

# DEBENHAMS

## Redesigned



### DEAR SHAREHOLDER

It has been an eventful first year for me at Debenhams, and an eventful year for all our 27,000 colleagues too, and I would like to thank them for their help and support in delivering these results and helping me and my team devise and develop our new strategy.

#### A year of activity and change

This year's results were achieved against a background of activity and change at Debenhams. After a strong first half, we saw a more volatile trading environment in the second half with some tough cost headwinds to manage. We have focused on getting the basics right and controlling what we can control. Against that background these results demonstrate that we have a resilient business model.

I joined Debenhams in October 2016 bringing with me experience that spans brands, international and online retailing, so I spent my first few months getting under the skin of this business. I commissioned some customer research to understand how and why our customers are changing, and we have analysed the profitability of every store, category and brand to inform the development of our strategy.

I have some core beliefs which have been reinforced by the research we have done: that retailers need to create compelling reasons for customers to shop with them; that shopping is a leisure activity, but convenience and excellent execution is non-negotiable; that brands must be meaningful and differentiated; that decision-making must be data-driven; that offline needs online, but that online also needs offline; and that mobile phones will unite the online and offline channels, becoming the way we build a relationship with our customers.

#### Great strengths to build on

After the work we have done, my confidence in the future of department stores is as strong as ever. As one of the most powerful brands in UK retail, I see great strengths we can build on at Debenhams; and we have identified a number of ways to improve the way we operate.

The Debenhams brand has 97% awareness in the UK and 19 million customers shop with us every year in stores that are often at the heart of their local community. We have market-leading positions in key categories such as beauty and occasionwear, and half of what we sell is either our own brands or exclusive to us. We are one of the most visited online retailers in the UK, with over 280 million visits to our website last year. And we have profitable international

operations, with a successful separately-branded business in Magasin du Nord, the leading department store business in Denmark.

### Changing shopping habits

As part of our research, we spent time talking to our customers, and shopping with them. We asked them about their shopping habits in the categories that are important to us and it is clear that, for the majority of our customers, the leisure experience is as, or more, important than convenience. At the same time, we looked at how customers are using the device that is part of everyone's life today, their mobile phone, in the context of shopping and leisure. In Market context on page 4, we explain how that has given rise to the ambition that Debenhams should become the destination for "Social Shopping".

Debenhams is a destination for fashion and beauty. Our customers tell us that shopping for these key categories is about buying a product that will help them look good and feel great, providing a confidence boost; and that the customer journey should be easy and fun –

an experience that many of them will want to share. This is our mission: to make shopping confidence-boosting, sociable and fun.

### Strategy that starts with what customers want

Our starting point is what our customers want. We need to create products, brands and services that excite them and we need to make it easy for them to buy from us. Our plan is to transform the shopping experience at Debenhams, creating great reasons for our customers to come to us whether they are sitting at home, commuting to work or enjoying leisure time browsing in stores. We want to build stronger, more personalised relationships with them, centred around mobile interaction.

Our objective is to build a successful future for Debenhams against a fast-changing background. To help us deliver this, we have built a plan that is good for our customers, good for our colleagues and, therefore, good for our shareholders. We call it Debenhams Redesigned.

See our strategy in action spreads on pages 9-19

## A NEW STRATEGY: DEBENHAMS REDESIGNED

We have identified a category we define as Social Shopping, and in which Debenhams aims to be a leader in, as we explain in the Market context on page 4, through the following strategic framework:



### Destination

We aim to make Debenhams a destination for Social Shopping by focusing on three key areas to grow: beauty & beauty services; fashion via accessories; and food & events – which we call Meet me @ Debenhams. If we can be higher in our customers' consideration for these categories, this will increase frequency of visits. Our customers visit us less frequently than some of our peers and by exploiting our market-leading position in premium beauty, encouraging cross-shopping between fashion and accessories and creating exciting places to eat and drink, we can increase traffic and spend per customer.



### Digital

Growth in mobile demand is driving growth in UK non-food retail sales and is a significant opportunity overseas. Our growth in mobile demand in 2017 was 57%, and mobile now accounts for 55% of Group digital sales. By using mobile to integrate our channels and become the primary means of interacting with our customers, we will increase loyalty and personalisation and broaden our reach. We intend to increase our digital distribution both through our own infrastructure and via strategic partnerships.

This strategy will deliver growth and efficiency over the next three years and beyond, delivering an enhanced experience for our customers, helping our colleagues to serve our customers better and creating value for our shareholders.



### Different

We are redesigning the culture at Debenhams, from being process-driven, to customer-led. We aim to foster creativity and innovation, underpinned by data-driven decision-making. We will reinvent Designers@Debenhams, making the proposition more relevant and managing our brand portfolio more robustly. We will build ranges for our online customers first. By being different in how we create and manage our brands and product, we will build their desirability and value.



