

Operational Review — Retail



Putting Customers in the Driving Seat

In recent months we have been rapidly improving our customer data knowledge and capability. We introduced e-receipts in January across all stores and since then have collected over 1 million email addresses, of which the majority are new contacts to our database. For the 12 months to the end of April 2016 we can match 15% of Retail sales to customers, up from 3% as of November 2015. We have joined up our online and in-store customer databases in Retail, meaning that we can now match online orders to customers when they collect in store. Over the course of the year we will develop a complete single view of customer, which involves joining up all of the numerous customer databases within Retail, Cycle Republic and Autocentres.

Investment in customer data has allowed us to move from generic email marketing to a more personalised approach. In recent weeks we have started our first tailored email campaigns. For example, anyone buying a bike and agreeing to submit their details will, for the first time, receive an email

See more on [Autocentres strategy and operational review](#) on pages 20 and 21

reminder to come in to have their free 6-week bike check. Also, after any purchase online or in-store, the following day the customer will receive a “we recommend” email containing 6 products; this is driven by a bespoke recommendation engine built for Halfords. We will develop more of these tailored campaigns in the months ahead. This summer we will also commence a customer discovery project, where we will use the enhanced data to segment customers and better understand shopping habits. We will share some of these insights in due course.

There is more to be done. In FY17 the implementation of the new electronic point of sale (“EPOS”) system towards the end of the year will, apart from delivering operational enhancements, provide benefits for customer data, enabling store colleagues to look up customer details in a live customer database at the till and improving the speed and accuracy of matching and customer interface.

Another key part of Putting Customers in the Driving Seat is a new brand positioning. Over the past few years our messaging to consumers has been focused around price and spot buys, rather than creating a relationship with the brand. In a few days’ time we will be launching a new Halfords Brand

positioning and new brand look and feel across a number of customer touch points, including advertising campaigns, website design and in-store marketing, under the strapline of Halfords – For Life’s Journeys. This is a significant change of approach and is designed to create a more emotional and relevant connection to the brand. We are also improving the richness of online content, with more videos and “how to” guides, positioning Halfords as a friend in times of need. At this stage we are not embarking on a complete and immediate change to external branding of stores or a complete change of in-store point-of-sale collateral. Rather, these will change over time as and when they come up for refresh, in order to provide a more cost-effective rollout.

In November we explained that we needed to improve our value perception. Value is an equation of the right price, great service and outstanding quality. The relative importance of each factor varies by category and we have assessed our products and services accordingly. We have already introduced new opening price points in order to improve the value perception where we are, for example, competitive on pricing of the “better” and “best” products but don’t have a “good” equivalent to our competitors.

Helping families cycle safer

A major factor parents worry about when cycling is safety and the confidence to fix things, as and when problems occur. Through workshops colleagues share their knowledge and expertise, to give customers the confidence to get out on their bikes. The majority of workshops focus on primary school children, an age when they are often starting to cycle without adults and are also doing Bikeability.

Kids’ Bike Workshops

22,000 children and their parents attended free in-store bike workshops helping to improve their skills in basic bike maintenance and cycling safely, giving them greater confidence to go out cycling more. 96% of parents found the in-store workshops useful/very useful and 96% would recommend the workshop to other parents.

Cub Bike Workshops

In FY16 we helped over 5,500 Cubs achieve their Cyclist Activity Badge, with over 98% satisfaction. In addition to a more advanced in-store based workshop, a resource pack also supports Cub Leaders.



Service in Our DNA

Services and service-related sales are a key part of this pillar of the strategy. We have recently introduced new services into our stores including windscreen chip repair and motorcycle bulb and battery fitting. We continue to look to add to and enhance the suite of services we offer. In November we introduced a new KPI: service-related sales. This is the income that Halfords derives from the sale of services and any associated products included within the same transactions. Our aim is to grow this faster than overall sales; in FY16 we achieved growth of 8.5%.

Our customer service metrics continue to improve. The net promoter score is at its highest recorded level and has increased significantly year on year. We have decided to continue to use net promoter score, but we have opened up more channels for customers to give us their feedback including exit interviews as customers leave the store, carried out by an external third party.

We remain committed to the 3-Gears training programme; 99% of eligible colleagues are at Gear 1, over 70% of colleagues had qualified for Gear 2 by the end of FY16 and we also now have over 600 colleagues trained to Gear 3 "guru" level. As of April 2016 we introduced the National Living Wage for our colleagues aged 25 and over, and at the same time introduced our 20p supplement for all colleagues upon qualifying for Gear 1. This, combined with other changes to our pay structures, lifted the pay of all colleagues of the Halfords Group to above the minimum wage.

Our Retail apprenticeship scheme has now been in place for over a year and we have already placed nearly 200 trainees into permanent roles across our stores. We continue to build our pipeline of Assistant Store Managers and Store Managers through our Aspire programme; in FY16 all but two of our store manager roles in our Southern division were filled internally.

We have previously reported on the progress made on improving turnover of colleagues within 3 months of joining. This continues to be around 9%, having been over 20% three years ago. We have now turned our focus to improving the overall colleague turnover and this improved by 500 basis points within the last year. We were pleased to once again be included within the Sunday Times Best Companies To Work For list, maintaining our 18th position, and our Retail colleague engagement score, surveyed annually each April, has been maintained at 82%; a strong result in the context of the more challenging trading conditions this year.

See our [Chief Financial Officers' review](#) on pages 24 to 29

School Bike Workshops

Colleagues also go out to primary schools each year to teach pupils in their final year bike maintenance and safety. Complementing the Government scheme Bikeability, which teaches children how to ride a bike safely; Gear-Up workshops show basic bike maintenance and safety hazards to avoid — key skills as pupils prepare to make the transition to secondary school. 5,500 pupils benefited from the programme in FY16; 96% of teachers found the school workshops useful/very useful and 92% would recommend the workshop to other teachers.

