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## Grupo Elektra

*We will continuously seek acquisition opportunities that provide upside potential for Grupo Elektra<sup>1</sup> and our shareholders. We will continue to add new brands, products and services for distribution through our store network that fit our markets and have the potential to contribute to the bottom line. Most important, I look for continued profitable growth.*

—Javier Sarro, Elektra's CEO, Annual Report 2000

Scuba diving 50-feet deep in the turquoise Caribbean Sea in Cancun, Mexico, Alvaro Rodriguez Arregui, the CFO of Elektra, wondered about which path he should take. Spectacular coral formations, colorful fish, caves, marine turtles, and unique reefs surrounded him yet he doubted that his air bottle would be sufficient to explore so many different options. This situation, for a second, made him forget the peaceful and silent underwater world and remember that a couple of hours later, above on the surface, he would face another crossroads. It was October 2001, and Rodriguez (HBS MBA '95) knew that in this year's Annual Convention in Cancun, he and the top management of Elektra would have the difficult task of choosing, among several promising opportunities, the options that would promote and maintain sustainable and profitable growth for the company. Rodriguez reflected that:

We have been growing steadily in the last decade. In 1990, we just had the Elektra chain format and did business only in Mexico, through 225 stores. In 2000, our sales reached US\$1.53 billion, we had 4 different chains—Elektra, Salinas y Rocha, Bodega de Remates and The One--almost 1,000 stores, and we were in 6 different countries

In 2001, this 51 year-old family-owned company was the largest specialty retailer in Latin America, with stores in Mexico, Guatemala, El Salvador, Dominican Republic, Honduras and Peru. See **Exhibits 1** and **2** for information on these countries. With over 65% of its sales being made on credit, Elektra was also the largest consumer finance company in Latin America, with 2 million active credit accounts. In addition to its core retailing business, the firm offered its clients other services including wire transfer services and savings accounts. The main question in Rodriguez's mind was how far the company could stretch its business model:

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<sup>1</sup> Herein after referred to as Elektra.

In the early 1990s, we basically offered hard goods and credit. Then, we introduced international money transfers, and today we are the largest Western Union distributor in the world. Then, we started with the clothing business, initiated our international expansion, acquired a new chain of stores and provided our customers with other services such as domestic money transfers, extended warranties and savings accounts. But, how far does the Elektra model go? Our resources are limited and we are entering a period of slowdown: where do we go now?

## Tradition with Vision

Elektra was founded in 1950 by Hugo Salinas Rocha, the grandfather of Ricardo Salinas Pliego, Elektra's chairman. Elektra was the first Mexican manufacturer of TV sets and during its first years the company sold its products directly from its manufacturing facilities to end consumers through door-to-door vendors.

Elektra's credit program had been initiated as early as 1954, and three years later the first store was inaugurated. During the following decades the company experienced alternating periods of marginal growth and moments of extreme difficulties. In 1976, after the first devaluation of the peso in 22 years, Elektra had to change its sales policy to cash only. In 1982, Elektra filed for bankruptcy protection (equivalent to Chapter XI in the United States).

The retirement of Hugo Salinas in 1987 and the appointment of his grandson Ricardo Salinas as Elektra's new CEO was a turning point in the company's history. After a couple of years heading the company, Ricardo realized that Elektra needed to be managed by a professional team. Sarro recalled:

Ricardo was very conscious that the company had to get out of the family trap. His first major move in this direction was hiring Pedro Padilla, who was only 24 at that time, in 1989. Ricardo prepared him to be the new president of Elektra, culminating in his appointment as the company's CEO in 1993. Ricardo knew that he himself would add more value by being the chairman, and giving the management of Elektra to a group of talented and competent professional managers.

See **Exhibit 3** for the Biographical data on Elektra's main officers

The early 1990s saw an unparalleled growth of Elektra. The company started a new credit program (*Credifacil*) and created *Dinero en Minutos*, money transfer service in partnership with Western Union<sup>2</sup>. In 1995, Elektra acquired Hecali, a clothing retailer, and increased its distribution network to more than 500 stores all over Mexico. Elektra also introduced a new set of services: *Dinero Express* (domestic wire transfer), *Milenia* (extended warranty program), *Fotofacil* (photo products and processing services) and *Guardadito* (savings accounts). See **Exhibit 4** for a list of Elektra's services.

The organizational consequences of this diversification were reflected in Javier Sarro's description of Elektra in 2001:

I see two cultures co-existing in Elektra: on the one hand, we have the traditional retailer mindset, results-oriented, tough culture. On the other, in the last decade there has been a renovation in the management of the company and we have forged a group of young managers with a strategic vision and creative ways of managing this company.

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<sup>2</sup> *Credifacil* translates as "Easy Credit," and *Dinero en Minutos* as "Money in Minutes."

## The Best Defense Is Attack

In 1996, an aggressive competitive move prompted Elektra to start its international expansion. The Dutch-owned chain La Curacao, which had already done business in Latin America for more than 10 years and had 400 stores in the region, decided to enter the Mexican market, opening 20 stores in the southeast of Mexico.

La Curacao belonged to Ceteco Holding NV, had a format similar to the Elektra chain, and also made a significant portion of its sales on credit. Feeling threatened in its home market, Elektra decided to attack the competition abroad. Filiberto Jimenez, Elektra's Store Operations General Director, then assistant to the company's CEO, was sent to El Salvador to benchmark the competition, establish local partnerships, and look for potential locations where Elektra's stores could be built.

I was only 25, recently married and didn't know much about store operations. Nevertheless, the company decided that I should live in Central America and prepare the business plan for the international expansion. We decided to focus on Guatemala first, but at the time we judged that the risk of kidnapping was too high there, and so I actually moved to live in El Salvador in January 1997. I traveled extensively in Central and South America and it was not hard to realize that La Curacao was creaming the market. They were the kings of what was virtually a monopoly, enjoying extremely high margins due to the lack of competition. It became clear to us that if we cut-off its cash flow in those countries, we would force La Curacao to refocus its business and get out of Mexico.

In April 1997, the first Elektra store abroad was opened in Guatemala. In that same year, 43 other stores were inaugurated in El Salvador, Guatemala, the Dominican Republic and Honduras. The following year, Elektra decided to enter the Peruvian market, opening 20 stores in that country. Filiberto commented:

All our stores abroad were green fields; we started everything from scratch. For that purpose, I benefited from the help of a group of 15-20 of Elektra's Mexican managers. The only local partnerships we formed were with local business people of influence, who could represent us in dealing with local governments and other authorities. Working with influential local people is essential to doing business in this part of the world.

Elektra entered these markets with the same margin levels it had in Mexico, and as a result its prices were roughly 20% lower than those of La Curacao. "The customers' reaction could not have been better for Elektra. They simply became mad at La Curacao because they realized they had been exploited for years," declared Filiberto.

## New Store Chains

In parallel with the international expansion, Elektra continued to grow the number of its stores in Mexico, and also started to operate new store formats. In 1995, Elektra created Bodega de Remates, a channel to retail refurbished and repossessed goods and discontinued models, targeted at low-income customers of class E of the Mexican population. This new format enabled the company to compete with regional players without damaging the Elektra chain's brand whose target customers belonged to classes C and D. See **Exhibits 5** and **6** for a description of the socioeconomic levels in Mexico.

