



Customer Account Management

Presented to: Analysts & Fund Managers
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Introduction – Business Model

CONVENIENCE

- ◆ Established furniture retailer
- ◆ Extensive store network and well-positioned stores
- ◆ Rapid delivery times

CHOICE

- ◆ Differentiated product range
- ◆ Exclusive quality products
- ◆ Value for money
- ◆ Well-established supply chain
- ◆ Centralised sourcing
- ◆ Strategic partnerships
- ◆ Uninterrupted, high quality supply

LEWIS
CUSTOMER

LOYALTY

- ◆ Re-serve model
- ◆ Customer management system
- ◆ Lewis Club
- ◆ Customer service strategy
- ◆ Targeted marketing strategies

CREDIT

- ◆ State of the art credit approval system
- ◆ Strong central control environment
- ◆ Immediate customer response
- ◆ Well-managed debtors book

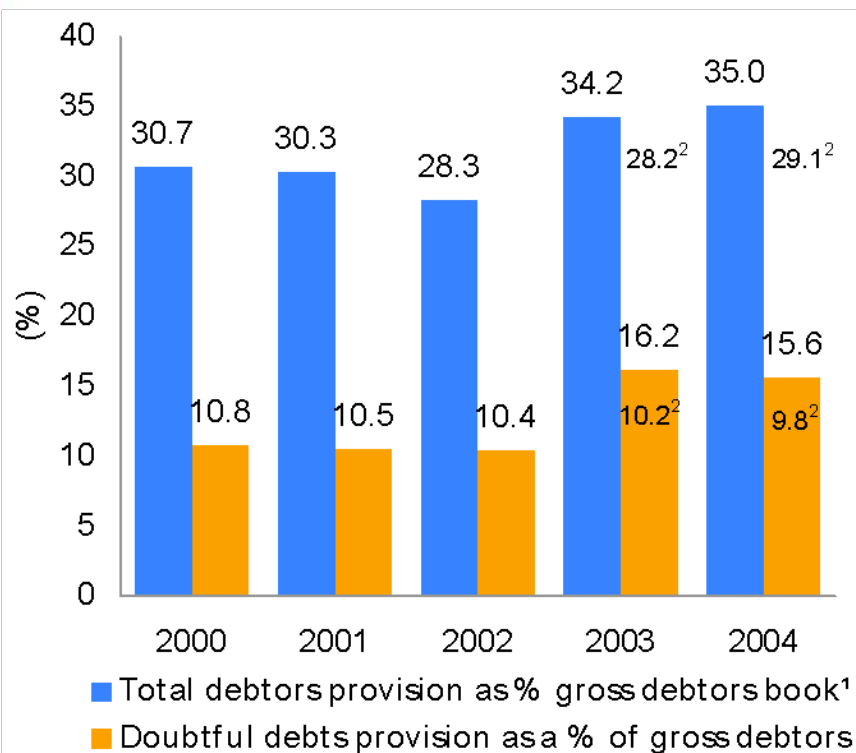


Credit Book Overview

- **Over 700,000 active customers**
- **R2.6 billion debtors book**
- **Sales: 38% new / 62% existing customers**
- **Process average 31,000+ new applications pm**
- **Average 22% decline rate**

Bad Debt

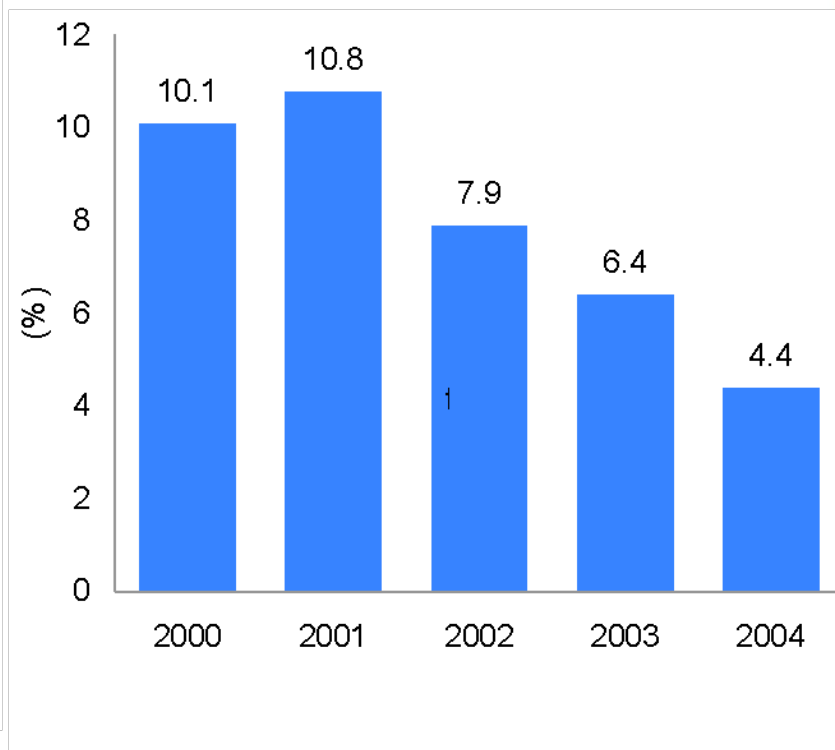
Provisioning



Notes:

