the center of the typical near-future demand profile for these users. Here is where things like signature capture, check imaging, mobile computing, improving the way we modify touch screens – these are really important. And we know that the platforms for **V8** raise the bar on

installation and support compared to good old V7, but that is the target we are going after.

- Regarding the many small grocers in Tier IV, for obvious reasons, our Dealers cannot afford a long sales cycle per store to install these users, since a lot of them are capital-constrained and the sale isn't large. So somehow we have to figure a way to cast a wide net to succeed with large numbers of these users shrimp in the boat without a lot of selling time involved. So there are really two problems to solve here – one is the selling time, and the other is the financing. We're not ready to release the plans for these, but we have some overall directions established. Again, the target is to have a way that Dealers can harvest dozens of these stores.
- Regarding all these markets, Tier II, Tier III and Tier IV, there are three big programs StoreNext has going.
- The first one is RBO – Retailix Back Office – and this is an especially critical one for 2127 sites because so many of them are already running on RBX. Today, we've got an interface, but we need to make it a complete integration so that there's no question for a 2127 user that ISS45 is their easiest choice with the best migration path.
 - It's important to make it clear here that StoreNext are fully aware that there are other back office products like S4 and TCI that have done an outstanding job, particularly with ISS45. It is very important that the fact that StoreNext represents RBO *not* deteriorate StoreNext's and StoreNext Dealers' traditionally outstanding relationships with these third parties. This is why we will be implementing an "open" Dealer policy with RBO and the ISS45 RBX interfaces – Especially with 2127 sites, RBO and the interfaces are a means to the end to make it as straightforward as possible for our Dealers to win 2127 conversions. RBX has been a successful product for these users, and so access to RBO can be enough to seal the deal for many of these stores – you well know that anytime you ask a grocer to change out their back office, you double the sales cycle and your risk of losing the deal.
 - In fact, to make this even easier, the support plan makes it so Dealers can sell RBO but you don't have to train up for full support since it can be provided directly. This takes a ton of risk and expense out of putting in RBO where it makes sense. I've talked to some of the most die-hard proponents of the #1 back office that's been interfaced to ISS45, and even they agree that it makes sense to sell RBO as part of the migration plan for the 2127s in their market area.
- An extremely promising new product is called Pocket Office, or RPO. We've now showed a preliminary version at ICRDA, but Dealer response tells us that this is likely to be a knockout application for us all. It's another kind of Mobile Computing, and it takes specific office functions – especially FM verification and shelf/item management – and puts them on the Fujitsu iPad, packaged up at a price that will make it a clear best choice. But we want to put that hardware and RF network to even more use, so we're working on a set of applications here that will add a ton of sizzle. Line-busting for one, where at the busiest times you can take shoppers out of line and check them out on the hand-held and get them out the door in a hurry. Another one is Remote Manager Authorization, where instead of calling the manager up to the checkout, the exception will automatically pop up on the iPad and the manager will be able to approve with a click – or take whatever other action is needed. Pocket Office is going to be one of those things where you put at least one in every store, with as many as five or six in large stores. As one of the Dealers guy told me a couple months ago – you line up the options and the grocer will always point to Pocket Office and say "I want that one..."

- StoreNext expects volume availability of iPad in the next 90 days, and our first Pocket Office release will coincide with that date so you don't lose selling time. Look for a low-cost demo Dealer package too.
- Finally there's maybe the single most important development in favor of the independent grocer since the DTS 500. We haven't said much in print about this yet, but it's called StoreNext Connected Services.
- The way the market is going on this is obvious: the smart independents continue to thrive, Wal-Mart or no Wal-Mart. Wholesalers are working hard to level the price playing field, and the combination of better service, nicer stores and close-enough prices is keeping most independents strong. But the big chains – especially sophisticated operators like Safeway – are using technology that the independent simply cannot afford, and are differentiating their business performance that way. It's critical that the independents can get the same type of technology as the big chains have, but without the cost.
 - Just think of a hosting system, for example. The large chains like Safeway and Albertsons and Kroger have whole floors of their headquarters full of servers, software developers, and people wearing headsets and sitting at little tiny desks to keep this stuff humming. No independent can afford this, and they wouldn't want to. What they want is to be able to see their reports – or their electronic journals – or whatever – on a store-by-store basis from anywhere, get consolidated reports across their stores, this kind of thing. And without enormous cost, right now they just can't do that very well.
 - This is exactly where StoreNext connected services fits in. With the Connected Services, Independents can get the technology they want, but they don't have to buy the applications, infrastructure and the server rooms and the staffs to run them. They just click on their PC and it's all right there, however they want to consolidate it. And instead of half a million or a million dollars per year, it's a few bucks per store per week, and a big chunk of these bucks go straight to the Dealer, forever and forever and forever.
 - And it's not just reporting. How about things like Loss Prevention and Security, where managers will get automated sophisticated TLOG analysis that shows which clerks are probably stealing. New sophisticated labor scheduling systems can prove that they improve shopper service while decreasing costs, but even with payback in two or three months in a large store, how many Independents are going to shell out the \$7,000 price tag? How about future frequent shopper systems, where their whole frequent shopper system and data warehouse is in the connected service? Here's where we can *really* level the playing field so that the independents – even a two-store grocer – has the same technology available as the biggest operators, but they pay a lot less, even per store, and we're probably more flexible.
 - And you know the best part? For Dealers, Connected Services is going to end up being your method of updating and maintaining your installed base. Key parts of ISS45 are being re-engineered so that Dealers will have your own exclusive access to store configuration information. We will link all ISS45 software modules to the Connected Services site, and this combination will enable Dealers to literally point and click to upgrade software in stores or even lanes. Talk about relentlessly driving down costs – this will enable Dealers to support vastly more stores without multiplying personnel, and make you much more competitive on maintenance. I know this sounds pie-in-the-sky, and guaranteed, it won't all get there at once, but if you went to ICRDA you saw a live demo there of what we're talking about. We expect to get the first chunks of this ready and on-line in the next 60 days – Dror Ben-David and Connected Services team

are completely focused on making it a reality, and if you've ever met these guys, they know exactly what they're doing and how to make it fly.

- The ISS45 Dealer business has just come off a couple of record quarters for, and we congratulate you for the incredible performance. So as good as the present is, I hope this has given you a good idea of how exciting the future will be.

To Your (even greater) Success,

Tony

Antony van Beverter