

Our Strategy and Business Model (continued)

The self storage market

In the recently published 2016 Self Storage Association UK Survey, only 41% of those surveyed had a reasonable or good awareness of self storage, in line with findings from our own research. Furthermore, only 7% of the 2,075 adults surveyed were currently using self storage or were thinking of using self storage in the next year. This indicates a continued opportunity for growth and with increasing use, together with the ongoing marketing efforts of everyone in the industry, we anticipate awareness will grow.

Growth in new facilities across the industry has been largely in regional areas of the UK and in particular in smaller towns. In London in 2015, we believe there were six new store openings last year (including our Enfield store), and three closures of stores for redevelopment into alternative uses. Between 2010 and 2015 average industry openings have been approximately 11 per year, which compares to an average of 34 per year in the preceding four years.

The Self Storage Association ("SSA") estimates that the UK industry is made up of approximately 1,077 self storage facilities (of which 195 are purely container operations), providing 37.6 million sq ft of self storage space, equating to 0.6 sq ft per person in the UK. This compares to 7.8 sq ft per person in the US, 1.8 sq ft per person in Australia and 0.1 sq ft for mainland Europe, where the roll-out of self storage is a more recent phenomenon (source: Fedessa European Self Storage Annual Survey 2015). 357 self storage facilities in the UK are held by large operators (defined as those managing 10 facilities or more), which represents 40% of the total number of self storage centres, but we would estimate approximately 50% to 60% of total capacity.

Big Yellow is well placed to benefit from the growing self storage market, given the strength of our brand, and online platform which delivers approximately 86% of our prospect enquiries. Our portfolio is strategically focussed on London, the South East and large metropolitan cities, where barriers to entry and economic activity are at their highest.

KPIs

The key performance indicators of our stores are occupancy and rental yield, which together drive the revenue of the business. These are three key measures which are focussed on by the Board, and are reported on a weekly basis. Over the course of past five years, both occupancy and revenue have grown significantly. Rental yield was relatively stable between 2011 and 2012, reduced following the introduction of VAT in 2013, grew by 6.1% in the year to 31 March 2014, and decreased by 3.5% in 2015 principally reflecting the acquisition of the Big Yellow Limited Partnership stores, a regional portfolio, at a lower average net rent per sq ft. In the current year, net rent has increased by 2.7%. Our key focus is on continuing to grow occupancy, with rental yield growth following once the stores have reached higher occupancy levels.

Adjusted profit before tax, adjusted earnings per share and distributions to shareholders are our other KPIs. We have delivered compound eps growth of 14% over the past five years, and compound dividend growth of 26% over the same period. Compound adjusted eps growth since 2004/5 is 17%. We have illustrated the Group's performance in these measures over the past five years on page 11.

Operational and Marketing Review

Overview

We now have a portfolio of 73 open and trading Big Yellow stores, with a further five development sites and two extension opportunities. The current maximum lettable area of this platform is 4.6 million sq ft. When fully built out the portfolio will provide approximately 5.0 million sq ft of flexible storage space.

In addition we operate from 16 Armadillo stores which are principally located in northern towns and cities, and operate from a platform of 0.7 million sq ft.

Access to capital and bank facilities has improved in the last couple of years, however this is mainly for larger well-capitalised groups, rather than necessarily the smaller, independent operators. Growth in new openings over the last five years has averaged just over 1% of total capacity per annum, down significantly from the previous decade. Additionally, in our core markets in London and the South East, very high land values driven by competing uses such as residential, is making the creation of new supply very difficult for all operators. We believe that we are in a relatively strong position given the strength of our balance sheet and our proven property development expertise, together with our ability to access funding to exploit the right opportunity.

For unprompted brand awareness, our recall across the UK as a whole is more than six times that of our nearest competitor.

Operations

The Big Yellow store model is well established. The “typical” store has 60,000 sq ft of net lettable storage area and takes some three to five years to achieve 80% plus occupancy. Some stores have taken longer than this given they opened just before or during the downturn. The average room size occupied in the portfolio is currently 67 sq ft, in line with last year.

The store is open seven days a week and is initially run by three staff, with a part time member of staff added once the store occupancy justifies the need for the extra administrative and sales workload.