In 1999, Elektra acquired the Salinas y Rocha stores, a furniture and home appliances retail chain founded in 1906 by the great grandfather of Ricardo Salinas and one of his cousins. Salinas y Rocha

had a brand with a very strong national recognition, and was targeted at higher income customers of classes C+ and B. In that same year, Elektra decided to transform the old Hecali stores into a new chain of clothing stores called The One. The US\$6 billion clothing market in Mexico was very fragmented and Elektra considered that The One could suit the lifestyle of the majority of the Mexican people. See **Exhibits 7** and **8** for detailed information on each store format.

## **Elektra in Early 2001**

The year 2000 was the best ever in Elektra's history. Grupo Elektra, comprising Elektra, Bodega de Remates, Salinas y Rocha and The One chain, posted sales of US\$1.53 billion and an EBITDA of US\$244 million, representing a growth of 15% and 16%, respectively, over the previous year. See **Exhibits 9, 10, and 11** for Elektra's financial performance.

Throughout the 1990s, the number of stores rocketed both in Mexico and abroad, and both the volume and the range of financial services grew significantly. See **Exhibit 12**. With the four different chains, Elektra estimated that it covered 87% of the Mexican population.

Elektra had approximately 2 million active credit accounts, and a database of more than 4 million customers. Alvaro Rodriguez commented:

Our consumer credit portfolio is larger, in terms of number of customers, than that of any bank in Mexico. We have 2 million active customers who go every week to our stores to pay their installments. Citibank tried to provide consumer credit to the C and D socioeconomic segment and has gotten only 30,000 accounts. In fact, investment analysts often have trouble categorizing us, and are unsure whether to rank us against a retailing multiple benchmark, or that of a financial services company. Our wire transfer businesses are also huge. We transfer US\$700 million a year with *Dinero en Minutos* and US\$200 million with *Dinero Express*. We also made an agreement with Banco Serfin, a subsidiary of Banco Central Hispano from Spain, to offer savings accounts in our stores, which we brand *Guardadito*. This requires a minimum deposit of only two dollars, with no opening fee, and at the end of 2000, we had 1.5 million accounts.

## **Credifacil**

In 2001, roughly 65% of all sales of the Elektra group were on credit. See **Exhibit 13** and **14** for the breakdown of credit and cash sales in each chain and in Elektra's subsidiaries abroad. The typical applicant for Elektra credit did not have access to consumer credit from the traditional financial institutions. Also, since there was no credit bureau in Mexico rating an individual's creditworthiness, Elektra had to develop its own credit approval process and its own database.

The process started when a customer asked for the credit price of a product. The salesperson invited the customer to sit down, and used the company's proprietary ADN software to show the customer the repayment schedule. The interest rate charged was a fixed rate determined at the time of the purchase. In Mexico, the Consumer Protection Act did not impose a ceiling on the interest rate charged by merchants, and did not require disclosure of the effective interest rate charged. In October 2001, flat interest rates charged by Elektra were 42.45% per year. Mario Gordillo, Elektra's Financial Services Head, explained:

Our customers are not concerned about the interest rates they are paying. All they want to know is the amount of the weekly installment. If they think they can afford it, they buy the product. Many people say that our interest rates are high. In fact, the rates are high but lower than those of many banks. Besides, it is important to bear in mind that providing this type of credit involves a very expensive operation.

The customer having decided for a specific term, he or she filled in a credit application form with the corresponding personal information, and also nominated a guarantor. Then, in no more than 24 hours, a home visit by one of the store's portfolio managers was scheduled.

The next day, early in the morning, one of the 3,000 Elektra's portfolio managers (PMs) would ride a motorcycle to visit an average of 30 customers and check the information provided by them. If the credit was approved, a refundable down payment of no more than 5% of the case price was paid, and the client could take possession of the product immediately. As described by Rodriguez:

Elektra's customers do not live in fancy neighborhoods, but rather in poor areas where access is quite complicated. The first challenge for our PMs is to find out where the customer actually lives. Here in Mexico we have hundreds of streets called Reforma, for instance, and there is no reliable zip code. Indeed, in many cases, there is no address, and the customer fills out *Domicilio Conocido* on the form<sup>3</sup>. So the first thing our PMs do is draw a map of the address of each customer, which turns out to be valuable information. We reach certain streets that not even the mail service gets to!

Elektra developed a unique internal credit rating system, as described by Mario Gordillo:

The system is both very simple and at the same time very sophisticated. The PM visiting the customer's home will try to build up a picture of the cash flow of the household, trying to identify the sources of income of the customer and family and also their expenses. Even if the customer does not have a formal statement of income, we have developed over the years our own income estimates for several jobs, such as a taxi driver or a taco salesman. This is the quantitative part, but what really makes the difference is the subjective assessment of our employees. They will pay attention to small details such as whether the customer's home is clean; how many appliances or electronic items the family has in the home; whether there seems to be a stable family set-up, and so on. Our PM will also knock on the doors of the customer neighbors to get some customer references. Finally, the PM will visit a couple of stores in the neighborhood, such as bakeries and grocery shops, to get more information on the prospect customer.

The maximum authorized loan amounts were approximately US\$800 and US\$1150 for a first time buyer and a repeat customer respectively. In both cases, the weekly installment could not exceed 20% of the household income. A repeat customer did not have to make a down payment, but was still visited by the PM in what the company described as a "courtesy visit," conducted after the sale had been confirmed. See **Exhibit 15** for the repeat purchase rates of the 2000 Elektra credit customer base. In Mexico, at the end of 2000, the average loan was approximately US\$251, with an average term of 44 weeks. The approval rate on credit applications was approximately 50%. Elektra had a credit portfolio of US\$446 million. See **Exhibit 16**.

The same PM who visited the customer authorized the credit, and was also responsible for collection if the credit was past due. "Each employee should be accountable for the whole process

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<sup>3</sup> *Domicilio Conocido* translates as "known residence," i.e., if the PM arrives in the neighborhood and asks around, he or she is directed to the home of the customer.

and be compensated according to his or her performance," explained Gordillo. The compensation of PMs was 10% fixed and 90% variable, depending on the performance of their portfolio. Each PM typically handled 650 accounts, and if more than 220 accounts were past due for more than 2 weeks, the ADN system automatically started to decrease the number of active accounts of the respective PM. If the PM's accounts started to be 13 weeks or more late, or the PM's compensation had declined to the minimum wage level because of poor payment performance by his or her accounts, then the system automatically fired the PM. Gordillo commented, "We have very rigid controls, and if the PM is not performing well, there will not be any excuse. The "system" will fire him or her." Rodriguez added:

Giving loans is very easy; anyone with available funds can do it. It is the collection that is difficult, and I think this ability is in the blood of our employees. They can "smell" whether or not a customer will pay a loan. . . . The secret is in the way you talk to people, the things you say and the questions you ask.

Elektra's credit process proved to be consistently profitable and efficient. Customers with past-due credits paid a penalty fee of 0.47% per day, but in 2000, its delinquency rate was only 2.7%, compared to the average of 15% of banks in Mexico. See **Exhibit 16**.