### Underpinned by Simplify & Focus

We have embarked on a review of our processes and the way we do business in all areas to simplify them and improve our flexibility. We will aim to free up time for our people to serve customers and make better use of our inventory and our infrastructure. Our simplification of processes and operations will free up time for our colleagues to serve our customers better and encourage creativity and innovation at the centre. As we manage our stock more efficiently, this will help to improve full price sales and stock turn.

### Fixing the basics

We did not wait until we unveiled our new strategy to start work. In January, I tasked our teams to get on with fixing some of the practices in the business that we needed to improve, and since our new director of HR joined in May, she has been hard at work on the most important part of how we will transform the business, our organisation and culture. We have established three new business units: Fashion & Home, Beauty & Beauty Services; and Food & Events, in line with the Destination categories we identified.

My report card to date shows that we have delivered the following important initiatives since the beginning of the year:

- Reduced task-based focus in store, and introduced training programmes to support 2,000 more colleagues in customer-facing roles
- Repurposed our head office as a "support centre" for the business, rather than a head-office "process-driven" approach
- Added customer-service metrics to our internal KPIs, and seen a positive improvement in our net promoter score
- Reduced the average number of stock options by approximately 10% and reduced the fixture density in stores to make shopping easier
- Reduced the time to replenish stock from eight days to two days through our direct-to-floor distribution initiative
- Closed ten regional warehouses and begun consultation for the closure of our Northampton distribution centre

- Announced the closure of two stores, at Farnborough and Eltham
- Opened two new stores, at Stevenage and Wolverhampton, that are providing a "test lab" for new ideas on layout and merchandise presentation
- Developed our own progressive web app with expert partners to make our mobile site much faster and more responsive
- Announced a partnership with blow LTD, the UK's largest and fastest-growing "on-demand" beauty services provider
- Announced a partnership with Sweat! to trial three gyms in stores

### A strengthened management team

We have said "Hello" and "Goodbye" to some members of the senior team, so I would like to take a moment to thank Suzanne Harlow, Nikki Zamblera and Peter Swann, who have left us in 2017. Thank you for your dedication, enthusiasm and expertise, and your contribution to Debenhams over many years. And we have welcomed two new members of the Executive Committee: Sally Hyndman, who has joined from Dixons Carphone as Director of HR, and Angela Morrison, Director of Technology and Supply Chain, who has joined from Direct Line. With a number of other senior appointments, we have strengthened our management team and put in place an organisational structure to support the delivery of our strategy.

Sergio Bucher  
Chief Executive Officer  
26 October 2017

Read more on  
pages 16-17

## DEBENHAMS' MANAGEMENT TEAM

The right team to take the business forward

### Executive Committee (left to right):

**Matt Smith**  
CFO

**Sally Hyndman**  
Director of HR

**David Smith**  
Managing Director, International

**Sergio Bucher**  
CEO

**Angela Morrison**  
Director of Technology and Supply Chain

**Richard Cristofoli**  
Managing Director, Beauty & Marketing

**Ross Clemmow**  
Managing Director, Retail, Digital, Food & Events



Read more on page 43

# Getting the basics right

## A year of significant action

OCT  
2016

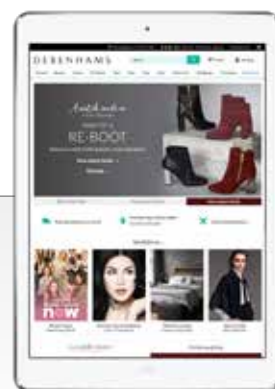
### — Sergio Bucher joins Debenhams as CEO

Initiates customer research and fully loaded P&Ls by store, category and brand

DEC

### — Digital sales growth accelerates over peak

Driven by mobile demand up 68%

JAN  
2017

### — Debenhams reports record Christmas trading, with 5% LFL growth over peak

— "Fix the basics" plan gets under way

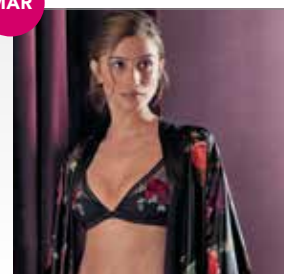
FEB

- Support centre launches Simplify Week
- Customer service metrics added to KPIs

MAR

### — Remerchandising trials for lingerie commence

— Plans for Stevenage opening revised



DEBENHAMS  
*Redesigned*



- Q3 trading update
- Direct-to-floor deliveries commence

APR

### — Debenhams Redesigned strategy unveiled alongside interims

— Consultation begins on warehouse closures

MAY

### — New Executive Committee members join

— Single warehouse management system transition completed

JUNE



JULY

### — Colleague training programme begins

— Regional warehouses start to close

AUG

### — New Stevenage store opens

