

Understanding our customers and markets

The customers we serve are professional users with many different job functions, within all types of organisations. They require small volumes of many different kinds of technical products, supplied at high service levels.

Small volume purchases

All organisations have smaller volume needs that arise for a variety of reasons, usually based on a product or service requirement. We can identify five main categories of purchasing occasion that our offer satisfies:

- research & development, design and prototype development;
- small volume production of highly customised products;
- in-house maintenance and repair (including service industries);
- servicing and installation of other products; and
- other general product needs which are not part of large volume orders.

We seek to serve customers' small volume purchases, which typically consist of a small number of a lot of varied products, made on an ad-hoc basis. We do not seek to serve regular purchases.

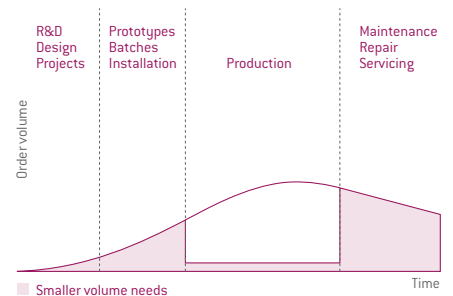
Consumers of small volume purchases are more sensitive to service than to price. In addition to the product itself, they require: time saving; ease in finding products and information on them; fast delivery; reliability; and responsive and convenient service.

The nature of small volume needs drives high transaction costs for customers: typically £60 – £80 per order in processing costs alone in the UK, plus any costs arising from disruption if critical components are not available.

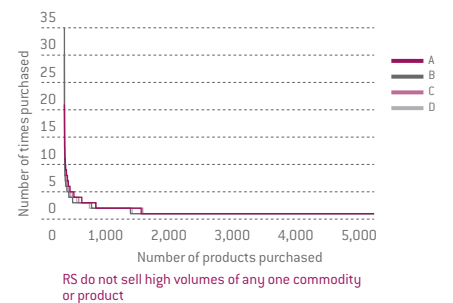
Our businesses are designed to meet small volume industrial product needs. Alternative suppliers, such as manufacturers or wholesalers, fail to meet these needs because they have insufficient service levels, a narrow focus on one or two product commodity groups, and high minimum order quantities.

Customers can and do use RS to fulfil their needs across many commodity groups. They buy many different products infrequently and in small volumes. For a typical large UK

Smaller volume needs throughout the activity lifecycle



Customer usage of RS same across many customers



organisation with many end-user customers, over 70% of products bought in one year were purchased only once in the year, with less than 0.5% being purchased more than 10 times. The average order value across the RS businesses is only about £80.

The RS value proposition

Different customers place different values on different parts of our service offer, but for all of them buying their small volume purchases from RS will create value from our:

- unrivalled product range;
 - product availability;
 - fast delivery;
 - rich technical information;
 - convenience of ways of buying, especially over the internet;
- and the lower transaction costs which result.

This extra value to our customers allows our businesses to make higher gross margins from our products. For larger volume distributors profit typically consists of low gross margins times high stock turn. For us it is high margins times a managed lower stock turn which ensures ready availability. Our expertise in small order fulfilment and growth in market experience allows us to increase this stock turn in each market over time.

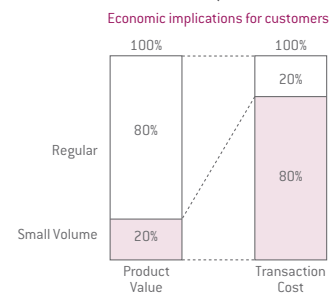
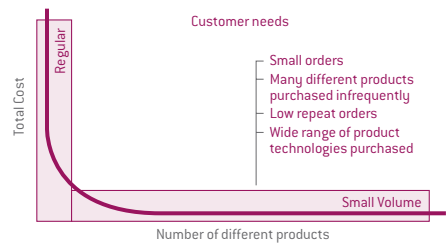
We measure our service levels by orderfill, which is the percentage of orders (usually consisting of about four product lines) fulfilled by same-day despatch, usually for next day delivery. Orderfill levels are around 95% in our largest markets, and typically over 90% except in our smallest businesses.

The nature of small volume order fulfilment leads to us having a large number of customers as well as a wide range of products in stock. Our businesses must support tens of thousands of orders per day, with hundreds of thousands of items in stock. To do this we have established excellent, responsive information systems, comprehensive catalogue management techniques, and have in-depth fulfilment know-how. Over many years we have grown an extensive network of close supplier relationships. Our RS and Allied brands are trusted by customers because of their excellent service, proven over many decades.

All this has required considerable investment which we have made consistently throughout our long history. Would-be new entrants face considerable barriers because of the front-end investment needed to meet service level requirements. These barriers to entry are firmly established in the UK, and we are building them rapidly in all our markets.

Our Allied business in the US is also high-service, but on a narrower product offer (more electronics).

High transaction costs of small volume orders



The transaction cost drivers are:

- searching for products and suppliers;
- chasing delivery and correcting errors;
- dealing with multiple suppliers;
- cost of holding stock of infrequently required but important products.

RS value proposition



In the UK we receive
2,750 consignments
daily from our suppliers.
70% of these
purchase orders were
made electronically

