

Chief Executive's review



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The Group's goal remains the same as in previous years: to lead the high service segment of every distribution market in which we operate. To achieve this we have continued to make significant investments in our business, mainly in the areas of sales and marketing and systems, and these are now starting to show results.

After a difficult first half our sales and profits showed a progressive improvement during the second half.

Sales and marketing

A new marketing programme has been developed, to better communicate the value RS brings to customers together with a new tag line: Do great things. The programme has initially been developed in the UK following extensive market research and involvement of creative agencies. The launch towards the end of the year involved a large scale integrated campaign including adverts in the national and trade press, on billboards and a PR campaign to find Britain's 'Heroes at Work' in 2004. Initial customer reaction has been positive. This programme will be rolled out to other markets over the next few years.

We have continued to build and invest in our sales forces around the world. In the UK there was a 50% increase in the field sales force, combined with additional training for all. A sales effectiveness programme was launched in Europe to enhance customer-facing sales skills and capabilities. Sales in North America have been driven up, partly as a result of the launch of the 'Customer First' initiative to improve the effectiveness of our branches in serving customers. Investment in marketing and sales increased significantly across much of the Group.

Investment in the catalogue continues. For example, the layout of the Allied catalogue has been improved and this also helped grow Allied sales in the second half. The improved test and measurement section of the catalogue has led to increased sales. An upgraded CD-ROM has been issued with the catalogue in the UK. The CD-ROM now mirrors the website and therefore provides a more user-friendly platform for customers. In addition, the catalogue frequency in France was changed to give an annual catalogue supported by greater short term media.

Further developments in our catalogue are in progress.

Elsewhere, the launch of our same day despatch service in the Shanghai area of China, facilitated by a catalogue of 26,500 compliant products, means that we are now able to offer the same level of service in the region as we do in the rest of the world. There does remain a risk of further import restrictions into China which we will address as they arise.

e-Commerce

During the year we have enhanced our websites in many countries and now have 66 dynamic websites in 16 languages throughout the world. The search function on our websites has been improved, as has the speed at which our websites operate. e-Commerce sales grew at 43% over last year and now represent 17% of total sales. e-Commerce is particularly effective in Japan where 43% of all sales are made in this way.

An improved version of our PurchasingManager™ procurement tool was launched during the year. This tool enables customers to maintain control over all purchases made by their maintenance and/or development engineers that are using the application.

The significant investments made in e-Commerce have resulted in the Group winning several prestigious awards in the UK during the year including the e-Business Strategy of the Year award at the National Business Awards 2003 and four awards at the European Catalogue and Mail Order (ECMOD) awards 2003 including the Best Overall award.

Processes

The main initiatives during the year were the first implementations of our Enterprise Business Systems in Asia and France. Once the rollout programme is complete it will provide more standardised and effective approaches to data management, generate operational efficiencies and support and enhance customer service. The rollouts were successful and the inevitable teething problems are being successfully resolved with service levels in France returning to normal.

In addition our Product Management team continues with the range optimisation programme. This will ensure that the most effective selection of products in each category meets our customers' needs. The Supply Chain team has been successful in maintaining high service levels whilst increasing stock efficiency.

In summary

The strategy of the Group remains unchanged from previous years and we continue to invest in its future as demonstrated by the above initiatives. It is pleasing, however, that we are also generating returns on our past investments. I remain highly confident about the future prospects of the Group.

A detailed review of the performance of the Group is included within the Operating and Financial Review on pages 15 to 21.

Ian Mason