

Red Sheds Brand Report

Red Sheds

The Warehouse New Zealand recorded a 7.1 percent increase in sales while operating earnings, before interest, taxation and unusual items, rose 4.6 percent to \$146.6 million. Same store sales (a measure that removes the sales impact of new stores) was 5.6 percent higher than a year ago. Operating margins of 10.9 percent were slightly down on last year due primarily to increased costs at Group level, associated mainly with strengthening the company's capability in merchandising and supply chain.

During the year, category growth was achieved across the entire range with significant sales growth in books, children's wear, craft, entertainment, hardware, nursery and photo processing. Jewellery was also added as a new category during the year. Continuing to grow market share in existing categories as well as new category development will be a major driver for increased sales.

Annually the company sells approximately \$130 million worth of consumables and confectionery. These categories will continue to be refined on an incremental basis.

In the coming year the company expects to reinvest recent gains from an appreciating New Zealand dollar into lower prices. The emphasis will be in driving down prices and increasing volume to achieve overall sales growth.

Marketing initiatives undertaken during the past year include a complete revamp of the weekly mailer, new formats for television commercials, and a more extensive promotional calendar. These initiatives have contributed to an 8.0 percent increase in customer foot traffic in the past year.

In the last year five new stores were opened; two were replacement stores and three were stores in new locations. Nine new stores are planned in the coming year; four in new locations (Te Kuiti, Snells Beach, Dargaville and Waipapa) and five replacement stores (Whangarei, Hawera, Masterton, Matamata and Henderson).

Growth Drivers

	F03	F02	Change
Same store sales	5.6%	4.2%	+140bp
Store footprint (m ²)	360,055	330,343	+9.0%
Sales per square metre (\$)	3,873	3,947	-1.9%
Sales per capita (\$)	337	320	+5.2%

Market/Customer Position

Customer traffic (million)	49.7	46.0	+8.0%
Average basket size (\$)	27.13	27.41	-1.0%
Market share: Total retail (excluding automotives, accommodation, food, meals)	7.92%	7.91%	+1bp

<i>The Warehouse New Zealand</i>	2003	2002
Sales (\$m)	1,351.0	1,261.6
Operating profit (\$m)	146.6	140.1
Operating margin (%)	10.9%	11.1%
Stores	80	78
Retail space (m ²)	360,055	330,343
Operating assets (\$m)	448.2	403.7

What is the strategy?

Drive sales growth through property expansion, category development and merchandising initiatives.

Increase market share by reinvesting reductions in the cost of doing business and cost of goods sold into lower prices.

Improve the customer experience through improved in-store standards, and continue to make a positive contribution to the local communities in which the company operates.

Strategy

- Grow same store sales in F04 in excess of F03 levels.
- Grow overall market share in existing categories through improved in-store marketing, brand consistency, pricing and ranging opportunities.
- Evaluate and introduce new product categories.
- Continue to dominate key retail events throughout the year.

- Increase retail footprint to 450,000m² by Christmas 2005.
- Nine new stores planned in F04 approximately 45,000m² of additional retail floor-space.
- Secure critical in-fill urban locations in Wellington and Auckland as company is under-represented in these areas.
- Develop new store in-fill opportunities in non-metropolitan catchments.

- Long term target sales per square metre target of around \$4000.

- Grow sales per capita faster than overall rates of retail sales increase.
- Align our retail store space with each population catchment.

- Give customers the best experience every time they shop at The Warehouse.

- Grow average basket size through improved promotional programmes and product selection.

- Take a wider view of the retail market so that every retail segment (excluding automotive, accommodation, meals, personal services) is considered an opportunity for growth within Red Sheds.
- Expand market share in existing categories.

Progress in F03

- Same store sales rose 140 basis points (bp) during F03 with positive customer response to range and price improvements in existing categories.
- New jewellery category added in F03, now available in 76 stores.
- Xbox added to entertainment range in 2003.
- Project Optimise has developed a range of planning tools to optimise stock availability in stores.

- Achieved targeted footprint growth of 29,000m² in F03.
- Five new stores opened in F03, two in new locations and three replacement stores.
- Five stores were extended and seven stores relayed.
- Anchor tenant for Wellington International Airport Retail Park (planned opening late 2004) and tenant in Westcity Mall (Auckland) (planned opening early 2004.)
- Additional stores opened in both New Plymouth and Tauranga.

- Sales intensity per square metre fell 1.9% in part due to cannibalisation from new store openings.

- Per capita sales growth in F03 of 5.2% was lower than the 7.0% increase in NZ retail sales.
- Average sales per capita were \$337. There are 16 stores with sales per capita over \$500. The lowest sales per capita store has sales of \$113.

- The number of customers rose 8.0%.
- Extended trading hours 8.30am – 8pm 7 days a week in all stores in November 2002.
- An in-store radio network launched that will support in-store sales promotions.

- Average spend per customer declined slightly in F03 due to the impact a stronger NZD/USD had on lowering prices.
- Improved customer research on basket analysis, category performance and understanding customers' drivers and barriers to purchase.
- The number of items purchased per customer rose 0.8%.
- Redesigned the weekly mailers and television commercials as part of a total review of marketing.

- Market share was static for the year at 7.9% largely due to the weaker than expected sales performance in Christmas.
- For the year, New Zealand retail sales (excluding automotive, accommodation, food and meals) rose 7.0% to \$17.0 billion compared to Red Shed sales growth of 7.1%.
- Apart from a few categories (toys and music), the company does not have a significant position in most of its current merchandise categories.