



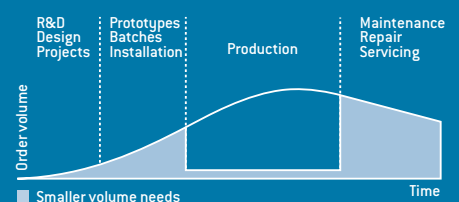
Our customers

Our products are relevant to maintenance and development customers in every sector of the economy. We fulfil small volume needs for a wide range of electrical, electronic, mechanical, health & safety and information technology products.

We create value for our customers through our:

- comprehensive product range;
- product availability;
- fast delivery;
- valued technical information;
- convenience of ways of buying, especially over the internet; and the lower transaction costs which result

Smaller volume needs throughout the activity lifecycle



Small volume purchases

All organisations have smaller volume needs that arise for a variety of reasons, usually based on a product or service requirement. We seek to serve these smaller volume needs, which typically consist of small quantities of a lot of varied products, arising on an ad-hoc basis. We do not primarily seek to serve regular purchases of the same product.

Consumers of small volume purchases are more sensitive to service than to price. In addition to the product itself, our customers require: time saving; ease in finding products and information on them; fast delivery; reliability; and responsive and convenient service.

The nature of small volume needs drives high transaction costs: typically similar to the value of the order itself in processing costs alone in the UK, plus any costs arising from disruption if critical components are not available.

Customers can and do use RS to fulfil their needs across many commodity groups. They buy many different products infrequently and in small volumes. For a typical large company with many end-user customers, over 70% of products bought in one year were purchased only once in the year, with less than 0.5% being purchased more than 10 times. The average order value across the RS businesses is only about £80.

The RS value proposition

The services that we provide to our customers are reflected in the price of our offer. Customers buying their small volume purchases from RS will create value and lower transaction costs.

This extra value to our customers allows our businesses to make higher gross margins. For larger volume distributors, profit typically consists of low gross margins and high stock turn. For us it is a higher margin on a lower stock turn, which ensures ready availability of a wide product offer. Our expertise in small order fulfilment and growth in market experience allows us to increase this stock turn in each business over time.

An indicator of our service capability is orderfill, which is the percentage of orders (usually consisting of about four product lines) fulfilled by same day despatch, usually for next day delivery. Orderfill levels are around 95% in our largest markets, and typically over 90% in our other businesses.

The nature of small volume order fulfilment leads to us having a large number of customers as well as a wide range of products in stock. Our businesses must support tens of thousands of orders per day with hundreds of thousands of items in stock. To do this we have established responsive information systems, comprehensive catalogue management techniques, and have in-depth fulfilment know-how. Over many years we have grown an extensive network of close supplier relationships. Our RS brand is trusted by customers because of the excellent service, proven over many decades.

All this has required significant investment which we have made consistently throughout our long history. Would-be new entrants face considerable barriers because of the front-end investment needed to meet service level requirements. These barriers to entry are firmly established in the UK, and we are building them rapidly in all our other markets.

Allied

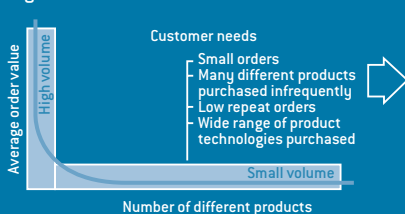
Our Allied business has a similar value proposition to that of our other companies but operates in the more competitive market in North America.



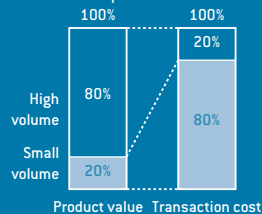
There are at least five categories of purchasing requirement that we satisfy:

- maintenance and repair (including service industries);
- research & development, design and prototype development;
- small volume production of highly customised products;
- servicing and installation of other products; and
- other general purpose product needs which are not part of large volume orders.

High transaction costs of small volume orders



Economic implications for customers



RS value proposition

