

We don't sit still.

Technology is not only important as a key enabler of our retail business, it is also critical as a channel to market.

We've been operating in New Zealand for 36 years, and we have deep specialist knowledge and expertise in the retail sector. However, there is variability across the Group in how we do things, ranging from world-class services in our Noel Leeming Tech Solutions offering, to areas that need significant process improvement, such as our merchandise planning systems in Torpedo7.

One of our core strategic plans is to fix the retail fundamentals, taking best practice and making it consistent across the organisation.

The Centre of Excellence model allows us to share expertise across the Group, leveraging knowledge through process improvement. The benefits of this approach include being able to simplify and standardise our business processes, reduce the variability of performance throughout the Group, and leverage the Group's scale in investments and cost management. There are clear benefits to our people, including career development opportunities and improved learning and development investment.

This new way of working does have some complexities, and we continue to manage teething issues as we adjust to our new operating rhythm.

Improving our digital offering

We have invested significantly in product management, user experience and development in FY18 to deliver a world-class e-commerce experience.

We've built a team who have a common goal: to delight customers with the beauty of technology, serving customers anywhere, anytime and through any device. We're continually introducing and testing new digital innovations to make shopping with us as convenient as possible.

The Warehouse app, originally introduced in 2014, is one of the top-rated shopping apps in New Zealand with a 4.7-star rating on iTunes (at time of publication), and revenue is up 275% on FY17. The app offers voice technology, product scanning capability, and we have recently introduced 'Snap and Shop', in partnership with Google, which allows customers to take photos on their smartphone of any item they like and instantly match them with thousands of products in our catalogue. Similarly, we were one of two retailers in New Zealand to partner with Instagram on launching Instagram Shopping, giving our social-media audience the option to 'see it, get it' directly from our posts.

In FY18 we entered into a trial with PartPay on The Warehouse, Warehouse Stationery and Torpedo7 websites,



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which allows customers to spread out the cost of goods purchased online over six weeks. PartPay has been popular and now makes up 16% of all online transactions.

Other innovations have included introducing 'chat bots' to improve customer service experiences and outcomes. We still have a long way to go, and the purchasing and fulfilment parts of the online customer experience are not yet up to standard.

This is an area where the variability of performance across the Group is evident. In some parts of the business such as 1-day we've got it right, but in others such as the Red Sheds, we currently operate a distributed fulfilment model from some stores, which is difficult to

manage with our current inventory management practices in store. As a result, customers can often receive multiple parcels in the fulfilment of their orders. This is inefficient, costs us money and frustrates our customers. Improving online fulfilment is a key focus area for the business in the coming 12 months.

We're doing marketing differently

FY18 saw some strategic changes to our marketing structure and approach. While we continue to focus on growing our independent brands, we consolidated all our marketing, e-commerce, customer experience and customer engagement functions into a centralised Centre of Excellence,

‘Our new marketing structure is working and customers are responding well to our new campaigns under EDLP.’

NICK GRAYSTON
CEO, The Warehouse Group

creating a fully-scaled and integrated marketing capability.

We moved from seven separate media planning and buying agency relationships to a single media agency of record. Following a robust selection process, we appointed OmnicomMediaGroup as our partner with a focus on innovation, customer engagement, and best-in-class measurement and attribution.

In this new configuration, we are better able to measure the results of our marketing. For example, our customers responded well to this winter’s Big Toy Month, our first major toy campaign post-Christmas under EDLP. The campaign applied our new marketing capability across in-store and online channels. Sales in the toy category increased 3.0% and the average basket increased 6.0% during the campaign. We ran a fully-integrated marketing process from creative, media through to insights and produced targeted vertical video content for mobile.

Other highlights included introducing first-in-New Zealand digital marketing initiatives, including launching personalised product catalogues on Facebook, in-store visit conversion campaigns with Google AdWords, and single customer view models for predictive email campaigns.

We have also invested in world-class marketing talent. The Group has appointed Jonathan Waecker as Chief Marketing Officer and Michelle Anderson as Chief Digital Officer,

and brought two high-profile New Zealanders home to lead in Executive Creative Director and Head of Group Insights and Data roles.

Loyalty programmes

The Warehouse Group has a number of loyalty programmes, products and redemption partnerships across our network, including MyNoelLeeming, BizRewards, the Torpedo7 Over and Above Club, and The Warehouse Christmas and Jewellery Clubs. Noel Leeming and Torpedo7 are also members of the Fly Buys scheme, with Noel Leeming one of the largest redeemers of Fly Buys points in New Zealand.

Around 50.0% of customers shopped at two or more Group brands in the last year, and we are exploring options for how we can promote and improve the cross-brand purchasing ratio.

Transformation

Fixing our retail fundamentals is all about improving how we do things, getting better at managing our core business processes, and reducing or eliminating processes that don’t add value for our customers. One of the key benefits of the transformation programme is the involvement and engagement of hundreds of people across the organisation, all with a continuous improvement mindset, a shared understanding of what our goals are, and the permission to effect change throughout the business to improve profitability and better meet our customers’ needs.



