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THE STORY OF NTUC FAIRPRICE AND STRATEGIC ALLIANCE WITH SAIGON CO-OPERATIVE

Addressees TBC

Fellow Co-operators,

Ladies & Gentlemen

Good Morning.

Introduction

Firstly, I would like to thank ICA Asia Pacific and Saigon Co-op for giving me this opportunity to share with you the story of NTUC FairPrice – how we have grown from a single store in 1973 to the leading supermarket chain in Singapore today. I also understand that one of the goals of this conference is to develop strategic business alliances between consumer co-operatives. Today, I am happy to also share with you the first consumer co-operative alliances in this region – the strategic alliance between NTUC FairPrice and Saigon Co-op to build a chain of hypermarkets in Vietnam.

You have seen from the video earlier how FairPrice has evolved over the last 38 years. The NTUC FairPrice Group started in Singapore as a humble co-operative supermarket in 1973, against the backdrop of the oil crisis. Prices of essential goods like rice and sugar skyrocketed. So, the labour movement in Singapore set up the consumer co-operative with a social role to combat inflation and moderate the cost of living for the workers.

Today, the NTUC FairPrice Group is the leading supermarket retailer in Singapore with a market share of more than 50% in the supermarket industry. While we have grown our business and kept pace with changing customer needs, we have never lost sight of our social mission to moderate the cost of living in Singapore. And we aim not only to be a world-class retailer, but also a retailer with a big heart.

What is a Successful Co-operative?

The economy we face today is an increasingly dynamic and uncertain one – one that spares no mercy to those who fail to keep up with times and customer expectations. Competition has become very keen, with co-operatives now having

to compete against both public and private enterprises. How then do we, as co-operatives, become stronger in the face of such a competitive and uncertain economy?

Before I go on to discuss the factors that would help strengthen co-operatives, we must first deal with the issue of what constitutes a successful co-operative. What does it mean to be a successful co-operative? My view is that the success of a co-operative must be measured at two levels.

The first level measures a co-operative's economic success. To be successful at this level, a co-operative must have an ongoing and viable business. It must be able to compete, generate profits and survive as a business.

The second level measures a co-operative's success in delivering its social mission. To be successful at this level, it must practice co-operative values and principles. It must adhere to its social origins and rationale for being set up in the first place. In other words, its social mission must continue to play a central role and guiding principle amidst its business operations. Without its social beacon, it loses its relevance as a co-operative and becomes just another business concern, judged and existing solely for profit maximization.

Critical Success Factors of a Co-operative

Based on FairPrice's experience, I will now share with you some of the critical success factors of a co-operative.

I've grouped the factors that will help strengthen a co-operative into 8 key factors, namely:

- Social focus
- Professionalism
- Infrastructure Capability
- Customer Focus
- Employee Focus
- Corporate Citizenship
- Brand Equity
- Strategic partnerships and alliance

Social Focus

Let us first talk about social focus – the basic purpose of a co-operative.

All co-operatives are set up for a social mission. The day a co-operative stops performing its social role, is the day when it ceases to be relevant to its members and the community at large.

For the past 38 years, FairPrice has demonstrated again and again, how it has helped to stabilise prices of essential items during food crises and helping our customers to stretch their dollar through discount on housebrand items. Whether it is good times or bad times, it has always been our social mission to ensure that quality essential items will always be available to our customers at affordable prices.

Over the years, we have put in place a few key elements that have ensured the stable supply of daily essentials at affordable prices, anytime.

Firstly, we have diversified our sources of food supply to ensure that alternative sources for essential items are available should there be disruption to any supply. This has helped prices of essentials to remain stable consistently.

Secondly, we have been growing our range of housebrand essentials that are priced about 10 – 15 percent cheaper than comparable national brands. Currently, we have more than 2000 housebrand items, the largest number in Singapore. This offers our customers an alternative should they decide to cut their grocery expenses.

Thirdly, we have maintained a basket of 500 popular essential items that are price-checked weekly to ensure that the basket provides the best value for our customers.

Lastly, for low income families that have difficulty meeting their daily needs, FairPrice Foundation works with voluntary welfare organizations to reach out to these families in need through programmes such as the FairPrice Food Voucher Scheme. We have already set aside \$10 million this year to enable for FairPrice Foundation to continue to assist low income families.

Professionalism

Next, I would like to talk about professionalism – an important key to success of any company.

When FairPrice's first supermarket was set up in 1973, it was made very clear that the co-operative supermarket must be efficiently and professionally managed. Since day one, we have been consciously cultivating a culture of professionalism. Today, our Board of Directors comprises top CEOs and professionals from both the public sector, private sector and the labour movement. And we continue to attract the best talents for our workforce.

Many co-operatives around the world fail because they do not have professional teams to run them. To be commercially viable and effectively competitive in the

marketplace, the management team must think and act professionally, like those of a listed company. There must be a strong sense of discipline, accountability and transparency. Good corporate governance and a meritocratic system must be in place. Clear measurements and deliverables should be spelt out for management effectiveness. It is also critical to have competitive remuneration packages to attract and retain a good management team. Without the above professional corporate culture, it will be a challenge for co-operatives to compete for talents in the market.

Infrastructure Capability

Having set the right foundation and developed a professional culture, it is important to have innovative and efficient infrastructure to support the business.

To improve our value proposition to our customers and members, we must leverage on the latest technologies to increase our operational efficiency, keep our costs down and enhance our products and services. Over the last few years, faced with increasing labour costs and a tight labour market, FairPrice has invested heavily to enhance our infrastructure with the latest warehousing technology, inventory management system, latest self check out stations and electronic shelf labeling.

