OPERATIONAL EFFICIENCIES

Description
As a Group, *TR* is committed to continuous improvement. We are always looking for ways to make our processes more efficient, whether that is by improving our manufacturing capacity and utilisation, working with our vendor base to manage costs, increasing our available warehousing space or improving our management and business information systems. We understand the importance of an efficient and effective cost structure, so as to best future proof the business and to support our strategy for growth.

Performance so far
Since 2010, our gross profit margins have increased by 666bps (AER), our underlying operating margins by 1,003bps (AER) and our overheads, as a percentage of sales at AER, have fallen from 23.5% in 2010 to 19.8% in 2017.

In the last 12 months, we have specifically focused our efforts in a number of areas to achieve an improved underlying operating margin of 11.3% (2016: 10.4%).

Manufacturing
The investments we have made in our Italian manufacturing have successfully removed a key bottle-neck which was standing in the way of increasing capacity more widely at this site and, in the long term, will help improve efficiencies and maintain gross margins as in-house production levels increase.

In PSEP, we have been working very successfully as a global team to ensure we make better use of their unique capability within the Group to manufacture very high quality safety critical automotive parts. Our global and local sales, sourcing and manufacturing teams have been working very closely together over the last 12 months to ensure that wherever relevant external opportunities are identified, we are making the right 'make or buy' decisions on a Group level. Our internal quoting times have been significantly shortened and the direct involvement of the PSEP team with end customers has helped us to win substantial additional business, most notably in Japan and America.

Warehousing & sourcing
In the UK we have introduced further 'lean-lift' technology to help reduce picking times and further improve efficiencies. In Italy, we have invested in automated packaging machines to increase efficiencies and reduce costs at this final stage of the production process.

Over the second half of FY2017, we have started to see some pressure on import costs into the UK due to the protracted weakness in Sterling. This is not out of sync with the wider market, but we have been working hard at a Group and UK sourcing level to manage these pressures and also put in place appropriate mechanisms for dealing with this in the medium term.

Plans for the future
In terms of our manufacturing efficiency, in the medium term we expect to see ongoing efficiencies as a result of the investments made over the last 12 months in Malaysia and Italy, but the most exciting opportunity lies with our investment in Singapore. This is already one of our most profitable sites, which, as a result of the mezzanine expansion, will see capacity increase by one third, allowing an increased in-house margin.

Outside of this, an increased integration within and between both the manufacturing and distributions sides of our business, is expected to help share best practise more widely and also help us to better leverage off our global supplier relationships.

In terms of our wider management and business information systems, we are also in the process of looking at further investment opportunities that will allow us to generate information more efficiently, so as to reduce costs in the longer term. In the medium term this has been focused predominantly on our customer relationship management, human resources and Group level finance functions.