Passionate experts unlock New Zealanders’ tech potential

The Noel Leeming Tech Solutions business continues to go from strength to strength under the leadership of Sean Stephens, GM Retail Services.

“Customers have told us they want the latest products but they don’t always have the time or knowledge to get things up and running as efficiently as they would like – so that’s where we come in,” says Sean. “We can help with anything from wall-mounting a TV to maximising a customer’s Wifi so they can stream their favourite shows.”

“Our aim is to relieve any technology pain points – whether that’s getting something delivered, installed and set up, or providing support further down the track.”

Tech Solutions services can be purchased à la carte or as part of a package when buying a new product (MyTechSolution). Our Tech Solutions brand has service spaces in every store throughout New Zealand from Kaitaia to Invercargill, and strong brand presence in our online channels.

MyTechSolution is an end-to-end service proposition where customers have the total support of

Tech Solutions staff for any of their technology and appliance service needs including delivery, setup and installation, learning and product education, remote technical support, cover for getting products repaired at no extra charge and an annual bonus \$20 gift card.

We have 77 dedicated Tech Solutions specialists nationwide fulfilling customer needs both in-home and in-store. Stores without dedicated Tech Solutions specialists have cross-functional Tech Solutions staff in order to support Kiwi customers wanting Tech Solutions services. At any time, we have upwards of 150 team members capable of delivering Tech Solutions Services throughout the country.

Noel Leeming Tech Solutions services over 40,000 kiwi homes per year and this is set to double in FY19.

The overall Services business has had strong year-on-year growth during FY18, up 17.0%, with growth coming from all service lines of business. This growth was a result of several initiatives executed during FY18. One was the nationwide roll-out of Tech Solutions spaces into all Noel Leeming stores, improving coverage and delivering growth of 21.0% in the in-store portfolio.

We are particularly pleased with the service plan revenue growth, which is up 21.0% year-on-year. Around 24.0% of all service plans were the new MyTechSolution package, and over 50.0% of customers purchasing the new MyTechSolution product have used some feature of the service plan within the first year.

All of this has been achieved with a Net Promoter score for Tech Solutions of 86.0%. This demonstrates that the high levels of growth have enhanced customer experience and not detracted from it.

NOEL LEEMING TECH SOLUTIONS SERVICES AT A GLANCE

Relieving New Zealanders’ technology pain points

17%

growth YOY across Services business in FY18

21%

service plan growth increase

55,000

paid customer interactions

77

dedicated Tech Solutions specialists nationwide

86%

the Net Promoter Score for Tech Solutions in FY18



Designed by New Zealanders, for New Zealanders: The Warehouse Group has invested in design capability over the past 18 months as part of our move to a direct sourcing model. The majority of our private-label products are designed by New Zealand designers at our office in Northcote, Auckland.

ensuring our ethical sourcing practices are met and our products exactly match our quality and design specifications.

Complemented by improvements in the reporting and analysis of data, direct sourcing also means that we can meet customer demand faster. We have built the capacity to respond more quickly to micro or geographical trends and replenish popular goods.

In FY18 we significantly increased the number of products sourced directly and we will continue to increase this during FY19. The move to direct sourcing has been remarkably quick and smooth, and as a result we have become more efficient and productive, reducing our expenses as a percentage of orders by 0.9% year-on-year.

We achieved this change through increasing our own sourcing capability, integrating our buying and sourcing teams, and working cross-functionally across planning, buying, design and sourcing, and quality. Almost 100% of our apparel range is now directly sourced, and we are currently replicating the process across our Home and General Merchandise categories.

We are also moving more of our private-label brands in Warehouse Stationery to direct sourcing in FY19.

While we continue to operate in China, particularly for General Merchandise production, India and

The Warehouse aims to make the desirable affordable by providing stylish and functional products to New Zealanders, and most of our product range in The Warehouse Stores are from our own private label.

We made the decision to increase our direct sourcing capability in FY17, improving the cost, quality and speed to market of our goods. In FY18 we have accelerated the transition to a direct sourcing model through our transformation programme, in line with our strategy of fixing the retail fundamentals.

Direct sourcing involves managing and controlling the design and production of goods in-house, rather than relying on agents to facilitate the process. It allows us to have much closer relationships with our factory suppliers,



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Bangladesh are emerging as global powerhouses in producing apparel and soft home goods, establishing 'factories of the future'. In February 2018 we opened a Sourcing Office in New Delhi, India, employing a team of 20 who work closely with our accredited factories in India and Bangladesh. To date, the India Sourcing Office continues to exceed expectations and we are forecasting accelerated growth again in FY19.

We remain focused on developing best-practice sourcing processes, systems and competencies. Our Computerised Business Exchange (CBX) implementation is on track and all orders are now raised using this tool.

To unlock the next level of value in direct sourcing, in FY19 we will seek to transition to Wholly Foreign Owned Enterprise (WFOE) status in China, so that we can locate related services such as quality control, production management, and pick and pack closer to source.