



Chief Process Officer's report

It is our remarkable level of service that differentiates us from our competition >>>

The Group Processes provide the global platforms that enable all our businesses to provide our customers with outstanding service. This structure allows the Group to benefit from shared best practice and cost effectiveness through economies of scale. It is the investment that we have made in these platforms and, critically, the knowledge of how to make them really work that creates many of the significant barriers to entry.

The total cost of the Processes in the year was £69.3m, up 5.5% from £65.7m last year. Most of the increase is due to increased investment in Information Systems and internet development.

Supply Chain

Supply Chain has delivered improved customer service and greater stock holding efficiency. The ability to satisfy every customer order, in full and immediately, is the key measure of Supply Chain performance – we call it “orderfill”. Throughout the year there has been a consistent improvement in performance. It is this remarkable level of service, significantly over 90% in our major RS markets, that differentiates us from our competition. This level of orderfill requires approaching 98% availability for each product ordered. Nine of our businesses achieved monthly orderfill records in the year, and the overwhelming majority of RS customers are now served by businesses with over 90% orderfill levels.

Supply Chain is responsible for delivering orderfill whilst managing the Group's total stock. As a consequence of further investment in stock management systems, and leveraging expertise across the whole Group, stocks have been managed tightly. This has resulted in an increase in stock turn from 2.5 times to 2.7 times and an 18.0% reduction in stock from £164.8m (in continuing operations) at the start of the year to £135.1m.

Facilities

This central team takes responsibility for maximising the efficiency of our Distribution Centres and project managing new developments. In Italy, the move into larger leasehold premises was

successfully completed in December 2001, and the move to new offices took place in April 2002. In Germany, development of an 82,000 square metre greenfield site at Bad Hersfeld is well advanced and the facility will be ready for occupation in December 2002. In the year, capital expenditure on these projects was approximately £17m.

Product Management

Our total product offer is approximately 300,000 products. Product Management works closely with customers and suppliers to ensure that key new products are introduced to appropriate markets and that the range is refreshed as existing products are further developed.

Because of our unique global presence, large number of customers and detailed customer knowledge, our suppliers are very keen to work closely with us. They recognise our wide customer reach in, for example, the important research and development arena, and value highly the opportunity to enhance their market understanding by selling through us.

Another good example of this is the strategic alliance with Avnet, now entering its third year. Both revenue and logistics benefits have been delivered, and pilots are currently underway testing how we can work more closely together, by leveraging RS's ability to service some elements of the small order requirements of Avnet's customer base.

Media Publishing

Last year's catalogue production led to the printing of over 5.5 billion pages, with all the paper sourced from renewable forests. Each catalogue, and supporting CD and website, is published by the Media Publishing Process in local language, including Japanese and Chinese versions. Further rationalisation of paper and print contracts has delivered lower unit costs for media production. Investment in the latest desktop publishing technology has also enabled the internal production of more marketing material, such as the “RS@Work” specialogue, reducing both costs and production time.

It's about growing a business with sales approaching £100m in France in just over ten years; and fulfilling the very large remaining potential in the future.

Thierry Benoliel
Sales, Radiospares France



This year has seen the establishment of a Content Management organisation specifically focused upon the creation, maintenance and control of all product-related data including technical support data. Demand for technical data is as strong as ever, and during the last year our technical data on the internet was accessed 1.3 million times worldwide.

Human Resources

Across the Group the recruitment, development and retention of our management teams is a top priority. The Group team facilitates the detailed management resource planning that takes place. This gives us a view of the management needs of the future, thereby enabling effective and focused development and recruitment activity.

Subject to shareholder approval at the Annual General Meeting in July, the new Long Term Incentive Share Option Plan will then be launched. Plans are well advanced for an effective communication programme to ensure the Plan is well understood and to maximise its impact, as both an incentive for the key management population and to aid their retention.

Information Systems

Though responsibility for our Information Systems process falls within Jeff Hewitt's area, for the completeness of this Process Review, I will comment on this important area.

Information Systems accounted for some 40% of total Process costs, or £28.3m, an 18.9% increase on last year. Included in this cost are all the labour and depreciation expenses of the development activities and support infrastructure for the Group's operations, including e-Commerce.

During the year capital expenditure in information systems increased substantially to £26.7m with the development of the major enterprise systems programmes in Europe and Asia that we have previously indicated. These will amount in total to c.£50m over three years (and over £40m in Europe). Within the programmes: the infrastructure investment to enable more effective and secure

communications and data sharing across Europe and Asia has already been completed; common approaches to our customer, product and supplier databases are increasingly in place; robust networks for our e-Commerce expansion have been established; and work on implementing more standardised operating procedures and system environments is in progress. Initial implementation of these new procedures is planned for this year in France and Singapore, and full roll-out across Europe and Asia should be completed by the middle of 2004. Within the Asia programme the upgrading of systems in China represents an important further investment in that market.

The impact on our costs of the enterprise system projects was £1.8m in the year. This impact will increase significantly in future years through higher depreciation resulting from the capital expenditure. Meanwhile the costs of our existing systems are being reduced. Though the changes required in our businesses by this investment programme will incur cost, we believe that substantial efficiency benefits and rewards from enhanced customer service will be achieved. The internal and customer facing platforms now being established are critical enablers to meeting our strategic goals.

The Euro conversion programmes were also completed during the year to enable full Euro trading and to convert the accounting bases of relevant companies to Euros. These transitions required considerable management effort and cost about £0.8m.

Summary

In summary, this has been a year of real progress for the Group Processes. Even in difficult trading conditions the level of service to our customers has been maintained and in many areas enhanced. At the same time, each Process has contributed to the overall effectiveness of the Group's performance and development.

Richard Butler, Chief Process Officer