## Synergies with Other Salinas's Companies

In 2001, Grupo Elektra was part of an even larger concern: the Salinas Group. Ricardo Salinas, Elektra's chairman, had over the years acquired and launched several new companies. When Pedro Padilla left Elektra's presidency in 2000, it was to become the COO of the Salinas Group, and his replacement, Javier Sarro, was the former head of Elektra's Financial Services.

Group Salinas consisted of five companies: Elektra (commerce and credit); Todito.com (Internet portal); [Movil@ccess](mailto:Movil@ccess) (two-way pager); Unefon (mobile telephone company), Telecosmo (broad band internet connection) and TV Azteca (television).

The management of Elektra believed that TV Azteca was a major factor in Elektra's success. It was one of only two TV chains with nationwide coverage in Mexico, the other being Televisa. Elektra advertised only on TV Azteca, and the channel did not carry advertising for any of Elektra's competitors. "We belong to the same family and this helps a lot," commented Rodriguez. In 1996, when TV Azteca was a new entrant into the Mexican TV market with only a few customers, TV Azteca and Elektra entered into a 10-year agreement through which the latter would be entitled to air 5,200 minutes a year at a cost of US\$1.5 million. According to Mario Gonzalez, VP of Marketing and Channel:

We are the largest advertiser in Mexico, in terms of airtime, with roughly 14 minutes every day of the year. Our partnership with TV Azteca has helped us be very effective with our advertising efforts. Having the same controlling shareholders allows us to work better together.

Elektra had a media budget of US\$27 million per year and developed approximately 200 TV ads annually, most of them highlighting the brand values, the credit terms, and sometimes the cash price. See **Exhibit 17** for some samples of printed advertisements. Since October 2001, TV Azteca was able to air different ads for different regions in Mexico. "We don't have nationwide competition but local competition from more than 7,000 mom-and-pops stores. That is why it's so important to have this regional advertising at TV Azteca," explained Mario Gonzalez.

## Crises and Opportunities

During 2001, Elektra's executive committee had been analyzing new growth opportunities. While, on the one hand, the company acknowledged that the economic scenario was not favorable, it also believed that this was a moment of unique opportunities for consolidation. Javier Sarro commented:

We have plenty of experience with crises, and in general we have done extremely well. In 1995, after the Tequila crisis, we were able to open 86 new stores and increase our EBITDA by 30% year-on-year. Then in 1998, following the Russian and Brazilian crises, Elektra again increased its revenues and opened 139 stores. In 2000, despite all political uncertainty, we had an exceptional performance. We are the 800-pound gorilla in this market, so I think that in the next 18 months, we'll have a lot of acquisition opportunities. In this market, the strong get stronger and the weak get weaker. I believe that in 2001 we are stronger than ever.

Elektra's top management was aware, though, that the company had expanded on several new fronts in the last couple of years and that it was going to be very challenging to continue to grow in all of them. Some investment analysts even considered that "Elektra might have been overstretching itself by entering into new lines of businesses that may add only marginally to Elektra's bottom line."<sup>4</sup>

## The One

Rodriguez, as Elektra's CFO, knew better than anyone else that the company had to be very clear with its investors regarding each of its business lines. One of his major concerns was in relation to the clothing chain The One.

The idea behind The One was: "we are a basic needs retailer so let's explore the clothing business." Yet there is a lot of fashion in this business, and we might not have fashion in our DNA. We have had some problems with the supply chain, and have not always managed to turn lines over quickly enough, or to maintain the right stock levels in all colors and sizes. Today, I wonder if selling clothes is really fulfilling a basic need. There is a lot to be done to improve the performance of The One and we are working on it, changing the inventory management, relocating a lot of the stores to better sites, and analyzing the critical mass we need to make The One profitable.

## North or Latin Americans?

In 2001, Elektra had 102 stores abroad, and the main goal of its international expansion had been achieved: La Curacao went bankrupt and had to sell its operations to local players in each of the Latin American countries in which it operated. In July 2001, Elektra acquired the 35 stores that La Curacao had in Mexico for US\$5.4 million.

Yet, the performance of the international subsidiaries in financial rather than strategic terms was not so obviously successful. Indeed, Elektra was facing serious problems in some countries. See **Exhibit 18**. Rodriguez explained:

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<sup>4</sup> Meredith Jensen, "Elektra—Margin Pressures to Weigh on Market Leader," J.P. Morgan Securities Inc. Equity Research, 24 September 2001.

We thought we could replicate our model in other countries. In some of them, it worked well but in others, such as El Salvador and the Dominican Republic, the model simply did not work. There are many subtleties that make each country different. For instance, in the Dominican Republic, you can't charge a penalty fee; customers simply don't accept it. Thus, we decided to work the other way round: we told our customers that if they pay on time they would get a bonus. At the end of the day, economically speaking, it's the same thing but it takes time until you learn how to deal with each country's idiosyncrasies. In contrast, in Peru, we've been extremely successful. La Curacao and Carsa of Peru, which were our competitors, both went bankrupt and now we are the only one in the market. In Honduras and Guatemala, we are doing OK.

Entering the U.S market was something that the management of Elektra had spent a lot of time discussing. Elektra's estimates were compelling: 75% of the U.S. Hispanic population lived in 15 cities; Los Angeles was the second largest city in number of Mexicans after Mexico City; the U.S. Hispanics' spending was equivalent to 80% of Mexico's GNP. Besides, according to the U.S. Census of 2000, the Hispanic population living in the United States increased by more than 50% from 1990 to 2000, reaching 35 million people.<sup>5</sup> Elektra also expected that the U.S Hispanic consumer spending would grow significantly in the following years. See **Exhibit 19**. Mexicans were the largest Hispanic-origin group, accounting for 59% of the U.S. Hispanic population.<sup>6</sup> Elektra also believed it could replicate in the United States the successful association with TV Azteca, using its TV sister company to reach the Hispanic population. Sarro commented: "Indeed, upon analyzing our international expansion, the first question we ask ourselves is whether we are a Latin or a North American company. I think we're a NAFTA company."

Operating in the United States, though, was a completely different game, acknowledged Alvaro: "We are in a low volume-high margin market while in the U.S. we would have to be high volume-low margin." Filiberto Jimenez who was responsible for the launching of all of Elektra's stores abroad also had concerns about a possible expansion to the United States:

I'm very apprehensive about the U.S regulations. It's something that we don't know well enough. If we are to enter the U.S. market, it should be through a joint venture or an acquisition and I want to spend some time as an assistant of the CEO of the company learning how the market works. I don't want to be sued and have Elektra liable for millions of dollars because one customer fell down in my store and broke a leg. In Latin America, we know how things work and how to fix them when something goes wrong. It's also important to bear in mind that operating in the United States would require different capabilities both in terms of operation and meeting the customers' needs. In addition, in Mexico we have bargaining power with our suppliers, which would not be true in the United States. But, all the same, it's definitely right to say that we have many opportunities in the United States. For instance, I love the idea of entering Puerto Rico: it's the typical Latin American country, yet it is part of the United States. I think it would be the perfect market for us.