- 1 Includes DD, UFC, UPR, UMC
- 2 2003 (pro forma) and 2004 (actual) includes AC 133 adjustment

Bad debts¹

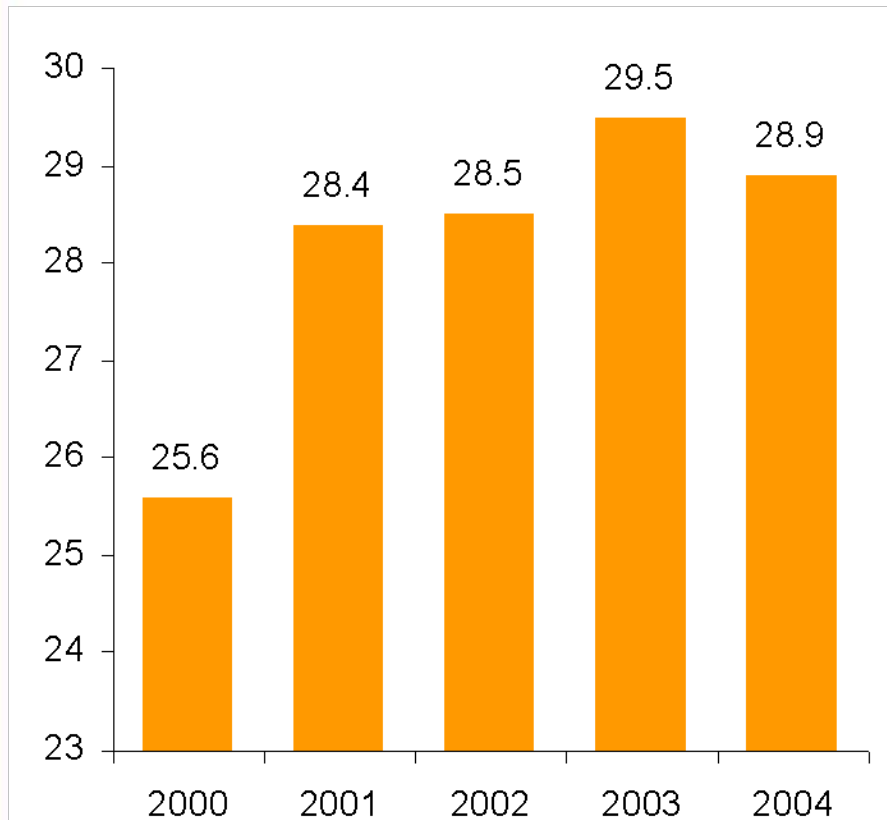


Note:

