

Chief Process Officer's report

The Group Processes support our global network of operating companies. They have the infrastructure expertise that enables them to provide the consistent customer service which is the key strength of the Group.

The total cost of Processes in the year was £74.6m, up 7.6% from last year, but after adjusting for one-off withdrawal costs and increased systems project costs the increase was 1.6% as described in the Financial Review.

Product Management

The total number of products on sale through RS and Allied worldwide is approximately 300,000. From this total, Product Management has to ensure that the right product selection is offered by each business to meet local customer requirements. There is continual focus to improve the effectiveness of the product range.

Over the past year we have deepened our relationships with suppliers based on the advantages we offer them: the Group's unique global presence; our large number of end-user customers; and our detailed customer knowledge. Suppliers recognise our ability to create demand for their products, for example in the important research and development arena, and value highly the opportunity to enhance their market understanding by selling through us. A close relationship with our suppliers is critical to ensuring that our product offer is comprehensive and up-to-date.

Product compliance is an area of increasing importance around the world, and adds to the complexity of managing the offer. For example, last summer changes in legislation in China meant that to ensure strict compliance almost half of the products in the local catalogue had to be taken off sale. Whilst this depressed sales during the year close co-operation with our suppliers limited the impact. We continue to invest heavily in compliance, for the reassurance of our customers throughout the world.

Supply Chain

Our Supply Chain management continued to manage stock efficiently, whilst maintaining excellent service levels. We measure service levels by orderfill, the percentage of orders despatched complete on the day the order was received, and this was maintained at high levels throughout the year. The ability to satisfy a customer order in full and immediately is the foundation upon which we differentiate our service against competitors.

Continued tight stock control was reflected in our stock turn of 2.6 times. This was down from 2.7 times primarily because of the German warehouse move and some stock-build ahead of systems implementation.

There have been important initiatives in each region: in Europe the new German warehouse provides more efficient logistics and adds to our overall capacity to support growth; in Asia we have reshaped the way we serve the smaller markets to provide better service; and in Allied we have introduced the stock management techniques used by RS, with improvements in efficiency and service. The UK remains our main product intake and replenishment centre for the RS businesses, though this role will increasingly be shared by Germany, France and Singapore, given their enhanced warehouse and system capabilities. By understanding our suppliers' own supply chains, we have been able greatly to enhance the effectiveness of our inbound logistics, both in terms of shorter lead times and shared cost benefits.

Group Facilities

Group Facilities managed a number of important projects in the year, particularly relating to warehouses, which incurred capital expenditure of £4.5m. In Germany the move to the new freehold 21,000 square metre warehouse in Bad Hersfeld was completed in December 2002.



Richard Butler
Chief Process Officer

Chief Process Officer's report (continued)

This larger and more efficient facility will support enhanced customer service, though there will be higher operating costs in the short term.

Significant growth in Japan and Spain necessitated further leasehold warehouse investments during the year. In Japan, the relocation to a more efficient warehouse took place in August 2002, giving more capacity to support this rapidly growing business, and a much better location next to the couriers' hub. In Spain, the move to larger premises was successfully achieved in March 2003, allowing improvements in service levels to our customers and a reduction in inbound freight costs.

Media Publishing

The Media Publishing Process manages and delivers all the media for the Group. Thirty-five catalogue versions in eight languages are produced, with about 5 billion pages. The product content is also presented on CD-Rom and on internet sites.

A specialist Content Management team was formed during the year to provide a focus on product data management and media presentation. Already this team has improved the quality and completeness of our product data. Another major initiative has focused upon the improvement of the catalogue index, with good customer reaction. This significantly improves our customers' ability to find the product they need from the tens of thousands available. The Content Management team has also developed the means of offering products on the internet as soon as the product is available. This capability has been operational since last autumn, bringing products to market quicker than before.

Further investments in automatic pagination software and desktop publishing systems have resulted in significant reductions in catalogue lead time. We now manage the production of over 75% of our direct mail promotional material in-house. In Asia, new publishing systems have updated our flexibility in handling complex character sets, allowing future enhancements to our media in Japan and China.

Group Human Resources

The approval by shareholders at the last AGM of the new Long Term Incentive Share Option Plan and the introduction of a new performance-related annual reward scheme have had a positive response during the year: in particular, a more integrated approach to rewards across all management levels has been welcomed. These developments will help the Group recruit and retain key employees and further encourage the high performance culture.

Increasing attention has also been given to planning for our future leadership requirements, based on a more structured comparison of the management needs to support our strategy and our existing capabilities.

Information Systems

Though responsibility for our Information Systems process falls to Jeff Hewitt, for the completeness of this process review, I will comment on it here.

The large number of transactions and our absolute requirements for accuracy and timeliness to support customer service make Information Systems a vital area of the Group. Information Systems, including the costs of the enterprise business systems project, accounted for some 44% of total Process costs, or £32.5m. The 14% increase on last year largely reflects the higher project costs.

During the year capital expenditure on information systems was £22.9m, a 14% decrease from last year. This reflects the phasing of our enterprise systems projects in Europe and Asia which have now largely completed their blueprinting template design, application build and hardware acquisition phases, and are now commencing roll-out. During the year, the first implementation took place in South Asia, and the implementation in France will take place in June 2003. There is a programme of further roll-outs across Europe (including the UK) and Asia over the next three years.

The cost impact of the enterprise system projects was £4.5m in



the year, up from £1.8m last year as a result of increased depreciation and other costs. Depreciation will increase further during the roll-out phase and in the coming year by about £5m.

The enterprise systems investments will provide a range of benefits. A direct benefit is the elimination of the high costs of supporting the legacy systems. There will also be substantial benefits in stock management and operating efficiencies, whilst the new systems will allow additional services to customers. The improved infrastructure will also support the growth of e-Commerce. As a consequence of the project, systems services will be provided on a regional rather than on a country basis, and this will provide further benefits. The European regional service centre has been set up during the year and is now starting to operate, whilst the Asian service centre will be established during the coming year. We anticipate that the overall benefits will provide an attractive payback on this £50m plus investment. The success of the project is a key requirement for the execution of the Group's strategy.



Richard Butler, Chief Process Officer

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