

## Our strategy

Our goal is to lead the high-service segment of every distribution market in which we operate. Over many years we have demonstrated this leadership in the UK and over the last decade in continental Europe, while we have also created similar positions throughout Asia and in Japan. With Allied we have a strong base to develop in North America.

Our strategy is simple: to implement and grow our business model around the world. We achieve this through meeting the service expectations of our customers everywhere, through sustained investment in products and services, and through the dedication of our people. This proven strategy is underpinned by our deep understanding of customers' needs, gained from over 65 years' experience in creating the UK's leading high-service distribution business.

The core RS business model is based on an average order value of about £80 and a gross margin of over 50%, which we have replicated everywhere we operate.

We focus on four key areas:

### **Developing new products and services**

The experience gained from creating the high-service distribution business in the UK is embedded in our strategy. We continually develop and extend the range of services and products we offer. By diversifying into new product areas we add new customers and by deepening our knowledge of customer needs we are able to extend our services and increase customer loyalty.

### **Opportunities in electronic trading**

We see e-Commerce as a means of offering customers ever higher service levels. Business-to-business internet trading is a major focus for us: our initiatives include providing trading websites in all our markets, e-Purchasing capabilities and establishing marketing agreements with recognised portals. PurchasingManager™ is a recently established internally developed service, free to larger account customers, which combines ease of purchasing for end-users with tight controls

The Group's advanced e-Commerce platform opened for business in Japan this year – almost **doubling** internet sales to **33%** of total sales in Japan, and driving the region's outstanding growth



for their managers. Because of their confidence in our brands, content and fulfilment record, customers are using this channel in rapidly growing numbers.

### Developing our markets

The proven effectiveness of our business model has opened up many opportunities for high-service distribution in new geographical markets — specifically continental Europe, Asia, Japan and North America. By sharing best practice and tailoring as necessary to local markets, we are confident that our businesses in all these regions can reach the same size, relative to their local economies, as RS has achieved in the UK. And in the UK itself, though the market is more developed, considerable opportunity remains.

**UK:** The RS UK business can experience growth in advance of the UK economy by furthering its penetration of both its customer and product bases. At present we estimate that our penetration is low even in the manufacturing sector, and lower still in services. There is therefore plenty of room for growth, particularly from our market-leading e-Commerce services.

**Continental Europe:** The combined economies here present us with an opportunity several times larger than the UK, so our strategy is to view Europe as a market with many common products and services. We are investing heavily in marketing and infrastructure on a local and regional basis to achieve our full potential.

**North America:** We gained a leading position in this well-developed market in 1999 through the acquisition of Allied Electronics. Electrocomponents has invested to improve the levels of service offered by Allied, while other initiatives are under way to share the benefits of Allied's experience across the RS businesses. In this market, where competition is stronger than in our other markets, we see opportunities for growth through market consolidation as we displace smaller competitors, and by some product expansion.

**Japan:** Before we rolled-out our RS model into Japan in 1999, the concept of small-order high-service distribution did not exist. Customers are proving very receptive, which confirms our view that this market has excellent growth potential. RS has no significant competitors in Japan.

**Asia:** We are creating the high-service distribution market across Asia. Singapore is our hub for the ASEAN countries. Our main thrust is in China, where our investment includes local order fulfilment and a very successful Chinese language catalogue and website. We continue to develop our businesses in the rest of the region.

### Group processes

By leveraging off our common process infrastructure we have been able to expand globally and accelerate the development of all our businesses. We can enter new markets with unmatched levels of service and confidence and at much lower cost than our competitors, and can disseminate best practice around the Group with speed and confidence.

### Our business opportunity