- 1 Bad debts charged in income statement as a % of gross debtors

Arrears

Full Contractual Arrears
to Gross Debtors = 28.9%

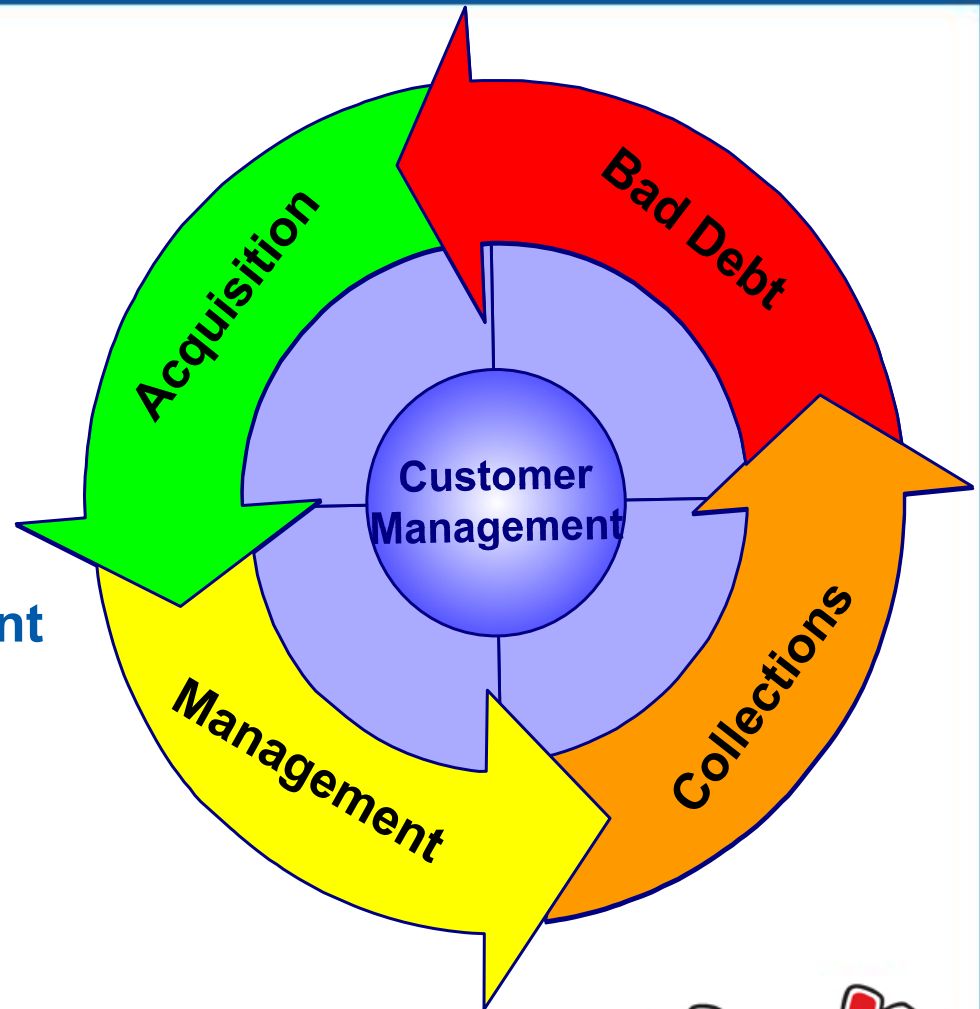


Goods 19.0%

Slow Payers
& Bads 9.9%

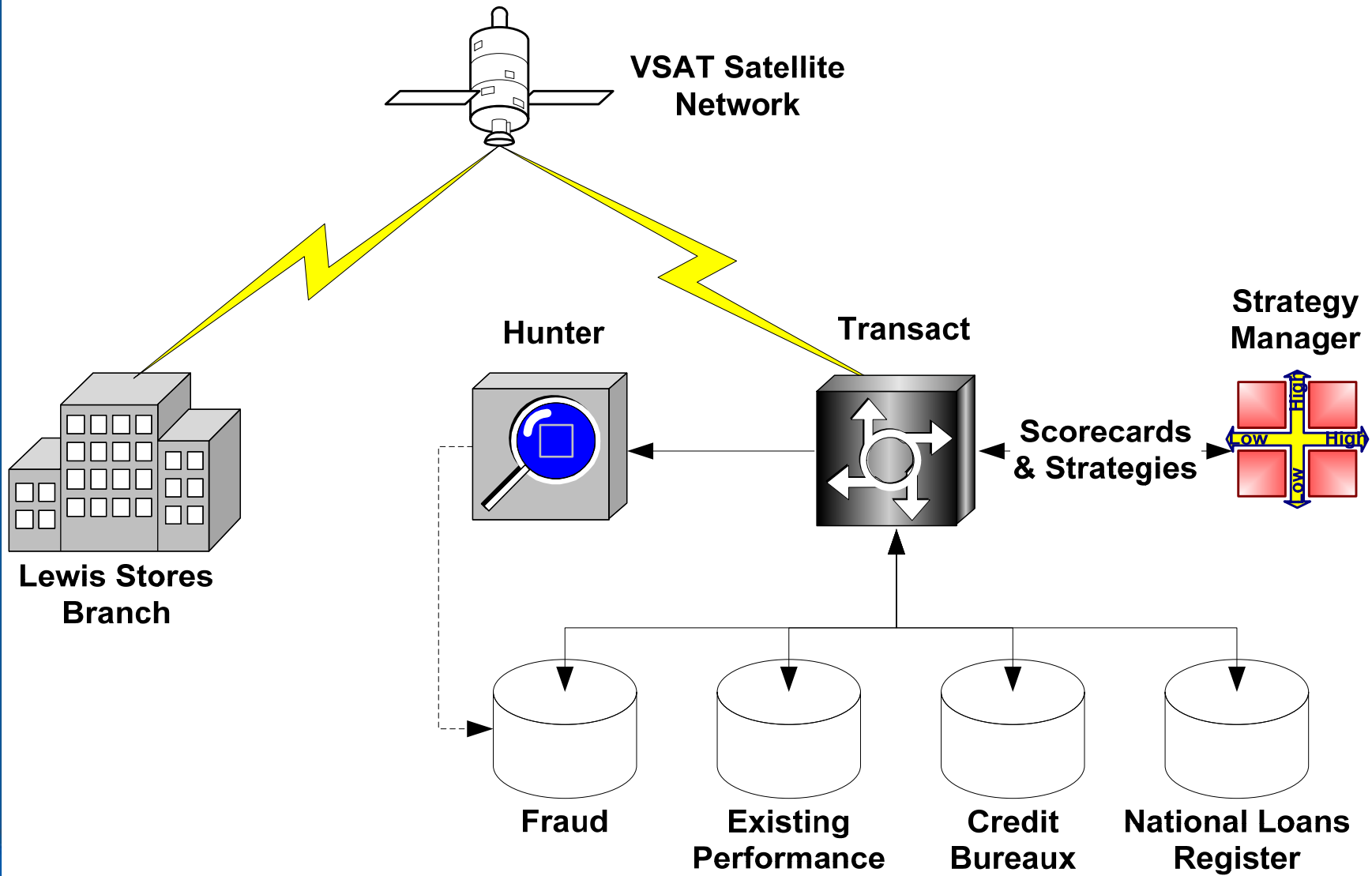
Centralised Credit Operations

Credit risk scoring
Credit approval
Underwriting
Fraud prevention
Reserve account management



New Business Processing

New Business Application Process



TransactSM – Processing System

- **Manages the flow of customer information**
- **Performs several internal database enquiries**
- **Dual bureau connectivity to Experian & TransunionITC**
 - **Payment profile**
 - **National loans registry (Micro-loans)**
- **Credit Referral Department (CRD)**
- **Processed over 900k transactions in 2004**
