

# Our networks

## Serving our customers

The Warehouse Group is the largest general merchandise retailer in New Zealand and 80% of New Zealanders shop with a Group brand at least once a year. One of our key competitive advantages is our capacity to serve and reach our customers through our store footprint and Distribution Centres, online and via phone support.

Historically, one avenue for growth has been to expand the store network, and open new stores. Aside from some Torpedo7 opportunities as we seek to build scale for that business, with 251 stores across New Zealand we are at 'peak footprint' in terms of retail space per square metre. We will continue to reposition and adapt our stores to match changing population distribution and customer needs, and our focus has shifted to repurposing and improving the utilisation of existing space to provide better customer experiences and profit per square metre.

A key strategic challenge for the Group is to drive growth in ways other than through store expansion, focusing our store thinking around customer experience and channel optimisation.

In future, as we move to full integrated reporting, we will report on our focus areas to demonstrate progress. For example, we will report on productivity of the footprint through Gross Margin Return on Footage (GMROF) and flexibility of portfolio and lease tenure.

In FY19 we expect our distribution costs per unit to reduce slightly through process improvement, with further reductions over the longer term by targeted technology investments.

### Blue into Red: Trialling Warehouse Stationery stores within The Warehouse

In FY18 we expanded our trial of Warehouse Stationery stores within The Warehouse stores to test the concept of combining two brands under one roof, at Glenfield, Fraser Cove in Tauranga and in Rolleston, Canterbury.

This integration could provide greater convenience for customers, reduce costs, and potentially free up sites that could be repurposed for Torpedo7 without adding to the Group's overall occupancy costs. The results are encouraging so far and we intend to further test the concept with more sites in FY19, including specifically testing dedicated business-to-business points of presence.

### Torpedo7 expansion

When we acquired Torpedo7 and the businesses that now make up the Torpedo7 Group in 2013 and 2014, it was solely an online business that we merged with R&R Sport and No. 1 Fitness stores. Our challenge now is to turn Torpedo7 into a true omni channel retailer that helps New Zealanders get the most out of the outdoors, and that means increasing scale.

In August 2018 the Group opened a Torpedo7 store in Palmerston North, and we have confirmed the roll out of a further three new Torpedo7 stores in the next three months. In FY17 we



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opened our Auckland flagship Torpedo7 store in Westgate, and a large-format store in Albany, enhancing our omni channel capability. We know from our online business that there is existing demand in these catchment areas. Opportunities to occupy Warehouse Stationery sites that are planned to be vacated are being assessed as well.

#### Click and Collect

All 251 of the Group's stores offer a Click and Collect service, in addition to delivery to an individual's home or work address. In FY18 we introduced several self-service Click and Collect lockers, where customers can access their goods without requiring assistance. The Warehouse currently has two stores with Click and Collect lockers (Westgate and Albany) and Warehouse Stationery has Click and Collect lockers at Wairau Park. Noel Leeming has a street-facing Click and Collect locker service in Takapuna, accessible out of hours when the store is closed. Feedback from customers has been positive and we will roll out further lockers in FY19.

#### Self-service checkouts

Self-service checkouts give customers the option to do their own quick, convenient transaction, particularly at busy times. In FY18 we introduced self-service checkouts to ten stores in The Warehouse, and in Warehouse Stationery at Wairau Park as a trial. Customers have told us they still

want the option of a regular checkout experience, and we will maintain this option providing that need remains. The self-service checkouts now perform an average of around 50% of transactions in the ten Warehouse stores where they have been deployed.

#### Logistics and fulfilment

Stores and online deliveries are supported by a national distribution network. Our Auckland Distribution Centre is made up of three facilities, and we also have Distribution Centres in Christchurch and Hamilton, and an additional network of seven smaller hubs supporting Noel Leeming Stores throughout New Zealand.

The Group is in the process of rectifying historical under-investment in logistics and fulfilment, and we are executing a plan to turn what is currently a weakness into a strategic advantage.

