

We're six months into our transformation so we sat down with Scott Newton, our Chief Transformation Officer, to discuss what we've achieved so far and what we're looking forward to.



Scott joined The Warehouse Group in February 2018. He has an extensive track record in driving transformational change across several New Zealand and global businesses.

What's the transformation overview?

Our transformation started in February 2017 when we made the decision to move to a shared services model across the Group and merge the operations of The Warehouse and Warehouse Stationery, and Noel Leeming with Torpedo7. This was quickly followed by our adoption of an Every Day Low Price

(EDLP) pricing strategy in our Red Sheds, a significant change for the business and our customers.

To improve our ability to execute change across the business, and support our multi-year transformation, we engaged external transformation partners in late 2017. Our transformation partners performed an independent assessment of the potential of the Group, and quantified the opportunity for focused performance improvement. Then, we involved more than 200 staff from across the Group in a ten-week ideation process to develop initiatives that would build on the changes which were already in flight. From June 2018, our transformation has focused on implementation. We've started to drive the delivery of the plans that we committed to.

What are we focused on?

Performance wise we are focused on lifting Group EBIT from 3.6% to 7.0%. To achieve this growth in earnings, we have created over 250 detailed initiatives which are being actively worked on across 12 workstreams. We are also focused on incorporating an 'owner's mindset', having a high-performance culture and building capability in our people to ensure that these changes are sustainable.



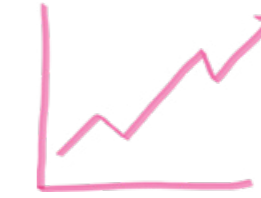
1,000+

ideas generated and distilled



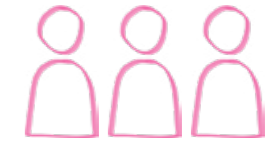
250+

initiatives actively worked



↑ EBIT

Improving Group EBIT



Culture

Building a sustainable and high-performance culture

Our transformation has a good balance between both growth and cost focused initiatives. Growth initiatives typically take longer for the benefits to ramp-up, whereas, cost derived initiatives provide the ability to unlock value much faster.

Collectively, we have committed to a plan for what we can realise in incremental earnings going into FY20. Internally we refer to this as our 'bankable plan'. This plan was unanimously supported and signed off by our Senior Executive Team.

What are the key areas of work and how did they come about?

Our transformation is focused on fixing the retail fundamentals. All areas of the business are in scope for performance improvement. During the independent assessment conducted by our transformation partners, and

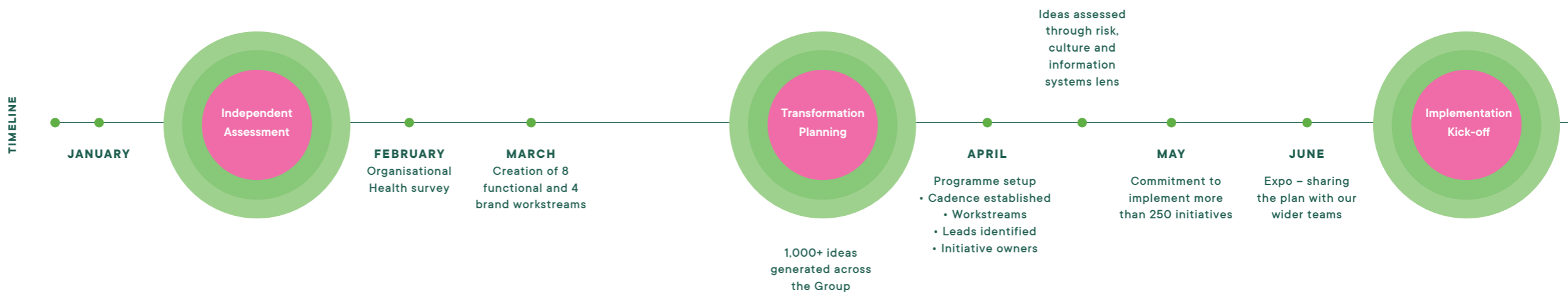
in our planning sessions, we looked at the key value drivers of our business and formed 12 workstreams—eight of these are functional and four are brand orientated.