Offering financial services to the U.S. Hispanics was also an option. According to a market survey done by Gallup, Telmex and Fundacion Solidariedad Mexicano Americano in July 2001, 50.4% of the U.S. Hispanics had never used any type of banking services and 56.8% had never had access to

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<sup>5</sup> U.S. Census Bureau. Available through <http://www.census.gov/statab/www/part1a.html> (15 October 2001.)

<sup>6</sup> U.S. Census Bureau. Available through <http://www.census.gov/mso/www/rsf/hisorig/sld024.htm> (15 October 2001.)

banking credit.<sup>7</sup> According to the same survey, only 41.7% of the U.S. Hispanics had a bank account and 7.4% a credit card.<sup>8</sup> Rodriguez commented:

Most Hispanics are Mexicans and Central Americans. We know them better than anyone else and they are very familiar with our brands. They seldom have access to credit in the US and we would feel comfortable in providing them credit in the US. It's a huge market with a lot of upside potential.

## Specialty (Finance) Retailer

One of the most successful businesses of Elektra had been financial services. Elektra's management considered that there was a huge avenue for providing new financial services such as mortgages, loans for used car purchase or home improvement projects, and even personal loans. Elektra was also considering using its retail network to install ATMs, a business that was not developed in Mexico. According to Alvaro:

We know that our financial services business is already a big business but we think it can grow even more. We have a database with 4,000,000 credit accounts. We could be the provider of every type of financial services to this segment of the population. We understand them and they feel at ease dealing with us. That does not happen when they go to a bank.

In 2001, Elektra created a new business unit for the credit business called Credimax. This unit consolidated the credit operations of Elektra, Salinas y Rocha, The One and Bodegas de Remates. Elektra expected a huge growth in this business based on the fact that, according to the company's estimates, the penetration of consumer loans in Mexico was only 1.5% of GDP while in the United States it reached 16%. The management of Elektra was also analyzing the possibility of transforming Credimax into an autonomous company or even into a bank. Sarro commented:

To a certain extent, we could be considered a bank even though we don't have a license. We have credit operations, wire transfer services and even savings accounts. The only difference is that today we still have to outsource the back end process and we cannot tap into the interbank financial circuit.

See **Exhibits 20 and 21**.

With all those questions in mind, Alvaro could hardly realize that he had spent more than 20 minutes diving. It was time to get back to the surface and as Alvaro took off his mask he looked for inspiration in that paradisiacal landscape.

Where do we go now? Where should the company allocate its resources? Mexico, Latin America, the United States? In what kind of business: hard goods, clothing, financial services? These are tough questions that we have to answer now. I'm very optimistic but I don't underestimate the challenges we have ahead. We're pushing a lot of things through the same window. But, Alvaro wondered, how much is enough?

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<sup>7</sup> Gallup, Telmex and Fundacion Solidariedad Mexicano America, "Estudio de los Habitos de Consumo de la poblacion mexicana en los Estados Unidos," July 2001, p. 18.

<sup>8</sup> Ibid, p. 19.

**Exhibit 1** Map of Latin America



Source: Elektra.

**Exhibit 2** Macroeconomic Data of Selected Countries in Latin America, 2000

	Dominican Republic	El Salvador	Guatemala	Honduras	Mexico	Peru
GDP at market prices (US\$billion) <sup>a</sup>	19.89	13.21	19.04	5.93	574.51	53.88
Population (million) <sup>a</sup>	8.55	6.27	11.38	6.48	97.96	25.66
Urban population, % of total <sup>b</sup>	65	47	40	53	74	73
GDP per capita (US\$) <sup>b</sup>	2,320	2,130	1,670	898	5,800	2,083
Average interest rate charged by banks in local currency (%) <sup>b</sup>	26.8	13.9	20.9	26.8	18.2	27.9
Consumer prices (% change pa; end-period) <sup>b</sup>	9.01	4.28	5.06	10.10	8.95	3.73

Sources: <sup>a</sup>World Bank, available through <http://sima-ext.worldbank.org/data-query/> (15 October 2001),

<sup>b</sup>Economist Intelligence Unit Country Data, 15 October 2001.

**Exhibit 3 Bio of Elektra's Main Directors and Officers**

**Ricardo Salinas**, 45, has served as Elektra's President since 1989 and Chairman of the Board of Directors since 1993. Prior to joining Elektra in 1981 he worked for Arthur Andersen and The Brinkman Company. Mr. Salinas studied public accounting at the Instituto Tecnológico y de Estudios Superiores in Monterrey (ITESM) and graduated with honors in 1977. He received his Master in Finance from University of Tulane and was the first foreigner to be recognized as a Distinguished Alumnus.

**Pedro Padilla**, 35, has served as a board member since 1993 and was Elektra's CEO from 1993 until 2000, and now serves as CEO of TV Azteca. Mr. Padilla has extensive experience in cross border financial and commodities transactions and holds a degree in Law from UNAM.

**Javier Sarro**, 40, was appointed Elektra's CEO in 2000. He originally joined Elektra in 1995 as the Vice President for Financial Services. He served as the first CEO of Unefon, building its management team, strategic supplier relations and financial structure. Mr. Sarro has an MBA from Instituto Panamericano de Alta Dirección de Empresas (IPADE) and completed undergraduate studies in Law at the Universidad Iberoamericana.

**Alvaro Rodriguez**, 34, has served as Elektra's Chief Financial Officer since 1999. He was appointed CFO of Unefon in 1997 and helped raise US\$1 billion to start that company, establishing its accounting, administration, budget, finance, legal and treasury departments. Before joining Unefon, he worked for several years as a banker in Latin America, Europe and the United States. Mr. Rodriguez holds a bachelor's degree from the Instituto Tecnológico Autónomo de México (ITAM) and an MBA from the Harvard Business School.

**Mario Gonzalez**, 47, joined Elektra in 1999, as Vice President of Marketing. Prior to it, Mr. Gonzalez spent 23 years in marketing, marketing research, sales and operations in both local and international markets, and worked for companies including Nabisco, Gillette, PepsiCo and Casa Cuervo. He holds a degree in Business Administration and a Marketing specialization from Universidad Iberoamericana.

**Filiberto Jimenez**, 30, has served as the General Director of Store Operations since 2000. He joined Elektra in 1996 and oversaw the launch of the company's Latin American operations as one of his early job responsibilities. He served as the Director of Operations of Elektra and as the CEO of Salinas y Rocha. Mr. Jimenez holds a degree in Marketing and an MBA from the Instituto Tecnológico de Estudios Superiores de Monterrey (ITESM), with a major in International Business.

**Mario Gordillo**, 33, joined the Budgeting Department of Grupo Elektra 8 years ago. He has occupied several positions in the company within the departments of purchasing, financial services, distribution, Hecali and The One operations. In 2001, he was appointed head of Financial Services. Mr. Gordillo holds an undergraduate degree in Industrial Engineering and Systems from the Instituto de Estudios Superiores de Monterrey (ITESM), a Master's degree from the Instituto Panamericano de Alta Dirección Empresarial (IPADE) and a master of Finance degree from the ITESM in Mexico City, Mexico.

