

Strategic report

STRATEGY IN ACTION



Destination

Our priority actions to sustain leadership in Beauty and to improve the shopping experience for our customers underpin our mission to make shopping fun, social and easy, as well as being key to encouraging our customers to visit us more often.



2

Growth in beauty through digital/social

Beauty products and services

What we have done

Our first two Beauty Halls of the Future have opened at Watford and Meadowhall. We have trialled a new multi-brand format – #beautyhub – that will extend choice in smaller stores. We launched three blow bars offering beauty services in our stores at London Oxford Street, Birmingham and Manchester.

What we are going to do

We plan to roll out elements of our Beauty Hall of the Future to 40 further stores before peak trading. We see opportunities in mini beauty products (for travel and gift) and growth in categories such as skincare and male grooming.



3

Improve fashion product

Fashion via accessories

What we have done

Debenhams has maintained a 5% share in the UK clothing market, supported by leading market positions in important accessories categories (eg bags, swimwear, branded lingerie). We have assembled a new leadership team in Fashion & Home, with a restructured organisation.

What we are going to do

We will see a step forward in product this autumn, particularly in womenswear. We are increasing the emphasis on newness, introducing new brands, “new this week” hubs and more capsule collections in our own brands. We have seen a strong customer response to trials of an enhanced service proposition in footwear and lingerie.

4

Change instore experience

Meet me @ debenhams

What we have done

We have continued to roll out new food and drink offers with exciting new brand partners, such as Franco Manca and Nando's. This has driven a record year in food sales. We trialled our own in-house developed fresh and healthy food offer, Loaf & Bloom, and upgraded menus and service in our instore restaurants. As well as our established VIP evenings before Christmas, we hosted a national “Summer School of Beauty” event in June.

What we are going to do

We are adding 75 pop-up food offers before Christmas, including gin bars, as seen at Watford. We are testing another in-house developed concept, The Kitchen, for a different customer demographic. As the nationwide destination for shopping events, we are expanding our event programme with privileged access for our VIP customers.

Strategic report

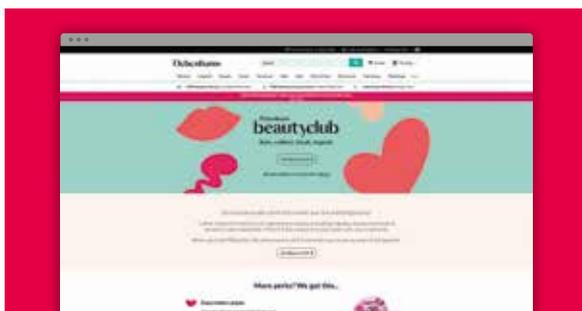
STRATEGY IN ACTION



Digital

One of our five priority actions is to continue to deliver above market growth in digital. Mobile is becoming the primary means of interacting with our customers; we aim to increase loyalty and personalisation.





2 Growth in beauty through digital/social

BeautyClub Community

What we have done

Our BeautyClub card loyalty scheme has more than 1.3m members and we have over half a million followers on Facebook and Instagram. We also have more than 6,000 beauty experts in our stores. We have developed our own social media platform using an established software provider to access the community of highly digitally-engaged beauty consumers.

What we are going to do

We are creating a digital destination, accessed via Debenhams.com, bringing together beauty beginners, enthusiasts and experts in a fun, rewarding and safe space to connect and share their passion by asking questions, offering knowledge and giving authentic advice. Users will be able to earn rewards from their participation. The BeautyClub Community is the first of its kind in the UK and has met with an enthusiastic early response.



1 Above market growth

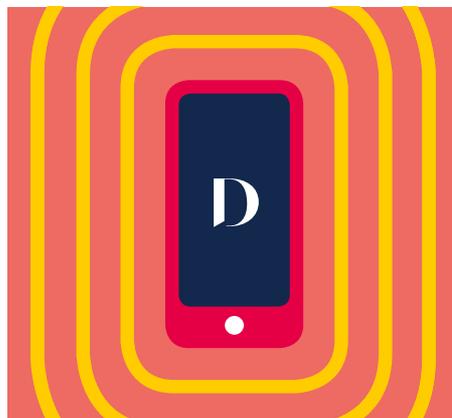
Mobile@ everywhere

What we have done

FY2018 growth in UK digital sales of 10% compares with UK market growth of c7% (according to the BRC) and was powered by strong mobile demand, which now accounts for c60% of online orders. Through our partnership with progressive web application Mobify, our work to improve the customer journey has grown smartphone conversion rates by 17%.

