

Yellow Sheds Brand Report

Yellow Sheds

The Warehouse Australia sales were A\$463.3 million, an increase of 17.5 percent over the 2002 year. An operating loss of A\$11.9 million was incurred compared with a profit of A\$2.2 million a year ago. While the extent of the loss in F03 is disappointing, the company considers that the issues to date have been executional (relating to merchandise and promotion) rather than strategic in nature.

The Australian business underwent significant changes in the year. While these changes were important to enable growth, they created an element of disruption that was unhelpful to the overall sales and earnings.

Over a period of thirteen months the company:

- Closed and relocated the Blacktown support office.
- Closed the Blacktown distribution centre and relocated stocks to Mount Hemmant.
- Closed the Mount Hemmant distribution centre and relocated to the new state-of-the art distribution facility at the Port of Brisbane.
- Established a single brand with the older legacy stores re-branded "The Warehouse".
- Opened 22 new larger format stores and closed twelve small old format stores.
- Implemented two systems well proven in Red Sheds: the merchandising system (TUI) and the inventory management system (TOLAS).
- Implemented new accounting software with Oracle financials.

In the coming year the business will focus on:

- Increasing sales density measured as sales per square metre.
- Improving ranging and merchandising capabilities.
- Improving stock availability on shelf.
- Improving marketing and brand awareness.
- Leveraging the benefits from the new Queensland distribution centre.
- Executing the store rollout programme.
- Reducing the cost of doing business.

Growth Drivers

	F03	F02	Change
Same store sales	2.3%	4.9%	-260bp
Store footprint (m ²)	238,470	191,341	+24.6%
Sales per square metre (A\$)	2,138	2,288	-6.6%

Market/Customer Position

Australian retail sales	6.4%	7.6%	-120 bp
Yellow Sheds retail sales	17.5%	23.2%	-570 bp
Branding			
New/converted stores as a percentage of the total store numbers	60%	44%	+16%
Average basket size (A\$)	15.07	13.60	+10.8%

<i>The Warehouse Australia</i>	2003	2002
Sales (\$m)	519.4	476.0
Operating profit (\$m)	(13.4)	2.6
Operating margin (%)	(2.6%)	0.6%
Stores	130	120
Retail space (m ²)	238,470	191,341
Operating assets (\$m)	193.5	138.8

What is the strategy?

Continue the rollout of 3,000 square metre destination-style retail outlets across Queensland, Victoria, South Australia and New South Wales. Progressively increase stock load and thereby improve sales density as measured by sales per square metre. Where sensible, adopt the same range (heavily house-branded) that has been successful in New Zealand, and modify the range to suit particular characteristics of the markets in which we operate.

Strategy

- Improve sales growth from existing footprint.
- Add a net 25,000m² to 35,000m² of retail space p.a. until F05.
- Concentrate new store openings in the two states where the distribution centres are located (Victoria and Queensland) and expand into South Australia.
- Open sixteen new large format stores in F04.
- Increase sales density per square metre by attracting new customers and increasing average basket size.
- Increase the core "every day" merchandise range in each category.
- Improve stock availability and reduce current level of out-of-stocks.

Progress in F03

- The rate of same stores sales increase fell in F03 as a result of a combination of cannibalisation of sales from nearby stores and lower than expected sales per square metre.
- Total store numbers increased by 10 while retail store space rose nearly 25%.
- Sales per square metre fell 6.6%.
- Core "every day" ranges increased from 5,000 to 8,000 stock keeping units (SKUs).
- Implementation of the "TUI" merchandising system and "TOLAS" inventory management system will provide significant benefits including stock visibility and in-store availability. The new Queensland distribution centre will improve stock flow and visibility.

- Grow market share across all categories.

- Retail sales in Australia for the year ending July 2003, rose 6.4% to \$175 billion compared with a 17.5% rise in Yellow Sheds.
- Department store sales rose 7.2% (2002: 3.5%), clothing and soft goods were up 5.8% (2002: 6.7%) while household goods retailing increased 7.0% (2002: 13.7%).

- Operate one single brand across the network.
- Improve marketing effectiveness and brand profile.

- All stores rebranded "The Warehouse" in July 2003.
- "Kookie" the Kookaburra is a key personality in the company's branding.
- Marketing proposition established in all stores of "where everyone gets a bargain" and the "money-back guarantee".
- Improvement in weekly mailer in F03.

- Replace most of the older legacy stores with new large format The Warehouse style stores by F05.

- 22 new large format stores were opened and 12 small stores were closed.
- Of the 130 stores in the chain, 28 are new format stores, 50 converted stores and 52 traditional or legacy stores.

- Grow basket size through improved ranging, marketing and in-store availability.

- Basket size rose 10.8% in F03.
- Importantly, the basket size for the larger new format or converted stores was A\$17.42 or 48.9% higher than the A\$11.70 achieved in the older legacy stores.