Source: Elektra.

## Exhibit 4 Elektra's Services



First financial service provided by Elektra, Credifacil (later Credimax) accounted for approximately 65% of Grupo Elektra's total sales. It had 2 million active accounts and an accumulated database of more than 4 million accounts. Credimax had more than 3,000 credit employees and Elektra had a recovery rate of over 97%.



As the first service to leverage Elektra's store network, Dinero en Minutos is a money transfer service in association with Western Union. Western Union has 27,000 branch offices in the United States, through which any of the 22 million Mexicans living there can send money back to their families in Mexico to be collected at any of the Grupo Elektra chains. Senders and receivers are current and potential customers and the business generates an important stream of U.S. dollar revenues.



In February 1996, Elektra launched a second money transfer service and, in the process, created an entirely new market. Dinero Express was created for money transfers within Mexico and is an Elektra-owned service. From its launch in 1996 to December 2000, Dinero Express has exceeded the company's projections and has provided 4.3 million secure money transfers within Mexico so far.



Through a joint venture with Serfin Bank, Elektra created an innovative approach to savings that answers the needs of a large majority of the Mexican population to put some money aside for the future. Elektra uses monthly raffles to motivate and reward Guardadito customers, and no commissions or fees are charged.



Elektra began selling extended warranties in 1997 and it has had an outstanding record to date. Two, three and five-year warranties are offered in fourteen different product groups, with an emphasis on home electronics and white goods. Elektra believes that Milenia encourages the purchase of its products.



Fotofacil kiosks offer film processing, inexpensive cameras, film, batteries, photo albums and portable electronics. The kiosks take up very little sales space and answer a great demand among Elektra's customers.

Source: Elektra.

**Exhibit 5** Socioeconomic levels in Mexico

Class	Description	Percentage of the Mexican Population
A/B	Household income per month over US\$7,000 Checking account and more than two credit cards Homes or apartments with more than three or four bedrooms, and two or three bathrooms Two or more luxury automobiles, two telephone lines, two or more television sets and one computer	6%
C+	Household income per month between US\$3,000 and US\$7,000 One or two credit cards Homes or apartments with two or three bedrooms and one or two bathrooms One or two cars, two telephone lines, two television sets and 20% of this segment has a computer	9%
C	Household income per month between US\$1,000 and US\$3,000 Some have a credit card Homes or apartments with two bedrooms and one bathroom One basic automobile, one telephone line, two television sets and one radio	26%
D+	Household income per month between US\$600 and US\$1,000 No credit cards Homes or apartments with one or two bedrooms and one bathroom No automobile, one telephone line and one radio	22%
D	Household income per month between US\$200 and US\$600 No credit cards Homes or apartments with one bedroom and one bathroom No telephone, one television set and one radio	30%
E	Household income per month under US\$200 Small homes, a third of which have a bathroom, but most do not have a connection to a municipal sewage system No telephone, most have only one television set and one radio	7%

Source: Elektra, 2000 Annual Report.

**Exhibit 6** Socioeconomic Profiles of Elektra's Customers, October 2001

	<b>Elektra</b>	<b>Salinas y Rocha</b>	<b>Bodegas de Remate</b>	<b>The One</b>
<b>Class</b>				
C+	19%	28%	13%	20%
C	25	29	23	35
D+	27	29	34	30
D	29	14	30	15
<b>Age</b>				
18-25	18	8	21	45
26-35	32	21	35	35
36-45	27	28	27	15
46-55	23	43	17	5
<b>Sex</b>				
Male	52	50	50	65
Female	48	50	50	35

Source: Elektra.

## Exhibit 7 Chains



- Most important chain of the Group
- More than 600 stores in Mexico and Latin America
- Attends market segments D, D+ and C
- Focus in electronics, white goods, home appliances and furniture
- Locations in strategic neighborhoods
- Average surface per store: 743m<sup>2</sup> (7998 sq. ft.)



- More than 50 stores
- Attends market segments D, D+
- Focus in remanufactured and repossessed goods as well as discontinued models
- Excellent format to confront local competition
- Average surface per store: 574m<sup>2</sup> (6178 sq. ft.)



SALINAS & ROCHA

- More than 85 stores in Mexico
- Attends market segments C and C+
- Focus in furniture and Hi-Tech electronics
- Average surface per store: 968 m<sup>2</sup> (10,419 sq.ft)



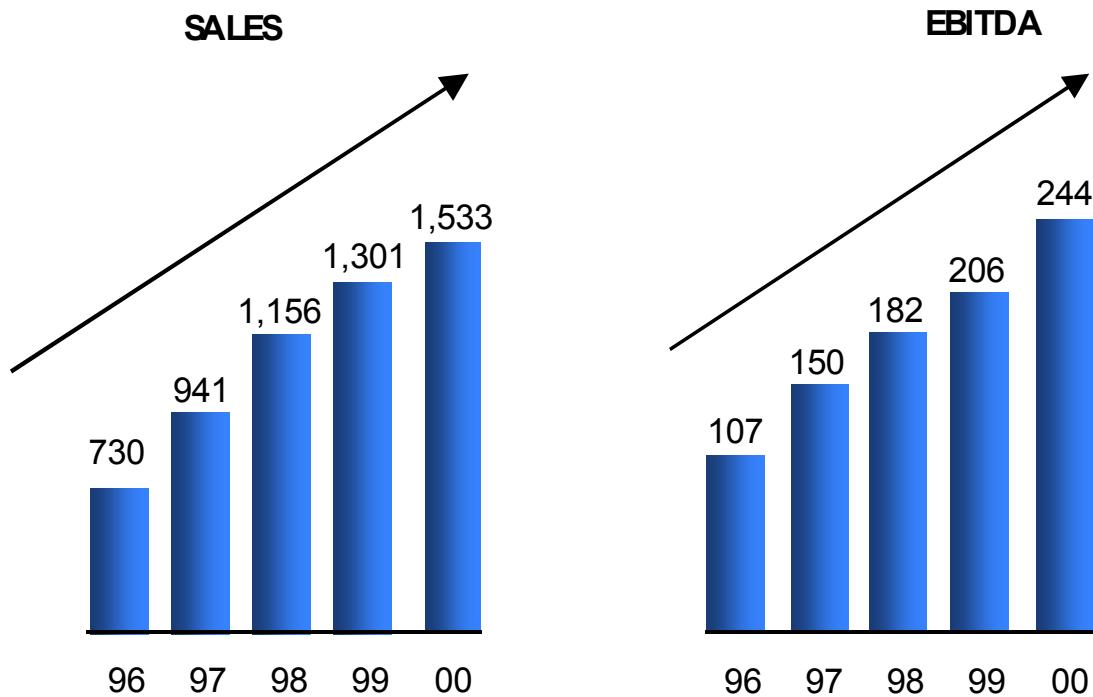
- More than 130 stores in Mexico
- Attends market segments D, D+ and C
- Focus in casual clothing and accessories
- Average surface per store: 376m<sup>2</sup> (4047 sq. ft.)