What we are going to do

Our progressive web application development will gradually replace functionality in our existing web platform and give us all the flexibility of an app. All our development work is mobile first as this is the focus of how we are building customer loyalty and personalisation.



4 Change instore experience

Click & Collect

What we have done

Next day click & collect accounts for over 30% of online orders and drives store footfall. We have been testing a partnership with Duddle in 50 stores, providing collection services for other retailers' orders. We have announced this will be extended to all stores.

What we are going to do

Our modernised stores show how we can transform the click & collect service to be engaging and sociable as well as a convenient and reliable service. Linking the service with personal shopping and other activities will make click & collect a leisure experience in its own right.



Different branding

We aim to foster creativity and innovation, underpinned by data-driven decision-making. We have launched new branding and marketing which is consistent across all our communications and acts as a call to action to customers signalling changes to product, presentation and environment.



4

Change instore experience

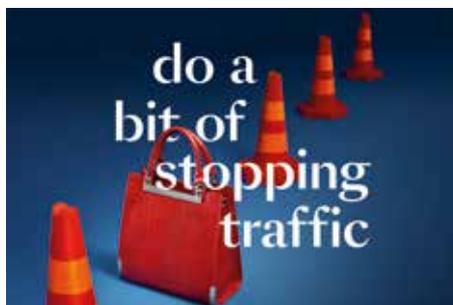
Innovation and culture

What we have done

We have reorganised the way we operate into three business units that are aligned with our strategy: Beauty & Beauty services; Fashion & Home; and Food & Events. With clearer lines of responsibility and a holistic view of each division we are already seeing better collaboration and visibility of data. Our "Service Redesigned" programme included dedicated training and incentives and a mystery shopper programme. As a result we have delivered a significant improvement in net promoter scores.

What we are going to do

Our new structure for Fashion & Home is buyer-led and design-driven, supported by a centralised planning function. This will improve accountability, align activity across channels and markets and lead to faster decision-making.



3

Improve fashion product

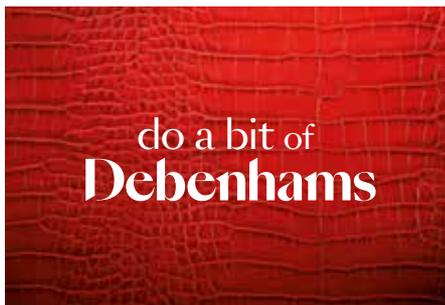
Designers@ Debenhams

What we have done

Our long-standing collaboration with designers remains a core attraction for customers and an important point of differentiation for Debenhams. In line with a more robust portfolio approach, we are phasing out Ben de Lisi and John Rocha and have introduced a capsule collection from London Fashion Week award-winner Richard Quinn.

What we are going to do

Following positive early results from upgrading fabric quality for some of our newer designers, we are extending this further across the portfolio. We plan to offer "little black dresses" from each designer to make Debenhams the destination for partywear this season.



3

Improve fashion product

Brand matrix

What we have done

We have a strong track record of brand creation, with a number of our brands generating annual turnover of over £100 million, making them sizeable businesses in their own right. We have taken some of these brands back to their roots, restoring a clear brand identity, with positive early results, for example at Principles and Star by Julien Macdonald.

What we are going to do

We are rolling out a new brand identity – our first for 20 years – which aims to alert our customers to the changes at Debenhams and encourage brand reappraisal. We are proud of the Debenhams brand and are bringing together our entry level product in home under this label. We are managing our gift offer differently, with 70% of the range changed for this Christmas. We are starting to build ranges online first, editing store ranges based on online catchment data.





Simplify & Focus

In light of rapid market change, we accelerated our cost reduction programme to deliver annualised savings of £20 million. A leaner operating model, with fewer management layers, is delivering faster decision-making and potential to drive out further efficiencies.



