

OUR NETWORKS

Our aim is to build a world-class customer ecosystem, powered by first-party customer data, a loyalty platform that rewards and engages customers in the ways most important to them, and a network with convenient locations throughout New Zealand that makes it easy for customers to shop whenever and however they choose.

To deliver on this, we have three key areas of focus:

- Build a world-class customer ecosystem and retail network
- Our supply chain network
- Our enterprise systems, processes, and data.

Building a world-class customer ecosystem and retail network

Going forward, modern retail is all about customer ecosystems. They better leverage assets and investments, they create stronger customer relationships, and they create new platforms for business growth. With stores that are conveniently located throughout New Zealand, improving our store experiences while increasing our digital footprint has been a key focus. We have made significant improvements in our retail property portfolio including increasing The Warehouse and Warehouse Stationery store-within-a-store (SWAS) format. In FY21 we integrated eight additional Warehouse Stationery within The Warehouse stores, bringing our total SWAS to 25 at the end of FY21 (FY20: 17).

This year saw a considerable focus on store improvements – in FY21, 32.6% (FY20: 22.9%) of capital expenditure was allocated to asset development of our stores, including new stores and upgrading existing stores. We strive to ensure our stores offer excellent customer experience with layouts which are best suited to customer shopping habits.

Total Group store foot traffic increased 0.4% in FY21 compared to the same 52 weeks in FY20, excluding any lockdown periods and comparing the same weeks year-on-year. Foot traffic does not include separate foot traffic into Warehouse Stationery SWAS stores, this is included in The Warehouse figure. This is a pleasing result considering our total stores (excluding SWAS stores) decreased from 240 stores in FY20 to 227 stores in FY21.

TheMarket.com – the Group's online marketplace – further expanded its offerings with over 2.5 million available products from more than 5,300 of the world's most desirable local and international brands.

Supply chain network

It has been a challenging year as the COVID-19 pandemic changed demand patterns and created new pressures that tested global supply chains to the limit. The pandemic's impact was further exacerbated by port and local transport challenges in New Zealand. Despite these disruptions, the Group's brands have performed well keeping average store availability over 90.0% with store delivery in full on time (DIFOT) of 98.0%. Having teams located at source, strong supplier relationships and our agile way of working were key factors in allowing us to respond quickly as circumstances changed.

In FY21 we extended our customer DIFOT measurement to include the receipt of orders by customers, recognising the importance of last mile delivery in overall customer experience. We achieved a DIFOT (delivery and Click & Collect) of 91.7% for The Warehouse and 93.4% for Warehouse Stationery against our target of 95.0% – up significantly on FY20 which was greatly impacted by COVID-19 lockdowns across the country.

We have worked hard to improve the Click & Collect and delivery experience. We launched same-day Click & Collect for The Warehouse, made instore availability viewable on the website and mobile app, launched new customer QR code functionality to speed up collections, and built a picking and location management app for the Fulfilment Centre teams.

From an integrated supply chain perspective, we made substantial progress scoping our end-to-end transformation programme, standing up a dedicated customer demand and fulfilment agile tribe to support the work, and delivering some quick wins. These included capacity and peak trade planning and stock keeping unit (SKU) segmentation to enable better stock flow. Work has also begun on long-term strategic enablers such as network optimisation, unified central planning, and transport optimisation with our supplier partners.

Build a world-class omni-channel store and online network



Of capital expenditure on asset maintenance (FY20: 22.9%)



252 Stores

Including 227 standalone and 25 SWAS, LY 257 stores – 240 standalone and 17 SWAS



Based on stores (excluding SWAS stores) which decreased from 240 stores in FY20 to 227 stores in FY21, and excl. COVID-19 lockdown periods in both years

Enterprise systems, processes and data

The Group operates a number of businesses that use different Enterprise Resource Planning (ERP) systems and processes. Our strategy is to provide an end-to-end operational platform of systems and common processes through which the brands can accelerate their points of competitive differentiation. We have started a major systems and process modernisation investment to drive efficiency and common processes across the Group, supported by a modern technology stack that enables migration from batch to real-time financial operations which is expected to be completed in early FY23.

Our expertise in our systems is focused on integrating, simplifying and standardising all back-office business processes and support systems, across order-to-cash, procure-to-pay, statutory and management accounting.

During the financial year we achieved the following milestones in our enterprise systems and processes roadmap:

- Completed designing a back-office finance solution to replace multiple legacy ERP systems
- Completed designing an integrated inventory system for real-time stock on hand to meet the demands of store and online systems for "available to sell" and "available to promise"
- Established a cloud-based, Master Data Management (MDM) system to host all item attributes across the enterprise, enabling a "single version of the truth"
- Replaced our legacy Warehouse Management System (WMS) in the South Island Distribution Centre to increase productivity and stock availability for our stores
- Completed our mobile-first, artificial intelligence-enabled eCommerce platform which enables a 'build one, deploy many' approach for the Group, with thewarehouse.co.nz, being the first site to go live on this functionality.

Significance

Retail is a highly competitive sector and we continue to see evidence of retail disruption every day. If our customers cannot buy what they are looking for in our stores or on our sites and apps, they have a number of other places they can turn to instead. Our nationwide 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 our customers to get the right product in the right place at the right time, at a competitive cost and in a way that serves our customers' needs best.

Materiality

The impacts of COVID-19 and the corresponding acceleration of eCommerce have changed consumer expectations in regard to their shopping experiences and fulfilment expectations. While physical store shopping remains a significant consumer activity, online shopping continues to grow, which puts increased expectations on our supply chain and fulfilment capabilities while inviting 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, data optimisation, improved digital capabilities, and refreshed stores that our customers enjoy shopping in. In acknowledgement of the future need to repurpose 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 our in-home delivery and installation teams.

Future focus areas

Build a world-class omni-channel

- Continue rolling out SWAS
- Invest in store improvements and customer experience upgrades
- Launch a Group-wide booking solution for delivery, in-home consultation and services.

Supply chain

- Achieve real-time inventory accuracy and online "available to sell", positively impacting online performance, trade and customer satisfaction
- Upgrade fulfilment and distribution centres to support further automation and capacity
- Deploy an Order Management System (OMS) to further automate online fulfilment and enhance customer experience.

Enterprise systems, processes and data

- ERP systems build and deploy phases – finance in April 2022 and inventory in September 2022
- WMS North Island Distribution Centre go-live in April 2022
- Optimise inventory and location tools for the North Island Distribution Centre.

Supply chain network







**Our people, our customers,
our communities and our
environment are at the
heart of our business**