- **Average processing time = 9 seconds**

Strategy Manager – Decision Engine

- **Multiple application risk scorecards**
 - Lewis South Africa Experian & ITC (3rd Gen)
 - Lewis Namibia ITC (2nd Gen)
 - Lewis Botswana ITC (2nd Gen)
 - Lewis Swaziland & Lesotho ITC (2nd Gen)
 - Best Electric Experian & ITC (2nd Gen)
- **Credit policy**
 - Decline rules
 - Referral rules
 - Distress branches

Strategy Manager – Decision Engine

- **Credit limits & deposit policy**

*Example only

Application Score	0 - 200	201 - 220	221 - 260	261 - Hi
Risk Class	High	Medium	Low	Very low
Credit Limit %	10%	15%	20%	25%
Max OTB	R5,000	R7,500	R10,000	R15,000
Deposit %	20%	10%	0%	0%

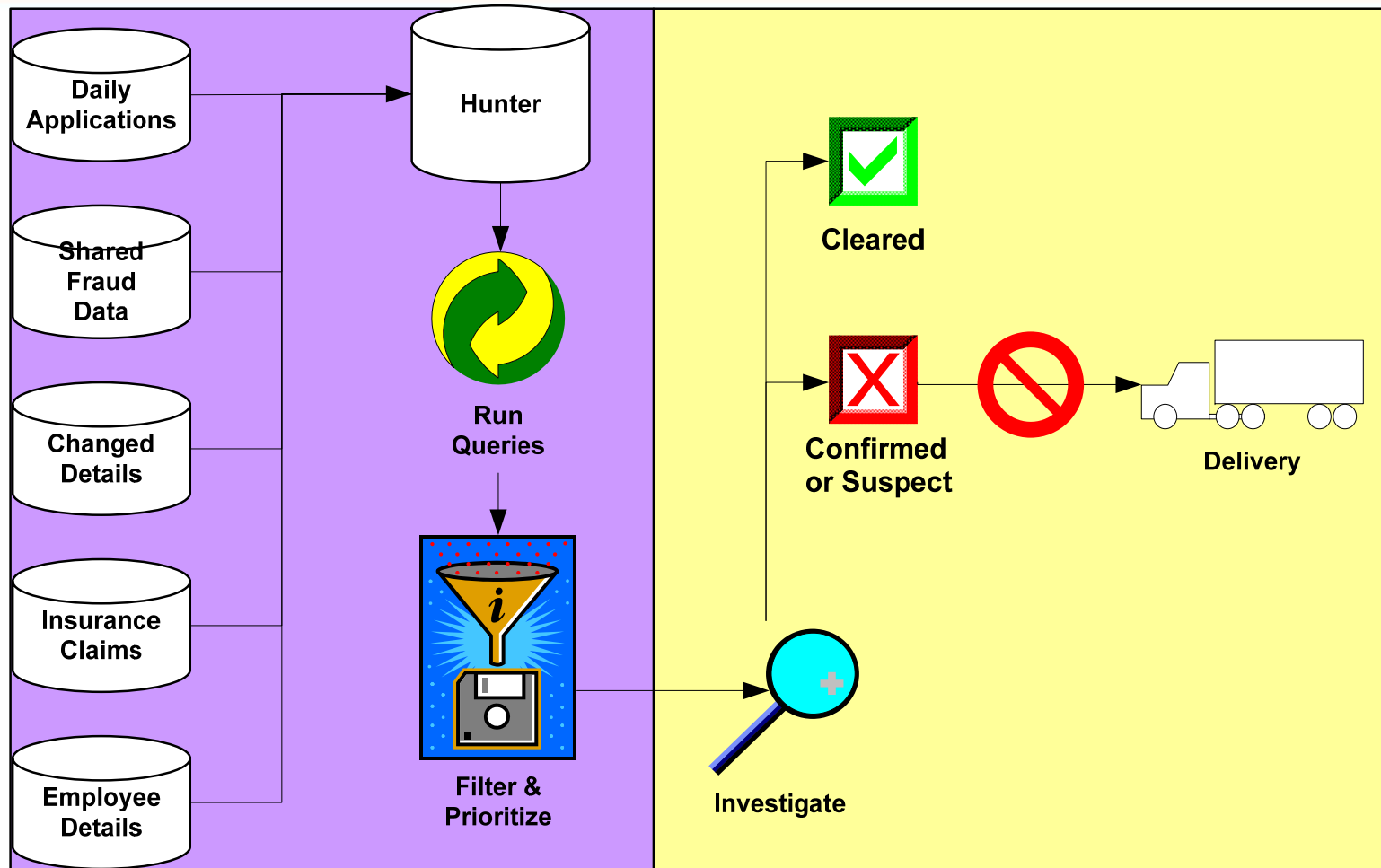
Credit Limit = $f(\text{Net Income} \times \text{Limit \%}) \sum(\text{Industry Exposure})$

