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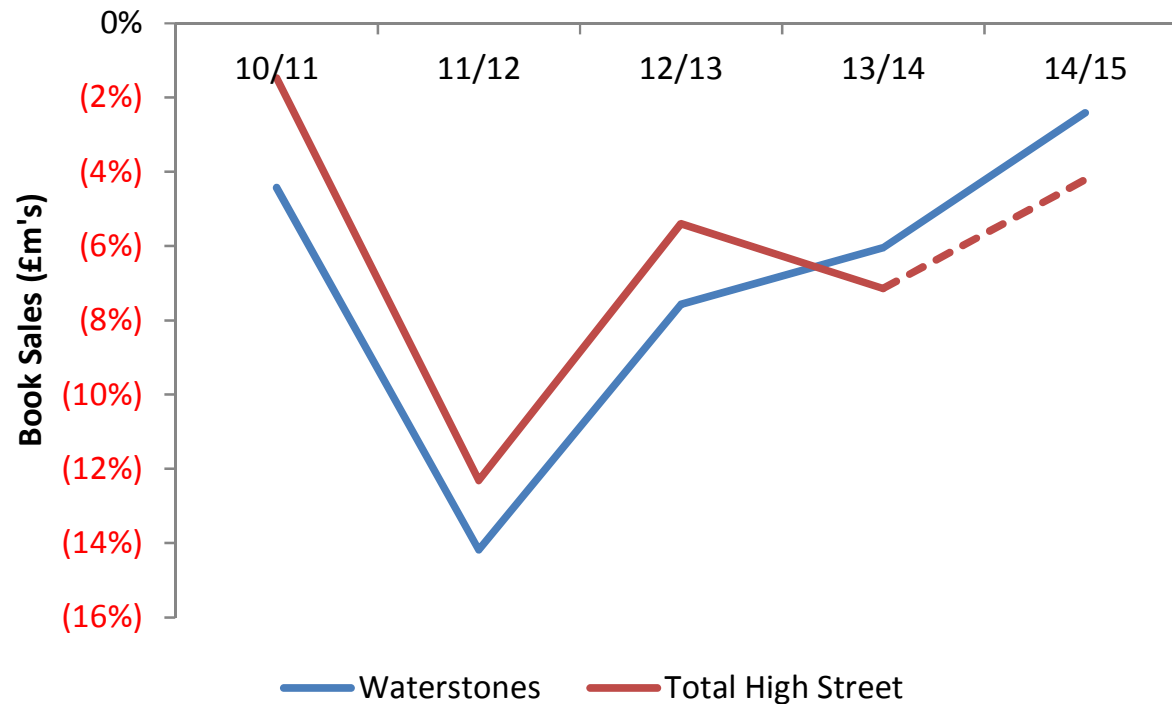
**The strategy of a bookshop chain
and of an independent bookshop**

James Daunt

Waterstones

UK Book Market is starting to stabilise but it is 30% lower than in 2010

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- There was an unprecedented decline in the UK book market in 2011/12 of 12%. Waterstones fell 14%. The market is now 30% lower than in 2010.
- Market is starting to stabilise

Waterstones

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The 4 principles

- 1. Understand how you make money**
- 2. Change the ratios you control**
- 3. But only if you also improve the bookshop**
- 4. The booksellers must believe in change**

