

For those of you who aren't familiar with Waitrose we are

- British based grocery retailer that operates with a Partnership ownership model which is made up of Waitrose & The John Lewis Department stores
- Currently have 338 shops ranging from Large Food and Home to smaller convenience shops and petrol stations
- Home delivery service which is serviced through shops and 2 dotcom fulfilment centres.
- With an approx 5% share of the British grocery market

When it comes to stocktaking we have a fairly small number of Partners involved:

- Myself in Stock Operations - set the shop process for preparing and running a stocktake
- 2 Partners in Contract & service development who ensure our third party count companies are meeting their KPI's and check the uploading of count files into our systems
- Management Accounting who show an interest in the shrinkage results from the stocktakes

Overview of what I will be covering

- The waitrose stocktake strategy that was implemented in 2019/20
- What our sales benefit analysis showed and how that compared to the ECR study
- The year that has been so far
- Analysis completed on other metrics
- Actionable Reporting
- Summarise with the ongoing story of stocktaking

Slide 3

2019/20 we looked at what was happening and what we wanted to happen

- As with most companies the main question was Sales, availability is the answer driven by an accurate stock file
- eComm revolution - preparation for our move from Ocado, accelerated by Covid. Availability is important for customer satisfaction to avoid substitutions that do not satisfy their needs.
- Varying results from stocktakes when counted at similar annual frequencies - some with larger losses, odd ones with gains

We also were seeing our shrinkage and inventory drift increasing due to a number of factors:

- Acceleration of self service payment methods
- Innovations which added complex processes into shops
- Resource challenges as we transitioned into Modern Waitrose move from specialists and section assigned roles to a more flexible workforce, which diluted a lot of skills and experience
- Our old friend theft

6,5,4,3,2,1 strategy - the annual frequency at which we count our shops. the 1 in brackets as we tend to have a 2 count minimum at present

- Short term strategy to show the benefits of an accurate stock file
- Account for the increase in shrinkage and as we await a new stock inventory system
- It is probably cheaper than trying to solve all of these shrinkage issues

Slide 4

As we were spending more money on our stocktake program it was important to show the reasons for this to the business

Set up our strategy where our stocktake frequency was based on Sales,

- Stock Turnover - how quickly stock was moving through the shop
- Stock Management Activity - how much activity was being completed by shops to maintain their stock files
- Past Stocktake results - SKU integrity and shrinkage

Study conducted by Mubeen - Cautionary approach to take out risk of overstating:

- a) Substitution effect - where someone has purchased an alternative (crunchy nut)
- b) Duration of benefit of stocktake
- c) Product mix and associated stock management routines - fresh higher stock management. Some lines are slower moving. Stock Management naturally higher in fast turnover layouts such as fresh
- d) Accuracy of stocktake - big unknown as there is an element of inaccuracy

In recognition of this, we have been cautionary in the insight and have set a material threshold;

- lines which lost half a case or more and resulted in a case or less available for sales
- Therefore this analysis focuses on circa 7% of lines with inventory drift.
- Hence the actual benefits are greater than those described forthwith.
- The benefit of the stocktake sales was measured over 4 weeks following the count. I reduced the % benefit associated with stocktake over the weeks. E.g. Week 1 - 90%, Week 2 - 80%, Week 3 - 70%, Week 4 - 60%

Varying results in the same frequency shops as the ones with greater benefits will be suffering greater inventory drift due to the factors I mentioned on the previous slide

- I also know that shop g in the 4 frequency counts has a lot better stock management processes in place than shop e, who benefit more from the stocktake, but overall are probably losing out as they are operating on less accurate stock file so sales pre-stocktake are less
- Trying to find a balance between shop activity and stocktakes.

Overall we concluded on a 1.5% sales benefit as a result of stocktaking.

Our analysis was completed before the ECR published the Inventory Inaccuracy in Retailing report, which we fed into. ECR focussed on gains and losses, where we were focussed on loss. (Replen of found lines)

The ECR findings backed up our views on inventory accuracy driving sales and their figure of a 6% sales benefit was greater than ours due to the cautious approach taken by Mubeen.

Slide 5

Buoyed by this analysis we started 2020 in high spirits

- Ambitious and confident start - Stocktaking pack and engagement with shops to understand the strategy and share findings
- Feedback from our third parties was improving with shops better prepared and accuracy levels increased
- March / April happened and Supermarket retail became the most secure employment in the country!
- Covid happened and paused our stocktaking for a few months
- Brought uncertainty - challenging trade and stock management conditions (offsales or work cage of pasta)

Coming out of lockdown - device updated guidance

Segmented Stocktakes with a focus on Ambient (heavy lifting)

- Challenges throughout the Supply Chain (seed to basket)
- Pause of stock management

Head into the unknown

Panic buying, covid reserves, brexit reserves, Christmas reserves

Counting later into November than usual to set our shops up for peak trade

Slide 6

Keen to continue understanding the benefits so we looked at other metrics apart from sales, which is difficult in current trading climate

- OSA is a measure we use for eCommerce shops and is the % of a customer's order that has been fulfilled based on units - for example if a customer ordered 50 items and we delivered 48 that would be a 96% OSA.
- Average loss per stocktake - what was the overall shrinkage being realised by our stocktakes
- SKU integrity - shows how accurate our stockfiles are at stocktake based on % of SKU's counted with no correction.

Timeline to give some context:

- Before 2018 there was no real focus on stock management so the 3 measures stayed pretty consistent
- In 2018 we introduced higher frequency stocktaking with up to 4 counts in some shops (red line) which saw an increase in OSA, decline in loss per stocktake as we were correcting stock files more quickly
- In 2018 a few other things were happening
 - Flexible working which took away the specialist teams that would be responsible for stock management
 - Acceleration of self service payment
- This led to the slight decline in our SKU integrity as less activity was happening in shops

- Midway through 2018 Stock operations team was established to define and drive stock management activity
- Launched the 6-1 stocktake strategy (green line) at start of 2019
- Since then OSA has increased further, our losses per stocktake has declined further and we have seen our SKU integrity increase showing that we are operating with a much more accurate stock file to support availability and sales.

2020 - OSA move up by 1.1% in weeks +2 & +3 post stocktake when compared with 4 weeks previous (other factors that contribute, eg failed picks)

Slide 7

Actionable Reporting - reports that we can make use of to improve shop performance

- **3i** - measure of inventory accuracy from the stocktake - SKU integrity
- Look at by layout level to understand where the biggest impact can be made from stock management in between stocktakes
- Where to check and correct stock estimates
- **Not on shop floor** - fairly common report that shows SKU's counted in the warehouse but not on the shop floor. We are using this to support replen operations to get stock on the shop floor (Failed Pick with stock)
- **Multi locations** - products spread out across the warehouse - makes stock management and replen challenging
- **Shrinkage in between** - accuracy of stock management activity by shops - are there certain areas that are impacted the most
- Drive on accuracy over volume

Slide 8

Stocktaking is very much an ongoing story

We have a strategy that we had faith in

Which our analysis and the ECR study backed up

So we were able to move forward with confidence, but the challenge will always be with stakeholders to see the benefits in stocktakes so we will continue to try and win hearts and minds with our approach

Our confidence however is met with slight apprehension as we have no idea what Covid will bring and what the 'New Norm' will look like

But we will go on with our main aim through stocktaking which is to put more money in here

Thank you very much for listening