Credit limit used to determine OTB

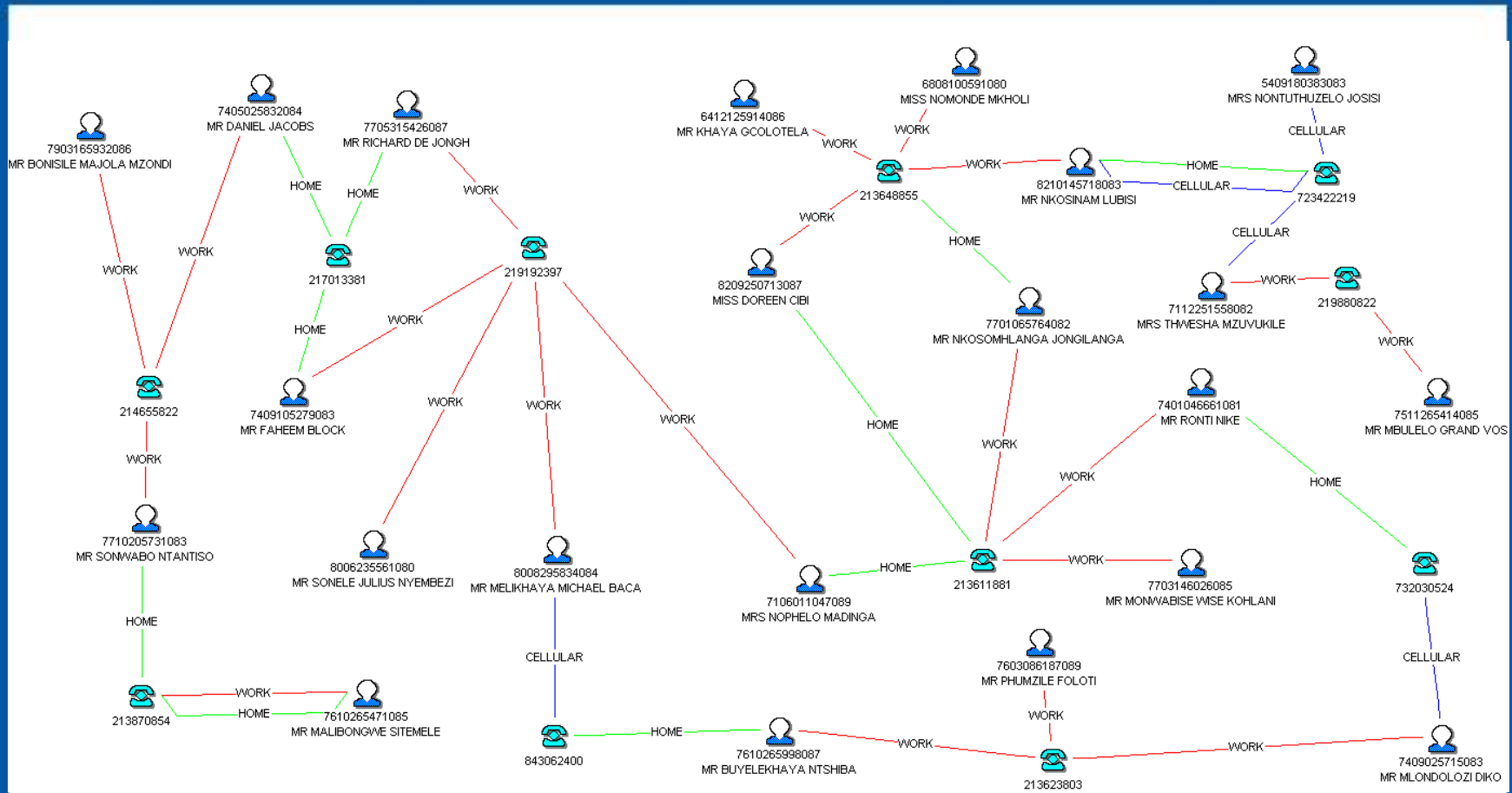
- **Champion-challenger strategies**



Hunter – Fraud Prevention



Hunter – Fraud Prevention



Disaster Recovery Plan

- **Distributed branch network**
 - Branch can operate as stand-alone store
- **Offsite TransactSM backup server**
 - Daily system replication
 - Alternative network routing

Existing Account Management

