

# RED SHEDS BRAND REPORT



The Warehouse New Zealand	2004	2003
Sales (\$m)	1,477.3	1,352.2
Operating profit (\$m)	151.3	150.9
Operating margin (%)	10.2%	11.2%
Stores	83	80
Retail space (m <sup>2</sup> )	401,547	360,055
Operating assets (\$m)	323.0	320.1

## SUMMARY

The Warehouse New Zealand recorded a 9.3 percent increase in sales while operating earnings, before interest, taxation and unusual items, rose 0.3 percent to \$151.3 million. Same store sales (a measure that removes the sales impact of new stores) was 5.7 percent higher than a year ago.

The operating margin was lower at 10.2 percent versus 11.2 percent in the corresponding period last year. This contraction was caused firstly by the growing strength of the New Zealand dollar lowering retail selling prices (price deflation) meaning more products had to be sold to achieve the same dollar sales level and, secondly, by increased logistics and store costs associated with these higher unit volumes. Higher shrinkage, increased overheads and inflationary pressures (wages, rents, electricity, international freight rates and building costs) also contributed to the margin contraction.

Red Sheds made considerable progress in its store roll-out strategy opening eight new stores, five replacement stores and three new location stores, while three existing stores were extended.

Category management was also refined during the year. Red Sheds will focus its category development on five key areas: apparel and footwear, the home, health and lifestyle, entertainment and technology, and finally grocery.

Supply chain initiatives continue to be a focus for the business. Red Sheds commissioned a purpose-built 18,000 square metre apparel distribution centre. This owned and operated facility enables storage of up to 2.5 million hung garments and releases capacity in the existing North Island distribution centre for general merchandise distribution.

Aside from investment in physical distribution assets, Red Sheds continues to invest heavily in supply chain research and development. How product is sourced, stock flow from supplier to store shelf, reducing investment in inventory, minimising lost sales and reducing mark-downs, for example, all present opportunities for improvement in the future.

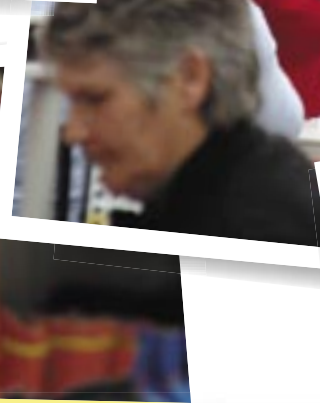
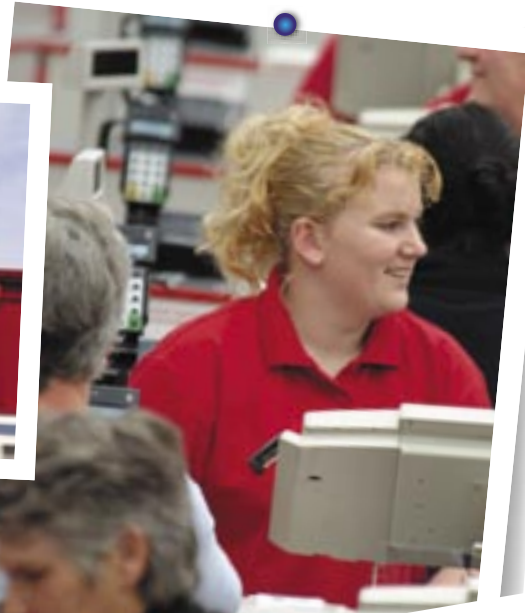
## BUSINESS FOCUS FOR 2005

The Red Shed strategy for the coming year continues to be focused on market share growth. In supporting this core strategy Red Sheds has a range of initiatives which include:

- Leveraging scale to maintain price leadership.
- Continuously improving the quality of house branded products.
- Balancing opportunistic buying with a structured approach to category development.
- Ensuring superior customer experience.
- Establishing an efficient supply chain.
- Leveraging expertise in property.
- Offering value-added services.