See more at www.halfordscompany.com/community



Operational Review — Retail continued



Building on Our Uniqueness

Exclusive products, relevant innovation and unique partnerships all strengthen our clear differentiation as a retailer. Over the last few months we have introduced the following new initiatives and products:

- Launched the world's first 130% brighter bulb. In Q4 this was our second highest selling bulb.
- Introduced a lifetime guarantee on certain car batteries.
- Extended our range of motorcycle products to include a 2B's (bulbs and batteries) product and fitting service for motorbikes, as well as a range of consumables and accessories.
- Expanded our range in store and online of gifts and toys. For Christmas we had many new products including camera drones and Disney Frozen roller skates, as well as gift versions of our popular tool products.
- Launched the new range of Boardman Performance bikes.

During the year we commenced joint sponsorship with Yuasa of last year's winning team in the British Touring Car Championships ("BTCC"). Halfords previously sponsored a BTCC team from 2004 to 2008.

In March we unveiled to the press our new Wiggins and Orla Kiely collaborations, which were both well received. The partnership with Orla Kiely comprises a range of cycling and leisure products and accessories and has recently launched online and in around 250 Halfords Retail stores. The Wiggins range comprises bikes for toddlers to teenagers and priced at £99 to £450.

We have lots planned for FY17 including:

- An exclusive collaboration with Olympic Gold Medalist and World Champion cyclist Laura Trott to create a range of limited edition performance bikes for women under the Trott brand. These will be launched in stores and online in July, priced from £449.
- Our largest ever range of in-car connectivity products, with an emphasis on design, colour and technology, such as solar-powered devices and branded items.
- First to market with an exclusive launch of digital in-car adaptors.
- Developing our trade offer, starting with the enabling of the trade cards to be used online.



Better Shopping Experience

Over the last three years we have been working hard to improve the in-store and online experience for customers but, as we set out in November, there is more to be done. We continued to make ongoing enhancements to our fulfillment proposition, such as adding specific delivery time slots and extending the online order cut-off deadlines.

Since May 2013 we have refreshed 97 stores under the Getting Into Gear programme. Customer feedback has been positive and the investments have justified themselves financially. As such we remain committed to the continuation of a refresh programme, but we have slowed down the pace of roll-out whilst we create the "Store of the Future" refresh concept. The initial design principles have now been agreed and we anticipate trialing the first concept in the second half of this year. Store of the Future builds on many of the features of our recent store refreshes and is building in technology to enable colleagues to better serve customers, create a hub for our We-Fit services and create more flexible spaces.

We are not locking down the refresh concept at this stage; as we learn from the trial we will look to evolve the concept over the next 12 months. In the meantime we will continue to roll out a number of existing refresh concepts during FY17. Across both concepts, we anticipate refreshing 15 to 25 stores in the year.

Cycle Republic reached 10 stores by the end of the year and represented 0.5% of group revenue. It was a difficult year to launch a new cycling concept because of the market conditions, but we are encouraged by the progress of the brand. The next important step is to launch the new website, which will go live in the next few weeks. In the year ahead, we will continue to roll out more stores, although fewer than last year, and will continue to implement lessons to develop the concept. We anticipate that sales in FY17 will reach approximately 1% of group revenue and total capital expenditure for the three years to the end of FY17 will be around £5m, 4% of the Group total.



Fit for Future Infrastructure

In November we explained how investment in infrastructure remains a priority, but that the type of investment moves from being about fixing the foundations to customer and colleague-facing enhancements. This change in focus began during FY16 with projects such as the online marketplace, new tills in stores, electronic number-plate lookups and bike finance online. There are also a number of developments that we have been working on in recent months that will launch in the coming weeks: a transactional Cycle Republic website, contactless payments in store and the ability to use trade cards online.

Looking ahead, our IT investment is focused on two key projects that we anticipate will be implemented over the next 12 months: a new electronic point of sale ("EPOS") system and a new people resource planning tool.

The EPOS system will be rolled out across all stores and also into Autocentres. This will be the first major change to our EPOS system for many years. In Retail there are many benefits, including:

- improved customer data capability, including improved customer matching and the ability for colleagues to look up customers within a live single view database;
- an e-diary, with which customers can pre-book services, such as 3B fitting or cycle repair, and with which we can allocate resource accordingly;

- opportunities to improve in-store processes, such as goods in/out, processing vouchers and promotions, as well as eradicating many paper-based processes; and
- providing a modern and stable platform on which to implement other enhancements.

The new resource planning tool removes eleven systems and replaces them with one tool that we will use across stores, autocentres, the Support Centre and distribution centres. Colleagues and line managers will be able to log into the system to view and change shifts, as well as optimise scheduling of resource.

Our supply chain infrastructure has undergone significant change over the last 18 months, having moved in October 2014 from 1-day-a-week deliveries to store to a 5-day-a-week in-house delivery arrangement and then, in August 2015, to a 3-day-a-week outsourced delivery solution. This is now embedded, stable and working well; providing the benefits of good availability on a cost effective basis. Availability has remained at strong levels through the transition and thereafter. Concurrently, over the last few months we have been reviewing the long-term supply chain requirements. We have concluded that in order to support our future growth we will develop our warehouse infrastructure to improve customer service, but we do not anticipate such plans to cause any significant ongoing changes to warehouse and distribution operating costs or to the capital expenditure guidance we have previously given.

Fast Fact*

4 Bike ranges in 2016 from *Olympic Heroes* - Chris Boardman MBE, Victoria Pendleton CBE, Sir Bradley Wiggins and Laura Trott OBE



*Fast Fact figures relate to 4th April 2015 - 1st April 2016