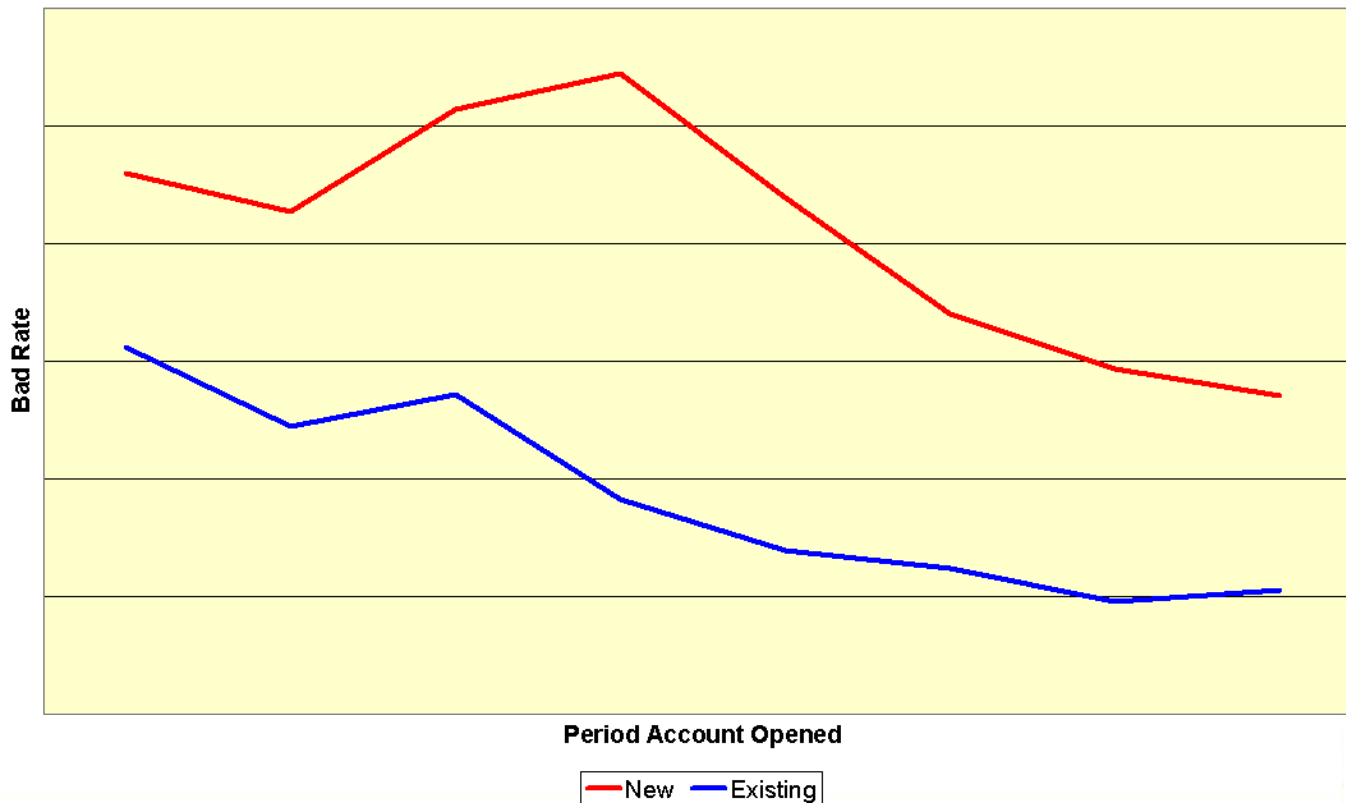
Re-serve Scheme

- **Identifies suitability of customer for further credit extension**
- **Fully integrated with debtors system and store operations**
- **Driven by historic payment behaviour & current indebtedness**
- **Customer base is segmented and targeted monthly**
- **Targeted direct mailing with promotional offers**
- **In-store operations**