Waterstones

Booksellers selling books

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Waterstones

Daunt Books

Stickering, returning, ordering



Helping customers

Routine tasks – low trust



Discretion - High trust

Day is spent making a
manager or publisher happy



Day is spent improving the shop
and selling by recommendation

Rigid & hierarchical work practices



Flexible

Little accountability



Strong accountability

Behind the counter/in the office



On the shop floor

Low paid



Higher & performance related pay

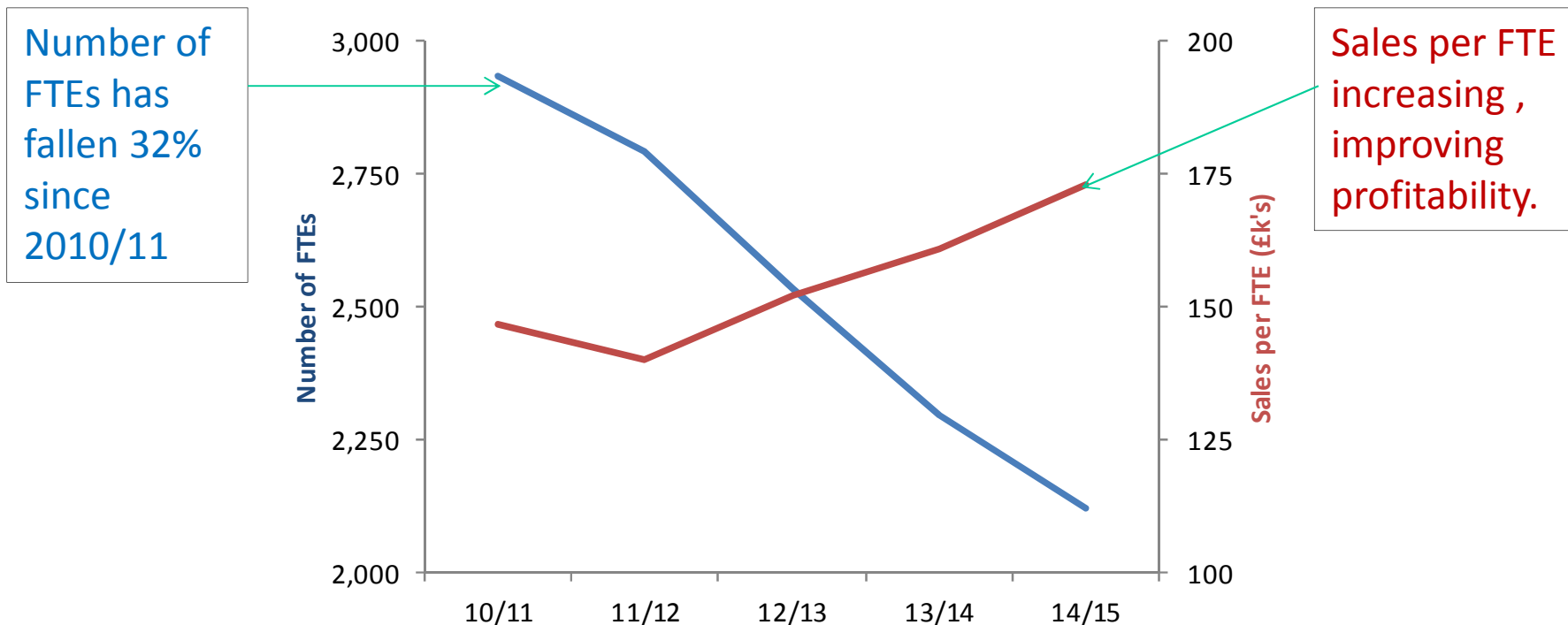
Low energy



High energy

Waterstones

Operational Efficiency – Store Payroll



- Focus on reducing boring work-load has reduced FTEs by 32% since 2010/11 and costs by £16m. Booksellers are there to help customers and work on the shop floor.
- We will continue to improve the bookseller's job enabling us to reach £200k sales per FTE in 2015/16

