

Actual Progress				
Focus Area	Priorities	FY19 (last year)	FY20 (this year)	FY20 Progress
Customer facing channel optimisation	Improve our store experience and productivity			<ul style="list-style-type: none"> Co-located seven more Warehouse Stationery and The Warehouse stores, bringing our total stores-within-a-store (SWAS) to 17 at the end of FY20 23% of capital expenditure allocated to asset maintenance (FY19: 24%) Store foot traffic for the Group increased 1.5% (excl. COVID-19 lockdown period and vs the same period last year).
	Increase our digital footprint and productivity			<ul style="list-style-type: none"> Online traffic for the Group increased 30.1%¹ Click & Collect sales grew 103.2% across omni-channel brands, representing an average of 39.4% of online sales Online conversion for the Group (excluding TheMarket.com) increased 1.8%², driven by 83.8% increase in Noel Leeming and 17.4% increase in Warehouse Stationery Launch of TheMarket.com with now over 2 million products from 3500 local and international brands through over 650 merchants The Warehouse App sales grew 96%, accounting for 38% of The Warehouse online sales Expanded the Group's app footprint with launch of Noel Leeming and TheMarket.com apps.
Optimise supply chain network	Increase our level of direct sourcing			<ul style="list-style-type: none"> 72% of all overseas purchases are transacted directly with exporters through one of our three offshore offices.
	Reduce our cost to serve and enhance store deliveries			<ul style="list-style-type: none"> Improved delivery to store Delivered In Full On Time (DIFOT) to 97.5% (FY19: 97.0%) vs our target of 98% Store distribution cost to serve (from port to delivery to store) increased by 8.9% (FY19: 11%), while customer fulfilment cost to serve (from fulfilment centre to customer delivery) reduced by 8.7%.
	Grow our fulfilment capability to support customer choice			<ul style="list-style-type: none"> After recovering from peak fulfilment challenges and COVID-19 lockdown demand, we are now achieving an average online home delivery DIFOT of over 95% (FY19: 88%) for our online customers vs our target of 95% Responded to increased online demand by activating additional network capacity to fulfil orders; leveraging numerous 'dark store' fulfilment centres, and enabling contactless Click & Collect including piloting four drive through locations.
Data optimisation	Establish single/common instance of master data across all operational systems			<ul style="list-style-type: none"> Installed cloud-based Master Data Management (MDM) suite to deliver accurate operational data across the Group.
	Integrate Master Data Management into all legacy systems and enable effective change management and control			<ul style="list-style-type: none"> Established a Data Governance Board to ensure data standards are maintained and exceptions are resolved.

OUR NETWORKS

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

Key Initiatives

We further consolidated improvements in our retail property portfolio this year by increasing our stores-within-a-store, but store consolidations did result in the closure of one The Warehouse store and three Noel Leeming stores. However, we increased our retail reach with one new Warehouse Stationery store and two new Torpedo7 stores.

We continue to drive interactive capabilities which enhance customer support and invest in mobile-first commerce to improve the mobile app experiences. We began the process of upgrading our websites for The Warehouse, Warehouse Stationery and Noel Leeming with

a best of breed eCommerce platform with tight interaction to our customer ecosystem across marketing and customer service.

Our information system strategy continues to focus on a systems modernisation programme across the Group. Our Provisional Enterprise Systems migration roadmap has been agreed and modernisation of systems of record, automation and customer engagement are well underway.

Our stores and our online environments are core elements in our customers' shopping experiences. By leveraging our physical and digital assets together, we can better serve our customers and build stronger relationships

with them. Our focus is on enhancing customer acquisition and conversion, both in store and online, while refining our shopping concepts and brands to put our customers' needs first. Continuing to improve our omni-channel experiences for our customers will make their shopping journeys faster, easier and more personalised to their specific needs.

From the product side, we have made good progress embedding our integrated critical path across the functional areas of sourcing, quality, buying and planning. A better integrated view from source to sale of inventory and order management is key to unlocking efficiencies and delivering improved

Roadmap to our goal		Key Risks	Mitigations
FY21	FY22+		
		<ul style="list-style-type: none"> Lack of well-positioned affordable retail space Accelerated customer migration to eCommerce puts pressure on store footprint productivity Some landlords not responding to seismic upgrades proactively. 	<ul style="list-style-type: none"> Re-purpose and re-utilise excess space within our large format stores, e.g. converting Dunedin to a 'dark store' Expand and enhance Click & Collect experience Work with our landlords to ensure stores meet seismic and lockdown risk requirements Maintain our store fitout.
 Year-on-year incremental growth		<ul style="list-style-type: none"> Increasing customer demands driven by continued growth in online shopping Local and international online retailers taking market share across digital channels Disruption to business operations due to cyber or Distributed Denial of Service (DDoS) attack. 	<ul style="list-style-type: none"> Improve the omni-channel experience by linking physical and digital and scaling personalisation across channels Reinvent our Click & Collect experiences and scale TheMarket.com. Continue to enhance security controls designed to prevent, detect or respond to an attack.
 Ongoing improvement		<ul style="list-style-type: none"> Challenge of investing in suppliers inside and outside existing sourcing markets Risks of corruption, particularly in the quality and merchandise teams. 	<ul style="list-style-type: none"> Established direct sourcing offices in China, India and Bangladesh to enable senior leadership at source Regularly rotating team members through different merchandise categories.
		<ul style="list-style-type: none"> Significant increase in retail spend will challenge costs, resources and distribution capabilities Peak period stress on underlying systems and processes causes unscheduled outage COVID-19 community transmission leads to renewed lockdown, operational constraints and trading reverts to online only NZ Post's ability to meet delivery expectations. 	<ul style="list-style-type: none"> 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 Unify commerce strategies to tailor shopping experiences around individual preferences Build learnings from COVID-19 lockdown into Business Continuity & Crisis Management plans, including flexibility of trading between stores and online, and managing in store footprint Exploring alternative customer last-mile deliveries.
		<ul style="list-style-type: none"> Integration to legacy systems is more extensive than envisaged and requires more resources than anticipated. 	<ul style="list-style-type: none"> Adopt standard middleware integration architectures and tools to ensure standardisation and reusability of middleware channels.
		<ul style="list-style-type: none"> Integration costs to enable hybrid cloud-based environments with cloud providers continues to escalate (egress charges). 	<ul style="list-style-type: none"> Select a preferred cloud partner to minimise integration (egress) charges.



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, as we drive efficiency and use our core assets and capabilities in new ways to drive value.

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 prefer to buy and receive purchases, 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.

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.

Future focus areas

- Improve property footprint productivity by 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
- Improve our omni-channel experiences, including our mobile apps, to better link physical and digital channels powered by the delivery of a Single Customer View (SCV) enabling deeper customer understanding
- Achieve real-time inventory accuracy and online 'Available to Sell', positively impacting online performance, trade and customer satisfaction.

- Traffic session growth includes TheMarket.com online traffic in FY20 which was not in operation in FY19.
- Online conversion growth excludes TheMarket.com due to not being in operation in FY19.