5

Deliver cost reduction activity

New operating model

What we have done

We identified the opportunity for £20 million cost savings. We reduced the number of roles across our store estate by 320 whilst increasing customer-facing hours. At our support centre, we have streamlined the number of management layers from 17 to nine and reduced the space and occupancy cost in our London office by 20%.

What we are going to do

We have identified further cost opportunities that should deliver additional cumulative annual savings of c£70 million by FY2020. Whilst the market remains volatile and uncertain, we will continue to look for further efficiency savings to offset inflationary headwinds.



4

Change instore experience

Store estate

What we have done

We closed two stores of the ten that we had identified for potential closure as a result of our initial portfolio review. We have modernised six stores, including a downsized store at Uxbridge, building on the lessons from our award-winning Stevenage store.

What we are going to do

We have again reviewed our store estate in light of the rapidly-changing market environment. As a result we have segmented our stores into those locations that will deliver a good return on investment, in line with the principles embodied at our "store of the future" in Watford; those locations in lower-performing markets where we see risk that they will become unprofitable and so will exit; and the balance which remain profitable but are unlikely to justify future investment. We are working closely with landlords to align rents to the market.



5

Deliver cost reduction activity

More efficient use of resources

What we have done

We have created two key sourcing hubs in Hong Kong and Bangladesh to drive standard and efficient ways of working that support a leaner and more flexible UK sourcing structure.

What we are going to do

Our aim is to achieve a more flexible and customer-led supply chain, supporting more frequent product newness whilst also delivering better availability on continuity lines. We are maintaining our investment in warehouse automation, which will reduce fulfilment costs.





International

We are adapting Debenhams Redesigned to our International operations, looking to leverage and grow successful partnerships through both franchised and wholesale relationships, and increasing our digital presence. We continue to exit lower-growth, lower-potential markets.



Leverage and grow successful partnerships

What we have done

We have strong partnerships in markets such as the Middle East, which account for around half our franchise operations. We opened a flagship store in Kuwait, and a new store in Riyadh. Wholesale customer sales grew over 50%, with strong growth via our digital partner Zalando. We have launched a mobile site for international e-commerce.

What we are going to do

Our international teams have been reorganised to align with our new business unit structure and this will underpin our future franchise service model. As we focus on fewer partners, we will be able to pursue our ambition to develop a multi-channel offering in key international markets.



Debenhams Avenues, Kuwait

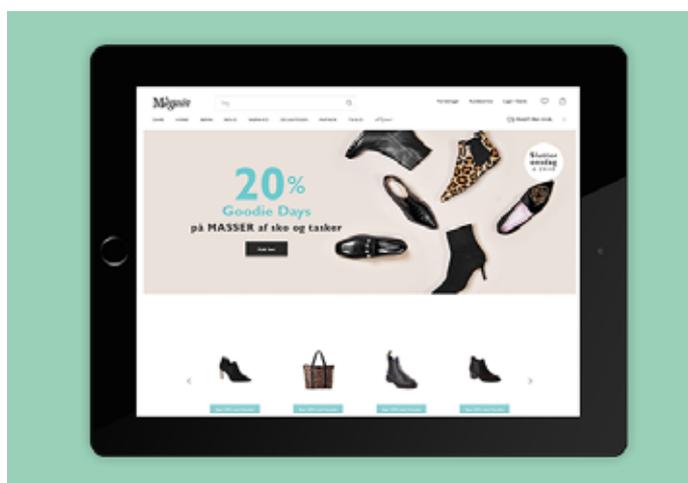
Simplify

What we have done

We are continuing to review our international market presence. In FY2018 we closed a net five franchise stores, exiting two markets, mainly in Eastern Europe.

What we are going to do

We are testing and learning from marketplace and wholesale models in order to prioritise investment. We are working with our international partners to introduce customer-led methodology for product selection and we are developing an agile design, sourcing and buying operation to support targeted international product.



Denmark

What we have done

Magasin du Nord remains the largest profit-generating entity within International. It has invested in its flagship Copenhagen store and introduced 75 new brands. Digital growth has continued to be exceptionally strong.

What we are going to do

Our first new store for 12 years opened in Aalborg in September, taking the chain to seven. We plan to take Magasin beyond its domestic market, as the destination for the best of Scandinavian design, with digital entry to another Nordic market planned this year.



Beauty Hall, Copenhagen, Kgs Nytorv