**Exhibit 8** Sales Mix per Store Format, by Type of Product

<b>2000</b>	
<b>Elektra Mexico</b>	
Electronics	42.8%
Appliances	28.7
Furniture	16.8
Small appliances	10.5
Telephones	1.2
<b>Elektra Latin America</b>	
Electronics	50.1
Appliances	23.7
Furniture	19.5
Small appliances	6.7
<b>The One</b>	
Men's clothes	50.5
Children's clothes	24.7
Ladies' clothes	22.4
Sport shoes	0.3
Telephones	2.1
<b>Salinas y Rocha</b>	
Electronics	33.0
Appliances	29.5
Furniture	27.6
Small appliances	9.3
Telephones	0.6

Source: Elektra.

Exhibit 9 Historic Sales and EBITDA, in US\$ million



FX: 9.60 per US\$1

Source: Elektra.

**Exhibit 10** Financial Performance in 2000, in US\$ million

## Contribution per Business Unit

	Elektra Merchandise	S y R Merchandise	Credit	The One Merchandise	Money Transfer	Extended Warranties	Total
<b>Revenues</b>							
Sales	996.7	97.7		73.4	59.7	16.3	1,243.8
Credit income			313.9				313.9
Monetary loss of credit operation			(23.8)				(23.8)
<b>Total revenue</b>	<b>996.7</b>	<b>97.7</b>	<b>290.1</b>	<b>73.4</b>	<b>59.7</b>	<b>16.3</b>	<b>1,533.9</b>
<b>Cost</b>							
Cost of goods sold	685.9	66.2		44.0	1.4	4.9	802.4
Interest expense			32.0				32.0
Provision for doubtful accounts			59.8				59.8
Monetary gain of credit operation			(15.5)				(15.5)
<b>Total direct cost</b>	<b>685.9</b>	<b>66.2</b>	<b>76.4</b>	<b>44.0</b>	<b>1.4</b>	<b>4.9</b>	<b>878.8</b>
<b>Gross profit</b>	<b>310.8</b>	<b>31.5</b>	<b>213.7</b>	<b>29.4</b>	<b>58.3</b>	<b>11.4</b>	<b>655.1</b>
<b>Gross margin</b>	<b>31%</b>	<b>32%</b>	<b>74%</b>	<b>40%</b>	<b>98%</b>	<b>70%</b>	<b>43%</b>
Percentage contribution	47%	5%	33%	4%	9%	2%	100%

**Exhibit 10 (continued)****INCOME STATEMENT IN US\$ MILLION**

Elektra Merchandise	996.66
Hecali Merchandise	73.43
S y R Merchandise	97.72
Extended Warranties	16.29
Credit Income	313.90
Monetary (Loss) of Credit Operation	-23.82
Money Transfers Mexico	13.05
Domestic Sales	1487.22
Export Sales	46.67
<b>TOTAL REVENUES</b>	<b>1,533.9</b>
Interest Expense	32.01
Provision for Doubtful Accounts	59.83
Monetary (Gain) of Credit Operation	-15.48
Credit Cost of Goods Sold	76.36
Merchandise Cost of Goods Sold	796.12
Cost of Extended Warranties	4.89
Cost of Inventory (Money Transfer)	1.42
<b>COST OF GOODS SOLD</b>	<b>878.8</b>
<b>GROSS PROFIT</b>	<b>655.1</b>
S. G. & A.	419.43
Depreciation & Amortization	63.03
<b>Operation Expenses</b>	<b>482.5</b>
<b>E. B. I. T.</b>	<b>172.6</b>
<b>E.B.I.T.D.A.</b>	<b>244.0</b>
Interest Expense	68.39
Interest (Income)	-20.43
Foreign Exchange Loss (Gain)	11.38
Net Monetary Loss (Gain)	-29.65
<b>Comprehensive Financing (Income) Expense</b>	<b>29.7</b>
<b>INCOME BEFORE TAXES &amp; PROFIT SHARING</b>	<b>142.9</b>
Taxes and Profit Sharing	21.58
<b>INCOME AFTER TAXES &amp; PROFIT SHARING</b>	<b>121.4</b>
Equity in income (loss) of TVA	-2.32
<b>INCOME BEFORE EXTRAORDINARY ITEMS</b>	<b>119.0</b>
Extraordinary Items	0.00
Minority Stockholders	-2.12
	0.00
<b>NET INCOME</b>	<b>116.9</b>
	0.00
<b>NET INCOME LAST 12 MONTHS</b>	<b>116.9</b>
<b>E.B.I.T.D.A. LAST 12 MONTHS</b>	<b>244.0</b>

Source: Elektra.

**Exhibit 11** Balance Sheet in US\$ Million**ASSETS**

Cash and Cash Equivalents	766.6	79.86
Customers	2,181.0	227.19
Accounts Receivable	586.4	61.08
Inventory	2,861.4	298.06
Other Current Assets	1,548.5	161.30
<b>Total Current Assets</b>	<b>7,943.9</b>	<b>827.49</b>
Investment in TVA	0.0	0.00
Investment in Others Shares	828.5	86.31
Deferred Taxes	45.7	4.76
Property Plant and Equipment (Net)	3,675.5	382.86
Goodwill	1,265.5	131.82
Other Assets	416.3	43.37
<b>TOTAL ASSETS</b>	<b>14,175.5</b>	<b>1476.61</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Bank Loans	1,440.3	150.03
Financial Leasing and Others	102.2	10.65
<b>Current Liabilities with Cost</b>	<b>1,542.5</b>	<b>160.7</b>
Suppliers	2,502.1	260.64
Other Current Liabilities	1,063.5	110.78
<b>Current Liabilities without Cost</b>	<b>3,565.6</b>	<b>371.4</b>
<b>Total Current Liabilities</b>	<b>5,108.1</b>	<b>532.1</b>
Long-Term Liabilities with Cost	2,783.5	289.951354
Long-Term Liabilities without Cost	80.5	8.39
<b>Long-Term Liabilities</b>	<b>2,864.1</b>	<b>298.3</b>
<b>TOTAL LIABILITIES</b>	<b>7,972.1</b>	<b>830.4</b>
Deferred Income	739.3	77.0
Common Stock	2,200.8	229.254063
Retained Earnings	3,263.2	339.912917
<b>Total Stockholders' Equity</b>	<b>5,464.0</b>	<b>569.2</b>
<b>LIABILITIES + EQUITY</b>	<b>14,175.5</b>	<b>1,476.6</b>

**Exhibit 12** Number of Stores in December 2000

	Mexico	El Salvador	Guatemala	Honduras	Dominican Republic	Peru
Elektra	545	14	26	16	23	23
Salinas y Rocha	89	0	0	0	0	0
The One	161	0	0	0	0	0
Bodegas de Remate	53	0	0	0	0	0
Total	852	14	26	16	23	23

Source: Elektra 20-F, SEC filing, 2000, pp. 32, 38, 42 and 44.

**Exhibit 13** Cash and Credit Mixes per Store Format

<u>Percentage in September 2001</u>		
<b>Elektra</b>		
Cash	37%	
Credit	63	
<b>Salinas Y Rocha</b>		
Cash	45	
Credit	55	
<b>The One</b>		
Cash	61	
Credit	39	
<b>Bodegas de Remates</b>		
Cash	46	
Credit	54	

Source: Elektra.