Customer Focus

As a retailer, we depend on our customers to do well. So naturally, we must focus our resources on the customers.

All co-operatives enjoy an “automatic” customer base in its membership. This forms a natural base of customers who continue to shop with us because their patronage corresponds directly to the amount of rebates they will receive at the end of the year. They also have a vested interest in the co-operative’s performance, as profits will also determine the annual dividend quantum.

At FairPrice, we have more than half a million members. Every year, we reward our members with more than \$40 million in rebate and dividend payouts.

Co-operatives should learn how to better customize their offerings to this membership base to encourage them to not only keep their business with us, but also to aim for a larger share of their wallets. Members’ loyalty should not be taken for granted. As customers become more discerning and price sensitive, they are also more willing to experiment with new concepts and switch retailers for better value propositions. It has thus become more critical than ever to lock in existing customers, and to get them to spend more with us.

As all co-operatives have members, we should take advantage of our membership databases. Effective data mining will enable us to monitor and analyse the buying behaviour of our members, and also help us better understand and predict their product/service preferences and buying patterns. Such analysis and insights will enable us to better meet members' needs, hence strengthening their loyalty towards their co-operatives.

In fact at FairPrice, customer focus is one of our core values. We have been able to sustain our growth by keeping a close watch on customers' changing needs, know their priorities and evolving our business to satisfy their needs.

Employee Focus

While customers contribute to our profits, our employees play a big role in making our customers happy.

At FairPrice, we aim not only to be the best place to shop for our customers, but also the best place to work. We believe that we can only have happy customers if we have happy employees. It is important to be able to attract, motivate and retain the right people and develop each individual to his fullest potential with a culture of continuous learning. Besides providing competitive remuneration, it is equally important to provide a satisfying, safe and caring work environment.

Corporate Citizenship

As Singapore's leading retailer with a heart, we strive to be the most responsible corporate citizen. Corporate social responsibility is not new to FairPrice. In fact, we were set up 38 years ago with a social responsibility – the responsibility to ensure that quality essential items will always be available to everyone at affordable prices. We also aspire to be the retailer with a heart, reaching out to the less fortunate in the community and caring for our environment. Many people seem confused about what corporate social responsibility is. Many seem to associate it with philanthropy where one gives away its profits to help various communities in the society.

That is important but CSR emphasises more on how the profits are generated rather than how the profits are used. I shared how we were first set up in 1973 by the labour movement with a social responsibility to moderate the cost of living in Singapore. We have a strong heritage in reaching out and being attuned to the needs of our community. CSR is an extension of this sense of duty to build a better community and environment, through the way we conduct our business and how we interact with our stakeholders.

Being a responsible corporate citizen is about creating positive impact on the triple bottom line, namely people, planet and profits. In fact, against the larger

backdrop of global consumer global environmental and societal issues, it has become a necessity to behave in a responsible manner in order to exist in the future.

Strong Brand Equity

The world of communications today is highly interconnected and open. The value of word of mouth has never been stronger. A strong brand that is well trusted by consumers can capitalize on this interconnectivity to build brand loyalty and credibility. On the other hand, a brand that is not trusted by consumers can expect bad word of mouth multiply in the open digital communications platforms today.

At FairPrice, we have patiently built and protected our strong brand over the last 38 years, gaining customers' trust, endorsing us with their trust and advocacy with numerous awards.

Strategic Alliance and Relationships

Retailing is becoming more global and more competitive. We have formed strategic alliance with strong partners to ensure success in the future. Our partnership with Exxon Mobil to operate convenience store at petrol stations is one good example. We have also partnered with international retailers and farmers to bring in exclusive new products to our customers.

In Dec 2010, we achieved another key milestone with the marriage of two leading retail cooperatives in this region – Saigon Cooperative and NTUC FairPrice Cooperative. This Joint Venture will start a chain of hypermarkets in Vietnam. As cooperatives, we share the same philosophy to put the interest of our customers high in the agenda of our business approach.

This JV has 3 key objectives - to help to moderate the cost of living in Vietnam, to bring food and fast moving consumer goods at affordable prices to the people in Vietnam, and to make decent financial returns.

This marriage allows us to exchange our expertise, knowledge, ideas and culture. FairPrice has been moderating the cost of living in Singapore for the past 38 years. We evolved into a multi-format retailer and started our first hypermarket in Singapore in 2006. Since then, our hypermarkets have been very well received by our customers. Today, we have four hypermarkets in Singapore and we are looking to grow our hypermarkets further. We are keen to share our retail experience with our friends from Saigon Co-op. As the leading retailer in Vietnam, Saigon Co-op already has a strong customer following and is deeply rooted in the hearts of the consumers in Vietnam. We are proud to be a partner

of Saigon Co-op and we look forward to learning the culture and business environment in Vietnam.

Conclusion

Although the intense competition posed by the open market economy looks challenging, I strongly believe co-operatives continue to be a relevant and integral part of our society. What we must do is take a close and honest look at ourselves. Do not be afraid to ask difficult questions and continually challenge our relevance and existence. Only through this process can we proactively plug the gaps that we spot -- hopefully before our customers do -- and fearlessly face up to challenges posed by the open market economy.

On this note, I would like to end my presentation and hope that the FairPrice experience will be useful in guiding you in your efforts to strengthen your co-operatives, and bring all of us to greater heights.

Thank You.