Re-serve Scheme

- 62% of business from existing and settled customers
- Other furniture retailers < 50%

Performance of New vs Existing Customers



Technical Support of the Reserve Scheme

All accounts are processed monthly through Stratagem, decisions returned to branch:

- **Behavioural scoring**
 - Combines Lewis payment performance and credit bureau performance
- **Limit & deposit management**
 - Behavioural score used to calculate credit limits
- **Statement mailing**
 - Credit limit used to drive reserve/non-reserve strategies

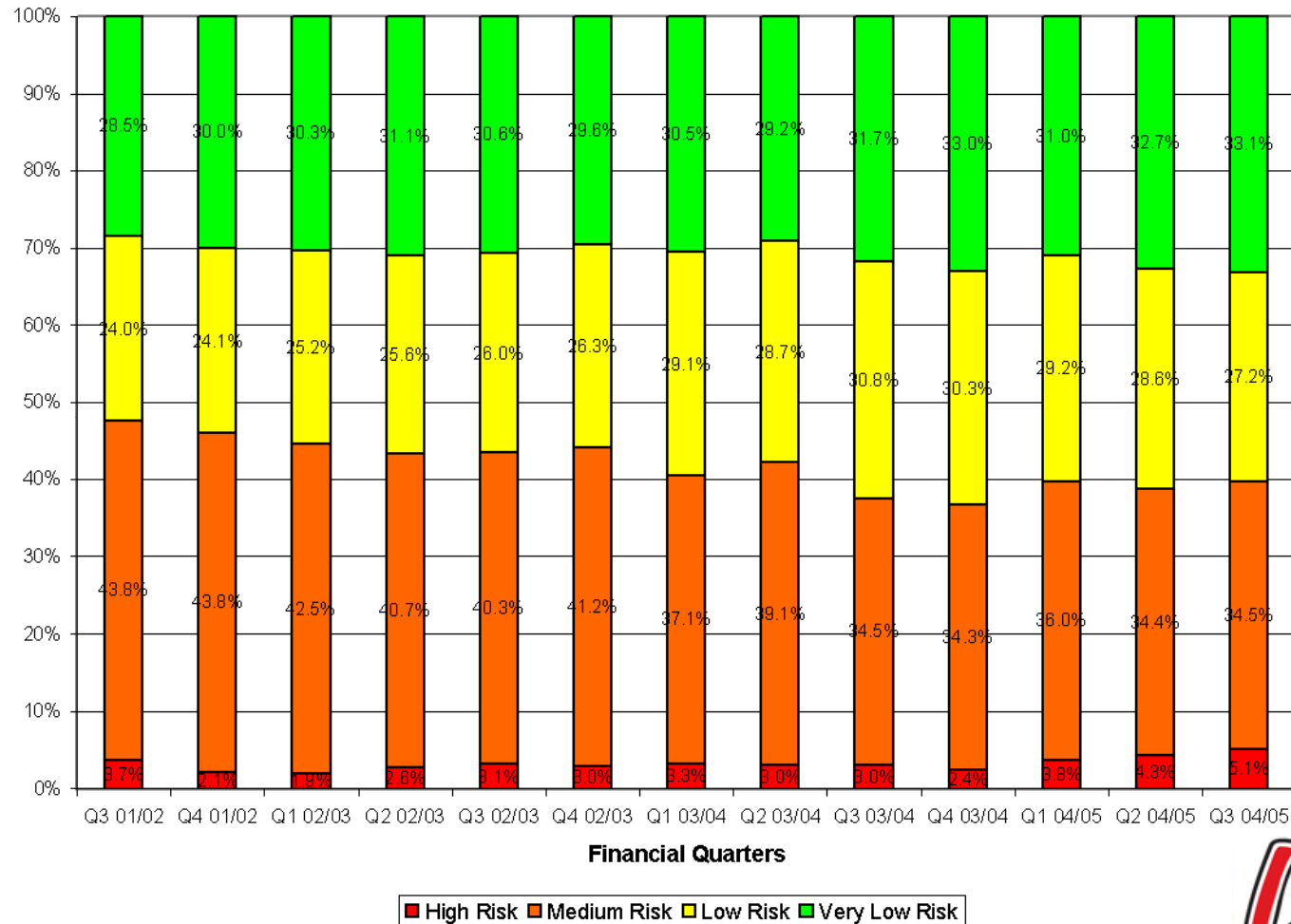
Monitoring & Reporting

Analytical Reporting

- **Population stability**
- **Scorecard performance**
- **Customer profiling**
- **Risk profiling**
- **Geographic segmentation**
- **At-age analysis (vintage analysis)**
- **Roll-rate analysis**

