OUR NETWORKS

OUR GOAL: Create a world-class omni-channel retail network that leverages physical, digital and infrastructure assets to deliver customer needs and wants in an efficient and innovative way

FOCUS AREA	PRIORITIES	ACTUAL PROGRESS		FY19 Progress
		FY18 (last year)	FY19 (this year)	
Customer facing channel optimisation	Improve our store experience and productivity	◯	◖	• Co-located 6 Warehouse Stationery and The Warehouse stores, continuing to test the ranging, customer experience and profitability changes • 24% of capital expenditure allocated to asset maintenance • Online traffic for the Group increased 5.5% year on year while store foot traffic reduced 1.1%, however overall gross profit increased 3.8% • Click&Collect sales grew 57% across our omni-channel brands to now represent an average of 36% of online sales
	Increase our digital footprint and productivity	◯	◖	• Online conversion reduced by 3 basis points driven by a reduction of 30 basis points in Torpedo7, partially offset by The Warehouse app, which increased by 64 basis points • The Warehouse app, which has the most 5-Star reviews of any NZ shopping app[1], grew sales by 244% and now represents 19% of total online sales for The Warehouse.
Optimise supply chain network	Increase our level of direct sourcing	●	●	• Moved a further $62m (FY18: $119m) of product purchases to our direct sourcing offices in China, India and Bangladesh.
	Reduce our cost to serve and enhance store deliveries	◯	◖ (amber)	• Achieved a store DIFOT (Delivered In Full On Time) of 97% vs our target of 98% • Cost to serve increased by 11% • Centralised online fulfilment into our North Island Fulfilment Centre for The Warehouse (and Warehouse Stationery post balance date) • Deployed a new warehouse management system to improve online fulfilment performance.
	Grow our fulfilment capability to support customer choice	◯	◖ (red)	• Achieved a Perfect Order of 88% vs our target of 95% for online customers.
Data optimisation	Increase our pool of quality data	◯	◖ (amber)	• Net Promoter Score across all brands either improved or remained consistent[2] • Our Master Data Management practices will be the subject of a major overhaul in FY20.

Key initiatives

We have made some significant changes within our property portfolio this year, rolling out six SWAS stores (store within a store: Warehouse Stationery and The Warehouse stores co-located), three new Noel Leeming clearance stores (following the acquisition of Appliance Shed) and four new Torpedo7 stores.

We analyse store catchment, identifying four critical areas to resolve to achieve best future use of our properties: small (urban) formats; future (flexible) formats; our physical presence across New Zealand; and tenancy/third party services.

We added new interactive capabilities to enhance customer support via chat bots and live chats. Our other eCommerce venture, TheMarket, successfully launched shortly after balance date.

We developed a Group integrated sourcing model by consolidating our wholesale and Torpedo7 sourcing functions into our sourcing and merchandise structure. We completed our cross-functional, product critical path for every category, to help give us greater alignment and visibility of tasks for sourcing and merchandise.

We enhanced our fulfilment and delivery capabilities, centralising our online fulfilment for The Warehouse and Warehouse Stationery, introducing Click&Collect lockers into some stores, trialling an automated distribution tower at Sylvia Park and commenced implementing our new warehouse management system. Our Information Systems strategy has been refreshed and we are planning a major ($100m) systems modernisation programme across the Group's core systems of record.

Materiality

Online commerce has changed consumer expectations in regard to their shopping experiences. While physical store shopping is still a significant consumer activity, online shopping continues to grow. That means we face greater competition from a broader range of general and specialist retailers both here and overseas. This represents a considerable and ongoing material risk to our business and one we intend to combat by investing actively in our supply chain co-ordination, data optimisation around each customer, improved digital capabilities and attractive stores that our customers enjoy shopping in. In acknowledgement of the future need to re-purpose or reformat our physical store network, the Group has prioritised flexibility in our store lease profile over tenure. Transport is outsourced to partners except for in-home delivery and installation teams.

[1] Apple iOS App Store and Google Play Store   [2] Customer voice

ROADMAP TO OUR GOAL			KEY RISKS	MITIGATIONS
FY20 (next year)	FY21	FY22+		
◖	●	●	• Lack of well-positioned affordable retail space • Some landlords not responding to seismic upgrades proactively	• Re-purpose and re-utilise excess space within our large format stores. • As more The Warehouse and Warehouse Stationery stores are co-located, re-purpose vacated Warehouse Stationery stores with other Group brands. • Work with our landlords to ensure stores meet seismic risk requirements.
● ● ● Year on year incremental growth			• Increasing customer demands driven by continued growth in online shopping • Local and international online retailers taking market share across digital channels.	Improve the omni-channel experience by: • Linking physical and digital and scaling personalisation across channels. • Reinventing our Click&Collect experiences and launching TheMarket.
● ● ● Ongoing improvement			• Challenge of investing in new, stronger suppliers inside and outside of existing sourcing markets • We are aware of the risks of corruption, particularly in the quality and merchandise teams.	• Consolidate our investment into Asia by creating a direct entity in Bangladesh, supporting the existing team with senior leadership at source and regularly rotating team members through different merchandise categories.
◖	●	●	• Significant increase in retail spend, including online shopping growth, will challenge costs, resources and distribution capabilities • Peak period stress on underlying systems and processes causes unscheduled outages.	• Collaborate across the supply chain to collectively reduce costs, improve forecast accuracy, and reduce inventories. • Develop robust contingency, preparation and continuity plans for peak trading volumes and issue/incident management. • Unify commerce strategies to tailor shopping experiences around individual preferences.
◗	●	●		
◗	◖	● Development and implementation of a quality data programme		• Data quality issues slow down the speed of effective change and decision making • Data security and privacy is becoming an increasingly important issue.	• Develop a structured programme to improve data quality and practices utilising external advisors. • Continue to strengthen data protection and minimise the amount of third-party information we hold.

Significance

Retail is an unforgiving sector. If customers cannot buy what they are looking for, they have a number of other places they can turn to. Our network is the critical link between what we offer and what our customers choose to spend their money on. If we fail to understand what our customers want and how they most want to buy and receive it, we are compromising their willingness to come back to us. Our network enables us to bring the right product to the right place at the right time, at a cost that makes economic sense, and in a way that serves our customers' needs best.

Better experiences across channels
Physical property and online environments are core elements in customers' experiences. Our understanding of what constitutes a 'store' has broadened as a result. Our focus now is to increase our foot traffic and per-visit purchase by introducing smaller formats and new concepts that put our customers' needs first. At the same time, we will continue to build our eCommerce capabilities, improving our omni-channel experiences to enable them to shop however, whenever and wherever they want.

Better integration from source to sale
An integrated view of inventory and order management is key to unlocking efficiencies and delivering improved quality, on trend products and product information from the best suppliers. Those products will need to arrive on time through complete alignment between our sourcing teams, merchandise teams, shipping teams and overseas factories.

Network optimisation is a key focus for us, as we drive efficiency and look to utilise our core assets and capabilities in new ways to drive value.

Future focus areas
These are the areas where we know we can make important gains:
• Improving property footprint productivity – working with insights and data to complete a robust catchment analysis for all our brands, supporting the SWAS programme and objectively evaluating new format initiatives
• Improving our omni-channel experiences to better link physical and digital
• Achieving an integrated view of our inventory and order management to unlock efficiencies and improve our customer service.