The drive to improve store operating standards and consistency across the portfolio remains a key focus for the Group. Excellent customer service is at the heart of our business objectives, as a satisfied customer is our best marketing tool. We measure customer service standards through a programme of mystery shopping and online customer reviews, all externally managed. Over the year, we have achieved an average net promoter score of over 70%, and average customer satisfaction scores of 9.3 out of 10.

We have a team of nine Area Managers in place who have on average worked for Big Yellow for twelve years. They develop and support the stores to drive the growth of the business.

The store bonus structure rewards occupancy growth, sales growth and cost control through quarterly targets based on occupancy and store profitability, including the contribution from ancillary sales of insurance and packing materials. Information on bonus build up is circulated monthly and stores are consulted in preparing their own targets and budgets each quarter, leading to improved visibility, a better understanding of sales lines and control of operating costs.

We believe that as a consumer-facing branded business it is paramount to maintain the quality of our estate and customer offering. We therefore continue to invest in preventative maintenance, store cleaning and the repair and replacement of essential equipment, such as lifts and gates. The ongoing annual expenditure is approximately £30,000 per store, which is included within cost of sales. This excludes our rolling programme of store makeovers, which typically take place every five years, at a cost of approximately £20,000 per store.

Demand

Of the customers moving into our stores in the last year, surveys undertaken indicate approximately 46% are house move related, either customers renting storage space whilst moving within the rental sector or the owner occupied sector. During the year 11% of our customers who moved in took storage space as a spare room for decluttering and approximately 32% of our customers used the product because some event has occurred in their lives generating the need for storage; they may be moving abroad for a job, have inherited possessions, are getting married or divorced, are students who need storage during the holidays, or homeowners developing into their lofts or basements. The balance of 11% of our customer demand during the year came from businesses.

Our business customers range across a number of industry types, such as retailers, e-tailers, professional service companies, hospitality companies and importers/exporters. These businesses store stock, documents, equipment, or promotional materials all requiring a convenient flexible solution to their storage, either to get started or to free up more expensive space.

We have seen solid demand from business customers, as they seek a cost effective, flexible, convenient solution to their storage requirements, preferring self storage to the commitment of a longer lease, and given the difficulty of renting alternative mini-warehousing space in urban areas, particularly London.

Business customers typically stay longer than domestic customers, and also on average occupy larger rooms. Whilst only representing 11% of new customers during the year, businesses represent 19% of our overall customer numbers, occupying 35% of the space in our stores at 31 March 2016, domestic customers occupy 65%. The average room size occupied by business customers is 121 sq ft, compared to 54 sq ft for domestic customers. This compares with the 2016 SSA UK Annual Survey result for the industry as a whole which had 59% of space occupied by domestic customers and 41% of space by businesses. We would expect to have a higher proportion of domestic customers given our focus on London and other large metropolitan cities.

We have a dedicated national accounts team for business customers who wish to occupy space in multiple stores. These accounts are billed and managed centrally. We have four full time members of staff working on growing and managing our national account customers. The national accounts team can arrange storage at short notice at any location for our customers. In smaller towns where we do not have representation, we have negotiated sub-contract arrangements with other operators who meet certain operating standards.

Our Strategy and Business Model (continued)

Marketing and eCommerce

Our marketing strategy continues to focus on driving customer satisfaction and response through our multiple digital platforms.

For the last ten years, we have commissioned a YouGov survey to help us monitor our brand awareness. In our most recent survey, conducted in April 2016, we used a statistically robust sample size of 1,044 respondents in London and 2,084 for the rest of the UK. The survey has shown our prompted awareness to be at 74% in London, two and half times higher than our nearest competitor and 38% for the rest of the UK, over three times higher than our nearest competitor.

For unprompted brand awareness, our recall in London is 49%, more than five times higher than our nearest competitor and for the rest of the UK it is 20%, more than six times higher than our nearest competitor; across the UK as a whole it is more than six times our nearest competitor. These surveys continue to prove we are the UK's brand leader in self storage [source: YouGov, April 2016]. The UK Self Storage Association has also conducted a brand awareness survey with similar results.

Online

The Big Yellow website, whether accessed by desktop, tablet or smartphone, delivers the largest share of prospects, accounting for 86% of all sales leads across the year ended 31 March 2016. Telephone is the first point of contact for 9% of prospects and walk-in enquiries, where we have had no previous contact with a prospect, represent 5%.