## KEY ISSUES FOR 2005

The key issues in the coming year will be the changing sales mix and its impact on margins, continued deflation in retail prices and higher operating costs as a result of cost inflation and higher volume throughput. While the Red Sheds expects some pressure on operating margins in the 2005 financial year a key objective for the following year will be to stabilise margins.



## WHAT IS THE STRATEGY?

Drive market share growth through property expansion and merchandising initiatives.

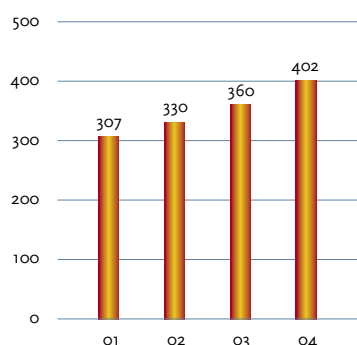
Reduce the cost of doing business and improve gross margin management to derive benefits that can be reinvested into lower prices, increased market share and improved earnings.

Improve the customer experience through consistent in-store processes and practices and continue to make a positive contribution to the local communities in which we operate.

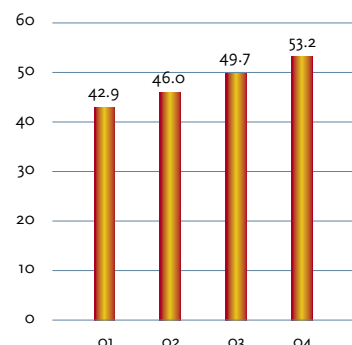


Pictured (top right) is Corrina McGluggage, team member in the Whangarei store. The store (top left) is in Alexandra.

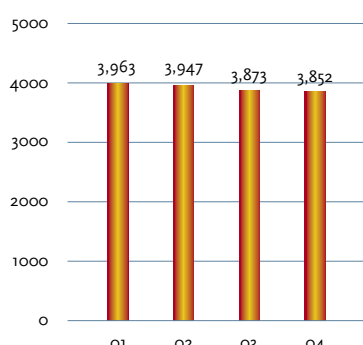
STORE FOOTPRINT (000 M<sup>2</sup>)



TOTAL CUSTOMER VISITS (MILLIONS)




SALES PER SQUARE METRE (\$)



GROWTH DRIVERS	Fo4	Fo3	CHANGE	STRATEGY	PROGRESS IN Fo4
Same store sales growth	5.7%	5.6%	+10bp	<ul style="list-style-type: none"> <li>Grow Fo5 same store sales in excess of Fo4 levels.</li> <li>Grow overall market share in existing categories through improved in-store environment, marketing, brand consistency, pricing and ranging opportunities.</li> <li>Develop a structured approach to category development that will focus on Head to Toe, The Home, Health and Lifestyle, Entertainment and Technology, and Grocery.</li> <li>Continue to dominate key retail events throughout the year.</li> <li>Limited dry grocery range development.</li> </ul>	<ul style="list-style-type: none"> <li>Same store sales rose 5.7% in a very competitive retail environment.</li> <li>New categories introduced: limited dry grocery house branded range in twelve trial stores, hard wired lighting category, and entry into computer and computer peripheral retailing.</li> <li>Category growth achieved across the range with significant improvements in automotive, green gardening, small appliances, womenswear, menswear and entertainment.</li> <li>Strong growth in "advertising share-of-voice" relative to competitors.</li> </ul>
Store footprint (m <sup>2</sup> )	401,547	360,055	+11.5%	<ul style="list-style-type: none"> <li>Core property strategy is to increase metropolitan exposure and increase retail footprint to around 450,000m<sup>2</sup> by Christmas 2005.</li> <li>Six new stores planned in Fo5 or a total of 40,000m<sup>2</sup> of additional retail floor-space.</li> <li>Secure critical in-fill urban locations in Wellington, Christchurch and Auckland as company is under-represented in these areas.</li> <li>Develop new store in-fill opportunities in non-metropolitan catchments, and extend non-urban coverage.</li> </ul>	<ul style="list-style-type: none"> <li>Achieved targeted footprint growth of 41,500m<sup>2</sup> in Fo4.</li> <li>Eight new stores opened:                             <ul style="list-style-type: none"> <li>Three in new locations (Te Kuiti, Dargaville and Snells Beach).</li> <li>Five replacement stores including our biggest store yet (12,778m<sup>2</sup>) in Whangarei, October 2003.</li> </ul> </li> <li>Three stores were extended.</li> <li>Secured sites in Pah Road (Auckland) and Manukau for future store development.</li> <li>Anchor tenant for Wellington International Airport Retail Park and negotiating to secure a retail presence at the Sylvia Park retail development in Auckland.</li> </ul>

