

## Our aims and how we're achieving them

We have said that our goal is to lead the high service segment of every distribution market in which we operate. Over many years we have demonstrated this leadership in the UK and over the last decade in continental Europe, while more recently we have created similar positions throughout Asia and in Japan. With Allied we have a strong base to develop in North America. In this section we take a closer look at our strategy and market potential >>>

### Group strategy

Our strategy is simple: to implement and grow our business model around the world, and we achieve this through meeting the service expectations of our customers everywhere, through sustained investment in products and services, and through the dedication of our people. This proven strategy is underpinned by our deep understanding of customers' needs, gained from over 65 years' experience in creating the UK's leading high-service distribution business.

The core RS business model is based on an average order value of about £80 and a gross margin of over 50%, which we have replicated everywhere we operate.

We focus on four key areas:

#### Developing new products and services

The experience gained from creating the high-service distribution business in the UK is embedded in our strategy. We continually develop and extend the range of services and products we offer. By diversifying into new product areas, most recently information technology, we add new customers and by deepening our knowledge of customer needs we are able to extend our services and increase customer loyalty.

#### Opportunities in electronic trading

We see e-Commerce as a means of offering customers ever higher service levels. Business-to-business internet trading is a major opportunity for us: our initiatives include providing trading websites in all our markets, e-Purchasing capabilities and establishing marketing agreements with recognised portals. PurchasingManager™ is a new internally-developed service, free to customers, which combines ease of purchasing for users with tight controls for managers. Because of their confidence in our brands, content and fulfilment record, customers are using this channel in rapidly growing numbers.

#### Developing our markets

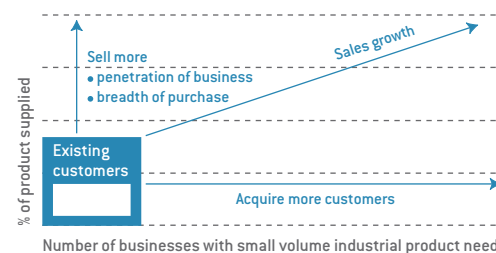
The proven effectiveness of our business model has opened up many opportunities for high-service distribution in new geographical markets – specifically continental Europe, Asia, Japan and North America.

By sharing best practice and tailoring as necessary to local markets, we are confident that our businesses in all these regions can reach the same size, relative to their local economies, as RS has

achieved in the UK. And in the UK itself, though the market is more developed, considerable opportunity remains.

**UK:** The RS UK business can experience growth in advance of the UK economy by furthering its penetration of both its customer and product bases. At present we estimate that this penetration is only 6% of our relevant market within UK manufacturing, and 1.5% in non-manufacturing. There is therefore plenty of room for growth, particularly from our market-leading e-Commerce services.

### Our business opportunity



**Continental Europe:** The combined economies of Germany, France and Italy present us with an opportunity several times larger than the UK, so our strategy is to view Europe as a market with many common products and services. We are investing heavily in marketing and infrastructure on a local and regional basis to achieve our full potential.

**North America:** We gained a leading position in this well-developed market in 1999 through the acquisition of Allied Electronics, a high-service distribution company similar to RS. Electrocomponents has invested to improve the levels of service offered by Allied, while other initiatives are underway to share the benefits of Allied's experience across the RS businesses. In this market, where competition is stronger than in our other markets, we see opportunities for growth through market consolidation as we displace smaller competitors.

**Japan:** Before we rolled-out our RS model into Japan in 1999, the concept of small-order high-service distribution did not exist. Customers are proving very receptive, which confirms our view that this market has excellent growth potential. RS has no significant competitors in Japan.

**Asia:** We are creating the high-service distribution market across Asia. Singapore is our hub for the ASEAN countries. Our main thrust is in China, where our investment includes local order fulfilment and a very successful Chinese language catalogue and website. We continue to develop our businesses in the rest of the region.

**Group processes**

By leveraging off our infrastructure and centralised processes we have been able to expand globally and accelerate the development of all our businesses. We can enter new markets with unmatched levels of service and confidence and at much lower cost than our competitors.

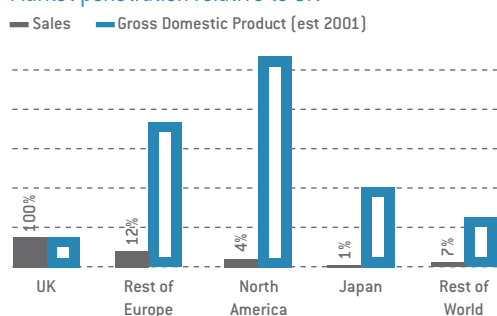
**Our market potential**

The opportunity to grow our business profitably is very large. We will generate considerable sales growth by realising the full potential of our markets, and increase our profitability by reducing costs through economies of scale. Our goal outside the UK is to grow each operating company to the same relative size and profitability as RS in the UK. Internally, we refer to this goal as “The Prize”. In most of our major markets the customer base and competitive structure makes this goal entirely feasible.

**Expanding within our markets**

The chart below illustrates the scale of the opportunity in each of our geographic regions. Our potential market is proportionate to the Gross Domestic Product (GDP) in the countries in which we operate: we use GDP because our offer is taken up and valued, not just by the manufacturing sector, but by all sectors of an economy. This has been demonstrated in the UK, where about 50% of our customers are not in the manufacturing sector. We take RS UK’s current sales compared to UK GDP as our benchmark.

**Market penetration relative to UK**

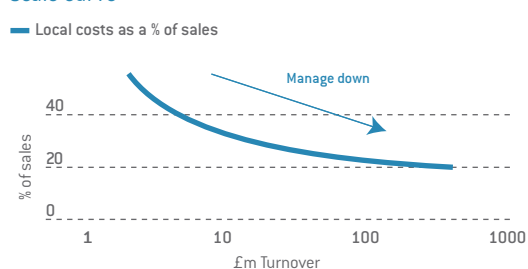


**Scale benefits**

As our businesses grow in their markets, economies of scale are realised and local costs reduce relative to sales. Marketing costs per customer, such as catalogue costs, decrease as the number of customers and their purchasing frequency grows.

The ‘Scale curve’ chart shows how local business costs as a percentage of sales fall as sales increase. With consistent gross margins across the business, this trend translates into higher contribution margins and hence profit growth ahead of sales over time.

**Scale curve**



The local costs of RS UK are about 20% of sales at the current sales level. All our other businesses have lower sales and so are higher on the curve. They are all managed down the scale curve.

**Products and services growth**

When we enter a new market, our offer is initially based on electronic and electrical products. When we have a deeper understanding of our customers’ requirements we extend this range. In the UK for instance, we offer product areas ranging from health & safety to information technology, hydraulics, tools and technical books, all in response to customer demand.

The loyalty of our customers is built on the quality, breadth and reliability of our services. Loyalty is measured by the frequency with which customers buy from us, and it increases as the business grows and we are able to offer new services. For instance, RS in the UK offers same-day despatch for orders received by 8pm; following acquisition, Allied extended its cut-off time to 9pm. Internet trading is available in every market, with more advanced features having been rolled out from the UK to Europe and Japan.

**Strategy in action**

The chart below shows how, over the four years since 1998, our continental European businesses have increased profits ahead of sales: 52% sales growth has given us 98% profit growth. Our annual sales growth, when not affected by weakness in the major economies, has been c.20%.

**RS Rest of Europe – Five year reported results**