We have the largest online market share of web visits to self storage company websites in the UK. Across the year ended 31 March 2016, our online market share of web visits ranged from 34% to 40%. Our nearest competitor ranged from 14% to 19% online market share for the same period [source: Connexity Hitwise 36 largest UK operators].

We continually monitor and improve the website user journey to make the experience as informative, customer focussed and intuitive as possible. Our mobile strategy is central to this. By the end of March 2016, smartphones and tablets accounted for 50% of all web visits. Specifically, smartphones alone accounted for 35% of web visits in March 2016, up from 32% in March 2015. The rate of growth in the use of mobiles and tablets is slowing, which may be an indication of a maturing market for these devices, and many of our customers continue to access our digital platforms through desktop computers and laptops.

Whether it is through desktop, tablet or mobile, our customers enjoy a seamless experience whichever digital route they choose. Our latest mobile optimised website was launched in May 2015 with enhanced usability and features. We are continually developing helpful and time saving online tools such as check-in online, online FAQs, video store tours and online chat. These all help the customer to make an informed choice about their self storage requirements.

Online customer reviews

Consistent with our strategy of putting the customer at the heart of our business, our online customer reviews generate real-time feedback from customers as well as providing positive word of mouth referral to our web visitors. Through our 'Big Impressions' customer feedback programme, we ask our new customers to rate our product and service and with the users permission, we then publish these independent reviews on the website. There are currently over 13,200 reviews published.

The Big Impressions programme also generates customer feedback on their experience when they move out of a Big Yellow store and also from those prospects who decided not to store with us. In addition, this programme reinforces best practice of customer service at our stores where customer reviews and mystery shop results are transparently accessible at all levels.

In addition, we also gain real-time insight from customers who submit reviews to TrustPilot, the well-known third party customer review site. These reviews are currently averaging 9.3 out of 10.

We also regularly monitor Google reviews and mentions of Big Yellow within the social mediums of Twitter, online forums and blogs. We use this insight to continually improve our service offering.

Driving online traffic

Search engines are the most important acquisition tool for us, accounting for the majority of traffic to our website. We continue to invest in search engine optimisation ("SEO") techniques both on and off the site. This helps us to maintain our high positions for the most popular and most searched for terms such as "storage" and "self storage" in the organic listings on Google.

The sponsored search listings remain the largest source of paid for traffic and we ensure our prominence in these listings is balanced with effective landing pages to maximise site conversion.

This year, we have also continued with online display advertising on websites which are targeted to our core audience groups. This activity performs both a direct response and branding role.

Efficiencies in online spend are continuing into the year ending 31 March 2017, ensuring the return on investment is maximised from all of our different online traffic sources. Online marketing budgets will continue to remain fluid and be directed towards the media with the best return on investment.

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Social media

Social media continues to be complementary to our existing marketing channels. Our activity is most focussed on Twitter, not only monitoring and answering queries regarding self storage, but also posting our own creative tweets, tips and advice. The Big Yellow YouTube channel is used to showcase our stores to web prospects through a video store tour. We use both domestic and business versions to help prospects experience the quality of the product without the need for them to visit the store in person. Our online blog is updated regularly with tips and advice for homeowners and businesses as well as summaries of our charitable and CSR initiatives.

PR

We have used PR stories in the year to help raise the awareness of Big Yellow and the benefits of self storage to different audience groups. These have focussed on the flexible benefits of using self storage at different key life events such as having a baby and dealing with divorce and separation. These stories help to promote the wider uses of Big Yellow Self Storage and have generated both national and regional media coverage online and offline. They are also supported by radio interviews which allow us to talk about the benefits of Big Yellow.

Budget

During the year the Group spent approximately £4.0 million on marketing (4% of total store revenue). We have increased the budget for the year ahead to £4.2 million with a focus on delivering more prospects to our stores from our digital channels.

Cyber security

The Group receives specialist advice and consultancy in respect of cyber security and we have dedicated in-house monitoring and regular reviews of our security systems. We also limit the retention of customer data to the minimum requirement.

During the year we have continued to invest in digital security, implementing new intrusion detection systems as well as the replacement of existing systems such as firewalls. Policies and procedures are under regular review and benchmarked against industry best practice by our consultants. These policies also include defend, detect and response policies.