We are consolidating and integrating our distribution assets across the brands, and engaging strategic partners to transport our goods more efficiently and cost-effectively. This is supported by investment in technology, to improve processes, customer experience, efficiency and accuracy, and to increase capacity.

Technology investments will change how we manage and flow our products and increase our throughput capacity as well. This will also allow us to achieve a more efficient balance

between centralised and localised fulfilment, providing enhanced visibility, accuracy and productivity. In addition, new systems provide the foundation to deploy software that will provide greater efficiencies in the future. This is a key project in competing online against global competition.

Internationally, we selected a new freight-forwarding partner in Mondiale in FY18. The global consolidation of shipping lines has resulted in reduced capacity and increased competition and we continue to monitor shipping costs and fuel prices closely.

We have also realised some operational cost efficiencies by appointing Toll New Zealand as our domestic transport partner throughout the Group. Toll will provide all store delivery services across all brands from FY19.

#### Modernising our technology infrastructure

In FY18 we did a considerable amount of work to bring our core IT infrastructure up to standard, enhancing security and interoperability, and improving the resilience of our networks. We have strengthened our core systems and invested in digital capability to increase our responsiveness to customer needs, and improved risk management, disaster recovery and real-time reporting.

However, we still have work to do, particularly in the Noel Leeming

and Torpedo7 businesses, where merchandise and planning systems require investment. Our IT service delivery capability also needs further work, as we move more fully into an agile-based plan-build-operate model.

One of the first steps in consolidating our technology infrastructure has been to move our core mission-critical IT systems off premises, and onto IBM Cloud in New Zealand. These systems include customer-facing apps, e-commerce sites, point-of-sale systems, inventory and financial systems. We have consolidated around Salesforce as our key customer relationship management tool, and started migrating our call centres to PureCloud, which has helped us to amalgamate customer service across brands and provided a single view of customer contact.

The Group has introduced technology initiatives to improve productivity too. In the Finance area, we have deployed Robotic Process Automation to automate many manual tasks. We have used tools that utilise machine learning to clean our customer data, removing duplications and errors to create a master customer database. Accurate and reliable customer data enables us to deliver greater personalisation to our customers and improves measurement on the effectiveness of our customer engagement and marketing.

#### KEY HIGHLIGHTS

# 2m

Customers visit our stores every week

# 80%

of New Zealanders shop with a Group brand at least once a year

Four new Torpedo7 stores confirmed to open in the next three months

# 90%

of New Zealanders live within 30 minutes of one of our stores

Ten of The Warehouse stores offer self-service checkouts for quick, easy transactions

All 251 Group stores offer Click and Collect





Far left:  
The Warehouse  
Group Distribution  
Centre team members  
Solomona Kapeteni  
and Siasoi Lui.

Left: Distribution  
Centre team member  
Semi Tofilau.

Case Study

## Investing in a world-class Warehouse Management System

We're changing the game



With 251 physical stores, five online stores, an app for The Warehouse and millions of customers across New Zealand, The Warehouse Group's capacity to serve customers through our distribution and logistics systems and networks is a critical part of our operations.

During FY18 and FY19 the Group is investing in a new best-in-class Warehouse Management System (WMS) provided by Manhattan Associates, which will significantly improve processes in our Distribution and Fulfilment Centres and transport

operations, and enable efficiencies that will save around \$5.4m (EBITDA) from FY20.

The new Manhattan Associates' WMS has been ranked as the leading Warehouse Management System for the past ten years by Gartner in their annual *Magic Quadrant for Warehouse Management Systems*, and will replace the existing system, which is over 30 years old.

The new WMS has three main benefits for our Distribution Centres (DCs). Firstly, it allows greater visibility of all the different departments and tasks in the DCs. Secondly, the new WMS allows dynamic allocation of orders. The third benefit is that the WMS makes the decisions based on real-time information and data, using interleaving to assign tasks to the closest individual, therefore improving productivity and efficiency.

The Fulfilment Centre (FC) is located within our Distribution Centre complex and is dedicated to fulfilling online customer orders. We are now able to introduce a WMS into the FC, replacing the existing manual-based system and dramatically improving efficiency and customer experience.