**Exhibit 14** Credit Sales at Elektra's Subsidiaries Abroad, December 2001

	Guatemala	El Salvador	Honduras	Dominican Republic	Peru
Credit sales as a percentage of merchandise revenues	69.4%	71.7%	70.3%	81.3%	78.2%
Total number of accounts	39,574	20,161	25,135	30,388	47,081
Average balance per customer (US\$)	190.66	188.27	259.76	224.41	240.06

Source: Elektra 20-F, SEC filing, 2000, p. 39.

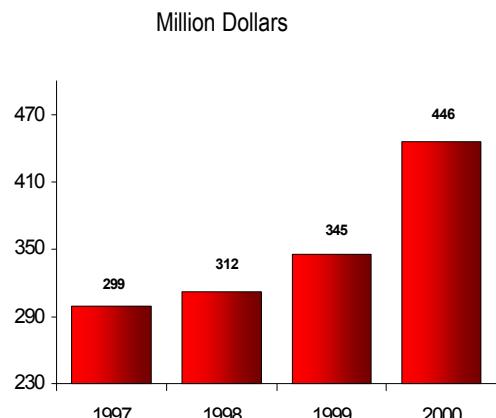
**Exhibit 15** Number of Purchases per Customer, 2000

Number of purchases	Percentage
1	17%
2-3	38
4-5	23
6-7	8
8-9	3
More than 10	3
Do not remember	8

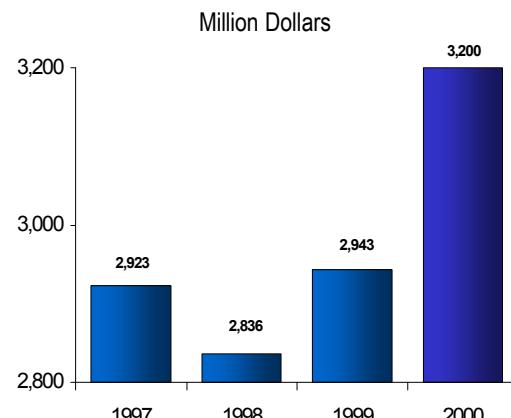
Source: Elektra

**Exhibit 16** Elektra Credit Portfolio

Gross Credit Portfolio, Elektra vs. Mexican Banks

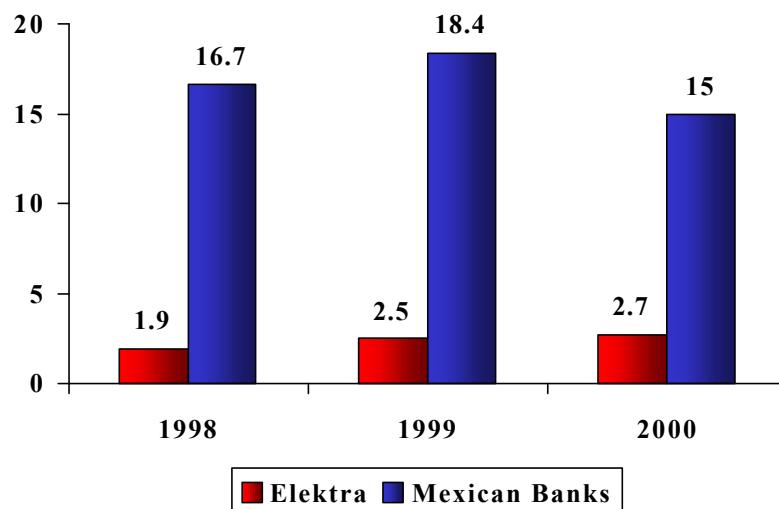


Elektra



Mexican Banks

Delinquency Rates, Elektra vs. Mexican Banks



Source: Elektra.

## Exhibit 17 Sample Printed Advertisements

**Electrónica**

**DAEWOO**

**14"**  
01-0465  
TV DTQ-14V5SS  
• Menú de funciones en 3 idiomas  
• Encendido y apagado programable

**SHARP**

**14"**  
01-0437  
TV 20MN10/20MR10  
• Closed caption  
• Menú trilingüe

**Elektra**

**20"**  
01-0440  
TV EKTD-20VS  
• Encendido y apagado programable  
• Menú en pantalla

**TOSHIBA**

**20"**  
01-0407  
TV 20AR20  
• Programación automática de canales  
• Menú en pantalla

**Panasonic**

**21"**  
01-0332  
TV CF-621R  
• Pantalla Panablock  
• Entradas de audio y video frontales y traseras

**RCA**

**27"**  
01-0484  
TV MRR27325  
• Encendido y apagado programable  
• Salto de comerciales

**Al Chaz Chaz**  
**\$1399**

**Al Chaz Chaz**  
**\$1799**

**De: \$73  
a sólo:  
\$55  
semanales**

**Al Chaz Chaz**  
**\$1995**

**Al Chaz Chaz**  
**\$2395**

**Al Chaz Chaz**  
**\$2999**

**Sonido estéreo**

**4B 2**

**Elektra**

Crédito autorizado en 24 horas

MasterCard

VISA

Electron

## Exhibit 17 (continued)

**17-4946**  
Recámara Ana Mía



- Elegante diseño en color blanco
- Consta de cabecera matrimonial, 2 burós y cómoda con luna

**Al Chaz Chaz**  
**\$1765**  
De \$73 a sólo:  
**\$55**  
semanales

No incluye base ni colchón

**17-5921**  
Recámara New York



- Consta de cabecera King size, 2 burós, cómoda con luna y chifonier
- Terminada en laca al alto brillo

**Al Chaz Chaz**  
**\$2969**  
De \$119 a sólo:  
**\$89**  
semanales

No incluye base ni colchón

**17-2924**  
Recámara Thalia



- Moderno y juvenil diseño King size
- Consta de 6 piezas terminadas en laca al alto brillo color blanco

**Al Chaz Chaz**  
**\$3379**  
De \$132 a sólo:  
**\$99**  
semanales

No incluye base ni colchón

**17-3098**  
Recamara Modular Ely



- Moderno diseño modular
- Terminado en laca al alto brillo e incluye chifonier

**Al Chaz Chaz**  
**\$3579**  
De \$146 a sólo:  
**\$110**  
semanales

No incluye base ni colchón

**17-1434**  
Recamara Olimpia



- Diseño clásico en elegante color negro
- Consta de cabecera King size, cómoda con luna, dos burós y chifonier con aplicaciones en tela

**Al Chaz Chaz**  
**\$3735**  
De \$147 a sólo:  
**\$110**  
semanales

No incluye base ni colchón

**17-0237**  
Recámara Caranday King size



- Elegante diseño color nogal, terminado al alto brillo
- Molduras en poliuretano