The eight functional workstreams are grouped into key areas. One key area is 'trade', which includes the customer-facing areas such as store performance, merchandise, and logistics. Another key area is 'non-trade', which focuses on central procurement and capital. Both our trade and non-trade functions are supported by 'central' functions, which incorporates our people-support functional area. The central functions workstream looks to optimise organisational design across The Warehouse Group and assesses whether we have the right people with the right tools, skills and capabilities to support the delivery

of our transformation. Supporting both trade and non-trade areas are our 'enabling' workstreams. These workstreams include information systems and culture. Both the information systems and culture workstreams are embedded within all the areas of our transformation.

What's the most important aspect of the transformation?

The most important aspect of the transformation is the how, or the culture piece. We are focused on embedding a change in mindset and way of working so that we think and act differently. It is also important for us to ensure that the change is sustainable. We recently launched our new group values of being 'on'. We're on for New Zealand, on for our customers, employees, shareholders and our communities. These new group values unify our



Our transformation

individual brand values and allow us to speak the same language.

What are the key challenges?

Speed of decision-making can slow progress and frustrate initiative owners. We have established a weekly cadence around our workstreams and this provides the opportunity for workstream leads and initiative owners to ask for the support needed.

There can be workload tension balancing our 'day job' against our transformation initiatives. This is typical during the beginning of a transformation and can take more than six months before the two come together as one set of priorities.

Capability can be a challenge when embarking on major transformations. Now that we have developed detailed plans with clear milestones, KPIs and benefits for each initiative, we can track progress on a weekly basis. And because of these plans, we have an opportunity to address emerging capability gaps.

We have created a programme for our people to support their 'ability to execute' (A2E). A2E is a two-day programme for our Store Support Office, Regional Managers and Store

Managers. The course focuses on developing skills in areas such as influencing, having courageous conversations and providing feedback.

We are also investing in building capability in specific areas such as contract negotiation, pricing optimisation, and data analytics. Here, we are drawing on the global expertise of our transformation partners.

What are you looking forward to in the next six months?

Ensuring that the initiatives that we have developed start delivering the benefits that they promised; supporting our workstream leads and initiative owners to think bigger, faster; and actively problem solving with the team to drive value creation.

I see my role as the 'agitator', to face into what people don't want to talk about and support delivery but also look to accelerate our plans.

I am also looking forward to seeing the business adopt the 'owner's mindset' and see this come alive across the business. The owner's mindset means being truly accountable, recognising that delivering results to our bottom line is the ultimate measure of success, and that the cost of delay is

real. We teach how to adopt an owner's mindset in our A2E course and to date, we have around 1,500 team members participating in the course.

What is the mood within the Transformation Office?

Cautious, but happy with the progress to date. We have great partners that, like us, truly care about making kiwi's lives better and are helping to ensure the longevity of our core business.

We have all the ingredients that we need to successfully transform and we're starting to see the 'unlock' happening in the business. Typically, it takes about six months into implementation to see the benefits materialise. Once the benefits are visible and celebrated, the progress in and of itself builds momentum and people start to see the transformation as a way of getting things done much faster than they could previously.

Why should I believe in this transformation?

Our transformation isn't about finding a magic 'single fix' solution. It is about lifting our performance around basic retail disciplines, with our customers at

the centre of everything we do.

I can't make you believe in it, but I can tell you why I believe in it. Having seen The Warehouse open in 1982, it's exciting to see what it's become over the last 36 years. The growth has transitioned from explosive to incremental and now we have reached critical mass across our brands. It's

time for us to mature and begin to realise the benefits of scale, efficiency and sustainable growth. That's why I believe in the transformation and see the potential that's in front of us.

There is no more interesting time to be in retail. We have an opportunity where the ground is going to continue to shift significantly over the next

decade in this industry and I want to be part of helping shape the future and ensuring that the Group's legacy continues.

I want to be part of this chapter and the next chapter of what it means to be The Warehouse Group.

Our transformation workstreams



Store performance

Merchandise

Logistics

Non-trade spend

Central functions

Capital

Information system

Culture

Functional Workstreams

Enablers

We're on!

TRANSFORMATION ONGOING (2 YEARS)