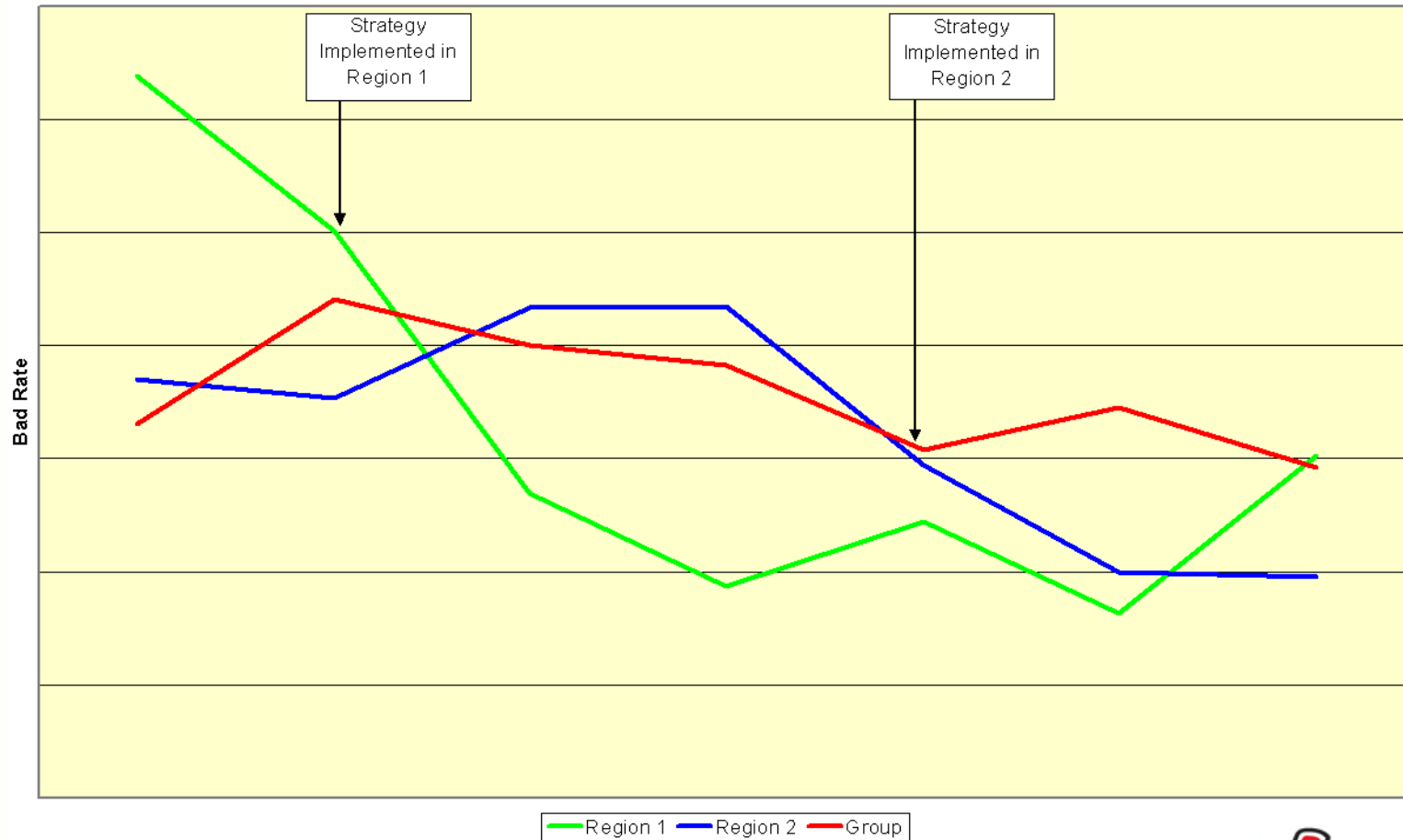
Example of Risk Monitoring

New Business Risk Groupings



Example of Champion-Challenger

Performance of Accounts at 12 Months



Summary

1999

Implemented the TransactSM system and the 1st generation Lewis application scorecard

2001

Implemented the Scope reporting tool

Implemented the Open to Buy credit facility

2003

Developed and implemented the 3rd generation Lewis application scorecard

Implemented the Stratagem customer management system

2000

Developed and implemented the 2nd generation Lewis application scorecard

2002

Developed and implemented the 1st generation application scorecards for Best Electric and the foreign branches

Implemented the Hunter fraud prevention system

2004

Developed and implemented the 2nd generation application scorecards for Best Electric and each of the foreign branches

Upgraded the TransactSM system to version 4.1. and integrated the Lifestyle Livings credit operation into the Lewis credit environment

Developed the 1st generation behavioural scorecards for the Lewis Group



Conclusion

- **60 years of retail credit management in SA**
- **Employ best-of-breed international credit systems**
- **Centralised credit granting and control**
- **Advanced risk scorecard development**
- **Integrated credit and marketing strategies**
- **Sophisticated credit reporting and monitoring**