**Al Chaz Chaz**  
**\$4399**  
De \$174 a sólo:  
**\$130**  
semanales

No incluye base ni colchón

**4B 14**

**Elektra**

Abonos chiquitos para pagar poquito

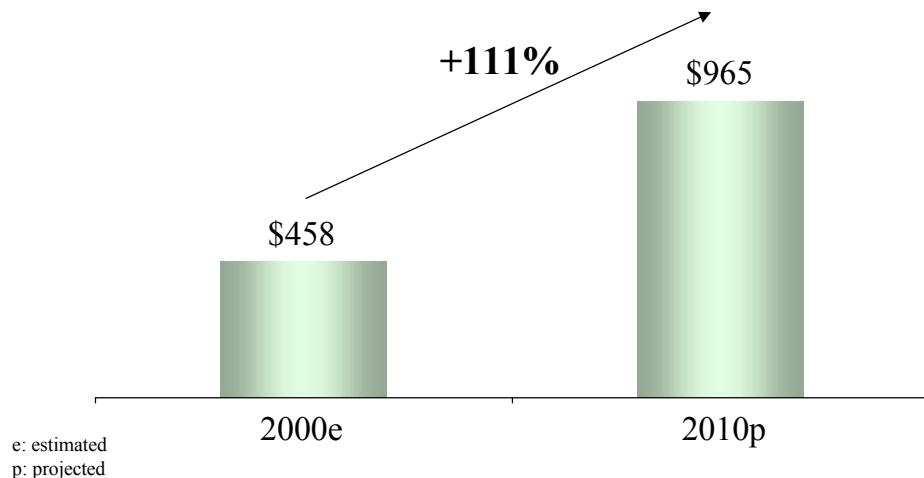
MasterCard
VISA
Electron

**Exhibit 18** Income Statement, Elektra's Subsidiaries in Latin America, December 2000, in US\$ million

	Guatemala	El Salvador	Honduras	Dominican Republic	Peru	Total
Products and services revenues	20,806	5,744	11,492	11,546	20,263	69,851
Products and services cost	14,304	4,075	8,102	8,207	14,407	49,095
<b>Products and services gross profit</b>	<b>6,502</b>	<b>1,669</b>	<b>3,389</b>	<b>3,339</b>	<b>5,856</b>	<b>20,755</b>
Credit revenues	4,772	1,733	3,527	3,415	4,676	18,123
Credit cost	1,835	890	1,642	2,285	2,531	9,184
<b>Credit gross profit</b>	<b>2,937</b>	<b>843</b>	<b>1,885</b>	<b>1,130</b>	<b>2,145</b>	<b>8,939</b>
<b>Total gross profit</b>	<b>9,439</b>	<b>2,512</b>	<b>5,274</b>	<b>4,468</b>	<b>8,001</b>	<b>29,694</b>

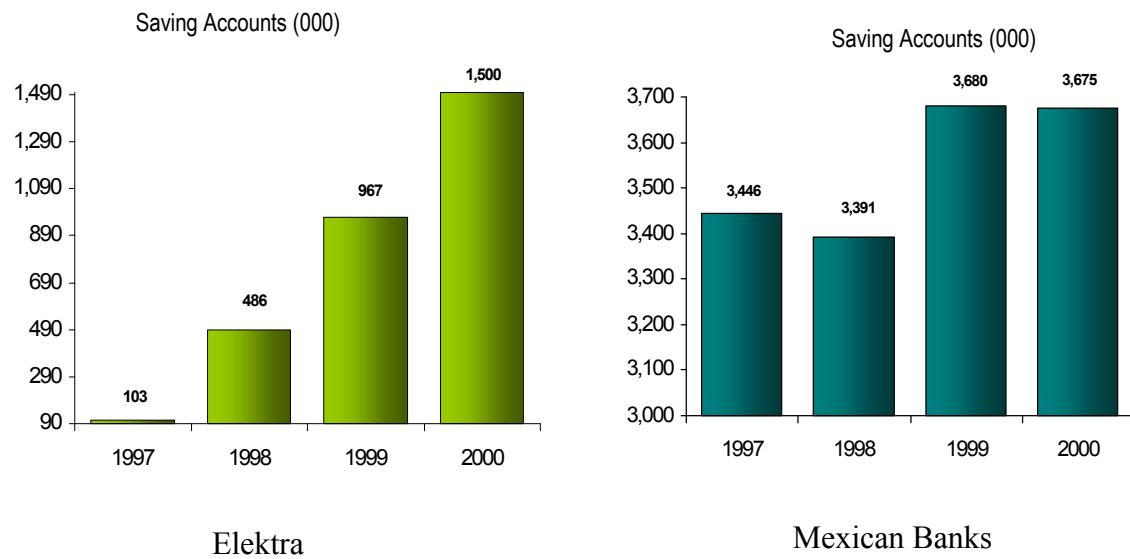
Source: Elektra.

**Exhibit 19** U.S. Hispanic Consumer Spending Growth, in U.S. billion



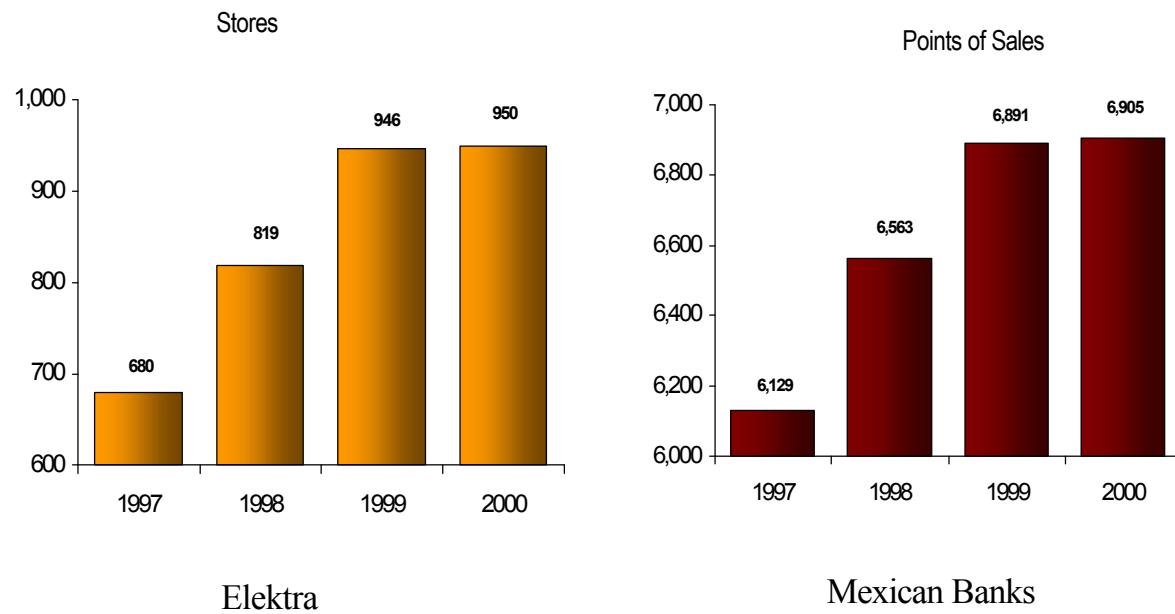
Source: Elektra.

**Exhibit 20** Number of Savings Accounts in Mexico, Elektra vs. Mexican Banks



Source: Elektra.

**Exhibit 21** Distribution Network, Elektra vs. Mexican Banks



Source: Elektra.