

# Chief Executive's Review

The strategy of the Group is evolving. By focusing on our core strengths in the EEM market we believe we can achieve higher sales growth and maintain high returns.

Ian Mason, Chief Executive



## Overview

During the year, the Group has undertaken a review of its strategy. Over the past five years, while the Group has continued to generate high returns, overall profits have remained essentially flat. This has been caused by a combination of a lack of overall sales growth and higher costs to build our global infrastructure. The continued decline of RSUK and flat sales in our main European markets of France, Germany and Italy have constrained Group sales – other markets have shown good growth. Enterprise Business System (EBS) implementation costs and our investments considerably ahead of growth have significantly increased our infrastructure costs. Comprehensive customer research to understand how to accelerate sales growth and a review of the costs to complete, leverage and reduce our future infrastructure costs was undertaken. The Group Strategy has evolved accordingly.

## Customer research

Customer research in the UK and Europe generated a consistent picture across markets. Customers view the RS brand and service very positively, however, the

competitiveness of our broad offer has declined as local wholesalers, in particular, have improved their service. A better understanding of our market position has led us to focus on areas of competitive strength and develop programmes to improve the competitiveness of our offer in these areas.

## Electronic and Electromechanical (EEM)

The Group is a primary supplier of EEM products to R&D and maintenance engineers around the world. These are the products and customers our businesses were built on. Customers recognise the Group as a leader in this market and the catalogue is the established primary channel to market. However, the competitiveness of our offer has declined as we have focused on developing other technologies and competitors have improved their offers. Improving the competitiveness of our EEM offer will drive faster sales growth through the protection of existing business from competitive threat, and the leveraging of the improved global offer throughout the Group. We have considerable strength to build upon. The EEM market available to catalogue distribution is growing and the Group has a low share.

**OUR REFOCUSED STRATEGY  
WILL ENSURE WE MEET OUR  
CUSTOMER NEEDS:**

- with our Electronic and Electromechanical offer
- in making our offer even more convenient; and
- by meeting their urgent requirements

A 10 point plan is being implemented to improve our EEM offer. Key to this plan are focus, improving the quality of our product range and leveraging e-Commerce to reduce our cost, risk and time to market. Much greater product ranges will be made available from key brands, and Allied products will be made available to RS businesses.

### Convenient and Urgent (C&U)

The Group drives significant revenue from customers who value convenience (one-stop-shop) or have an urgent product need ("can't find it"). The customer research highlighted that local wholesalers are the main competition in providing these needs and that their service has improved.

Our offer will be optimised to more effectively meet the convenience and urgent product needs of customers. Key to this is improving the value of the offer. Specific opportunities to drive faster C&U growth will be exploited, including: large accounts; process control and automation; and local presence strategies. The product range will be optimised and the cost to serve reduced.

### Competitiveness

As well as focusing on the EEM and C&U market segments, actions are being undertaken, in response to the customer research, to improve the general competitiveness of the Group through improving our price perception, increasing our flexibility in meeting customers' needs, greater leverage of e-Commerce and improving our Sales and Marketing effectiveness. These actions will improve competitiveness and help drive faster sales growth.

### Geographic portfolio strategy

Our businesses around the world will be managed differently depending on their stage of development and scale of growth opportunity. Our UK and main European

market businesses need to perform. We will continue to invest to develop the massive market potentials in the US, China and Japan where we have strong established businesses. The smaller markets will be free to develop their potential through the continuation of their existing high growth. The primary focus of the strategy is creating and deploying a world-class EEM offer through all businesses.

### Infrastructure

The business is heavily engaged in implementing EBS as the final piece of our global infrastructure. EBS will provide the future operating platform of the Group and enables future benefits and cost reduction. It is a massive project that is having a significant impact on the business – cost and distraction/disruption – however, our confidence is high for a successful implementation. A fuller report on the EBS project is included in the Operating and Financial Review.

Plans are being developed to create a lower cost business model over time following the successful implementation of EBS in the UK geography. Implementation of the revised strategy will drive higher sales growth and generate scale economies; EBS implementation costs will be removed and benefits generated; and new approaches to our main cost drivers are being planned.

In the two years following the implementation of EBS in the UK, the operating costs of the Group business model will be substantially lower.

### Financial consequences

We believe the actions we are taking will lead to a substantial improvement in the Group's medium term financial performance.

The operating profit impact of the EBS implementation will peak over the next two years and will then reduce significantly due

to reduced costs and to benefits realisation. The cash flow impact peaks next year and then will improve considerably as depreciation replaces capital expenditure and cost. The successful implementation of EBS will also enable the strategy and other cost reduction initiatives.

We estimate that the refocusing of the strategy on EEM and C&U markets should generate £20-25m of additional profits annually within three years. Higher sales growth at reasonable margins and economies of scale from leveraging the infrastructure will all contribute to the improvement in profitability.

Annual cost savings of £10-15m will be sought within the same time period from simplifying the business structure consistent with the strategy and the capabilities provided by EBS. One-off costs will be incurred to make these changes, probably over the next two years, however it is premature to determine the scale of these costs.

Cash flow will benefit from the higher profits and working capital efficiencies.

### Summary

The strategy of the Group is evolving. By focusing on our core strengths in the EEM market we believe we can achieve higher sales growth and maintain high returns. The implementation of EBS will complete our infrastructure build and we are confident of success and of subsequently migrating to a lower cost business model.

**Ian Mason**  
Chief Executive

The redesigned catalogue makes it easier for our customers to quickly find the products they need

