

Our market potential

The opportunity to grow our business profitably is very large. We will generate considerable sales growth by realising the full potential of our markets, and increase our profitability by reducing costs through economies of scale. Our goal outside the UK is to grow each operating company to the same relative size and profitability as RS in the UK. Internally, we refer to this goal as “The Prize”. In most of our major markets the customer base and competitive structure makes this goal entirely feasible.

RS South Africa was ranked in the **top ten** out of 1,000 suppliers to De Beers, for high levels of service and customer satisfaction



Expanding within our markets

The “Market penetration” chart illustrates the scale of the opportunity in each of our geographic regions. Our potential market is proportionate to the Gross Domestic Product (GDP) in the countries in which we operate: we use GDP because our offer is taken up and valued, not just by the manufacturing sector, but by all sectors of an economy. This has been demonstrated in the UK, where about 50% of our customers and growing are not in the manufacturing sector. We take RS UK’s current sales compared to UK GDP as our benchmark, though the UK is also expected to grow.

Scale benefits

As our businesses grow in their markets, economies of scale are realised and local costs reduce relative to sales. Marketing costs per customer, such as catalogue costs, decrease as the number of customers and their purchasing frequency grows.

The “Scale curve” chart shows how local business costs as a percentage of sales fall as sales increase. With consistent gross margins across the business, this trend translates into higher contribution margins and hence profit growth ahead of sales over time. The local costs of RS UK are about 20% of sales at the current sales level. All our other businesses have lower sales and so are higher on the curve. They are all managed down the scale curve.

Products and services growth

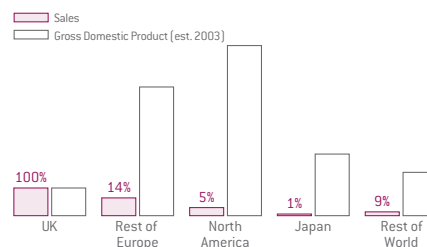
When we enter a new market, our offer is initially based on electronic and electrical products. When we have a deeper understanding of our customers’ requirements we extend this range. In the UK for instance, we offer product areas ranging from health & safety to information technology, hydraulics, tools and technical books, all in response to customer demand.

The loyalty of our customers is built on the quality, breadth and reliability of our services. Loyalty is measured by the frequency with which customers buy from us, and it increases as the business grows and we are able to offer new services. For instance, RS in the UK offers same-day despatch for orders received by 8pm; Allied has extended its cut-off time to 9pm. Internet trading is available in every market, with more advanced features having been rolled out from the UK to Europe and Japan.

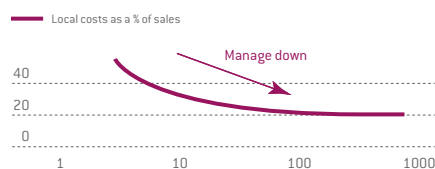
Strategy in action

The chart (right) shows how, over the five years since 1998, our continental European businesses have increased profits ahead of sales: 61% sales growth has given us 116% profit growth. Our annual sales growth, when not affected by weakness in the major economies, has been c.20%.

Market penetration relative to UK



Scale curve



RS Rest of Europe – Six year reported results