GROWTH DRIVERS	Fo4	Fo3	CHANGE	STRATEGY	PROGRESS IN Fo4
Sales per square metre (\$)	3,852	3,873	(0.5%)	<ul style="list-style-type: none"> <li>Long term target sales of around \$4,000.</li> </ul>	<ul style="list-style-type: none"> <li>Sales density per square metre fell slightly in Fo4 as a result of building larger format new and replacement stores during the period.</li> </ul>
Sales per capita (\$)	364	337	+8.0%	<ul style="list-style-type: none"> <li>Grow sales per capita faster than overall rates of retail sales increase.</li> </ul>	<ul style="list-style-type: none"> <li>Average sales per capita rose 8.0%. There are 27 stores with sales per capita of over \$500. The lowest sales per capita store has sales of \$113.</li> </ul>
Total customer visits (millions)	53.2	49.7	+7.1%	<ul style="list-style-type: none"> <li>Give customers the best experience every time they shop at The Warehouse.</li> </ul>	<ul style="list-style-type: none"> <li>The number of customer visits rose 7.1%.</li> <li>Increased investment in people and systems to enhance the customer experience which is characterised by: <ul style="list-style-type: none"> <li>“The location is convenient.”</li> <li>“Customers can find what they’re looking for.”</li> <li>“Customers always get what they came for.”</li> <li>“Customers enjoy coming to the store and they trust The Warehouse brand.”</li> </ul> </li> </ul>
Average basket size (\$)	27.74	27.13	+2.2%	<ul style="list-style-type: none"> <li>Grow average basket size through improved promotional programmes and product selection.</li> </ul>	<ul style="list-style-type: none"> <li>The average spend per customer rose 2.2% reflecting improved marketing and product offering as well as the impact of the entry into computer retailing.</li> <li>Continued to undertake detailed customer research on basket analysis and category performance in order to better understand customers’ drivers and barriers to purchase.</li> </ul>
MARKET/CUSTOMER POSITION	Fo4	Fo3	CHANGE	STRATEGY	PROGRESS IN Fo4
Market share: total retail (excluding automotive sector, accommodation, food, meals).	8.23%	7.91%	+32bp	<ul style="list-style-type: none"> <li>Take a wider view of the retail market so that almost every retail segment is considered an opportunity for sales growth.</li> <li>Expand market share in existing categories.</li> </ul>	<ul style="list-style-type: none"> <li>Market share rose strongly from 7.9% to 8.2% as customers responded to the improved range and offer available in our stores.</li> <li>For the year, New Zealand retail sales (excluding automotive sector, accommodation, food and meals) rose 5.2% to \$17.9b compared to Red Shed sales growth of 9.3%.</li> <li>Because Red Sheds does not have a significant position in most of its current merchandise categories, the opportunities to grow sales and market share through structured category development are significant.</li> </ul>



This view provides only a glimpse of the more than twenty-two checkout stations, one thousand bays and seven-and-a-half kilometres of shelving in the Whangarei store. Opened in October 2003, with a footprint the size of two rugby fields, it's the company's largest store. Interestingly it includes an apparel department that alone is larger than the average Warehouse store of ten years ago.