Waterstones

A bookshop is made by its books

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Waterstones

Daunt Books

Stock turn average 3x



Minimum of 5 x stock turn

Range is passive



Constant review of range

Re-ordering by algorithm



Every book that sells is judged

Sections and arrangement static



Sections size changes

Reliance on high returns



Presumption of firm sale

Low accountability by booksellers



High accountability

Theft and obsolescence high



Inventory accuracy a cult

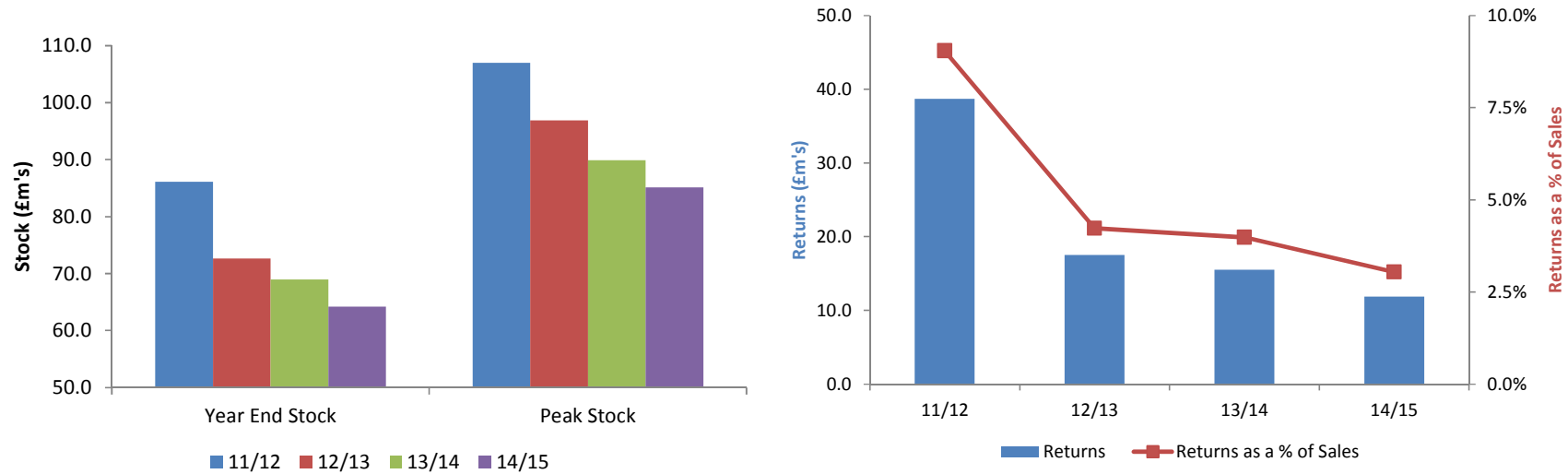
Stock rooms full



Tidy and empty

Waterstones

Managing our working capital through stock

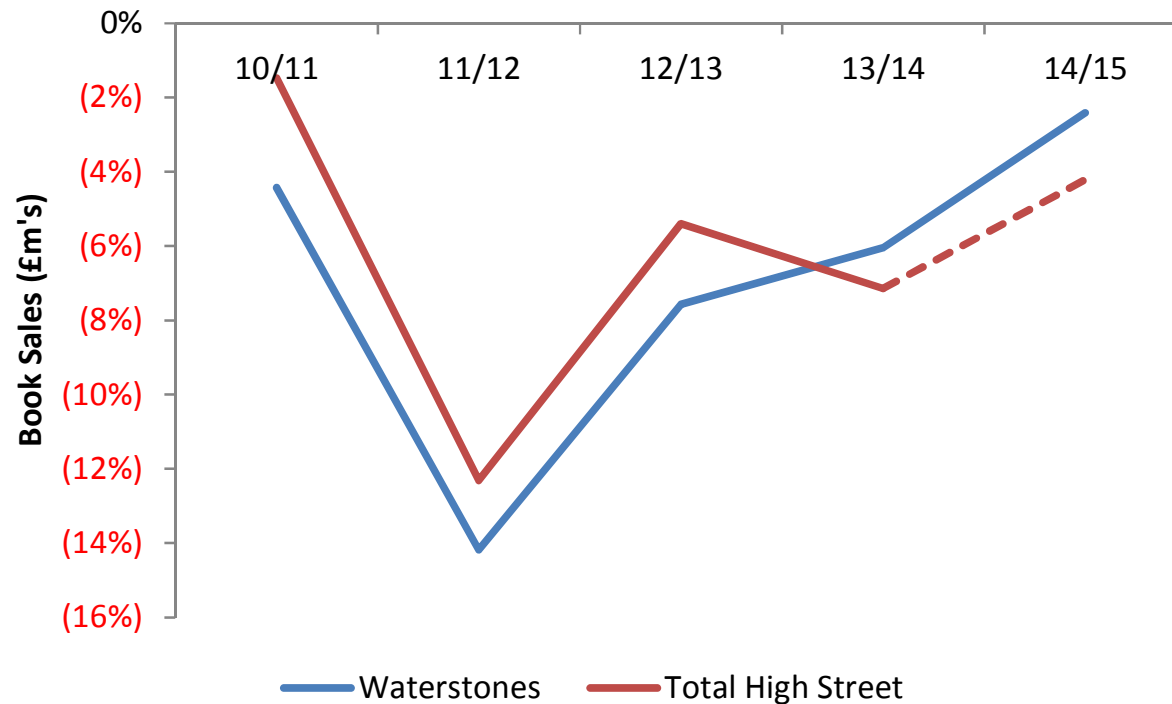


- Peak stock has reduced by 20% since 2011 reducing peak funding by £13m.
- Reduction in returns reduces working capital but it also reduces a boring, time consuming and worthless job for booksellers.
- Title count is up by over 20%.
- Availability is improved and stock accuracy
- Stock turn to be over 3 for all and over 4 for most

Waterstones

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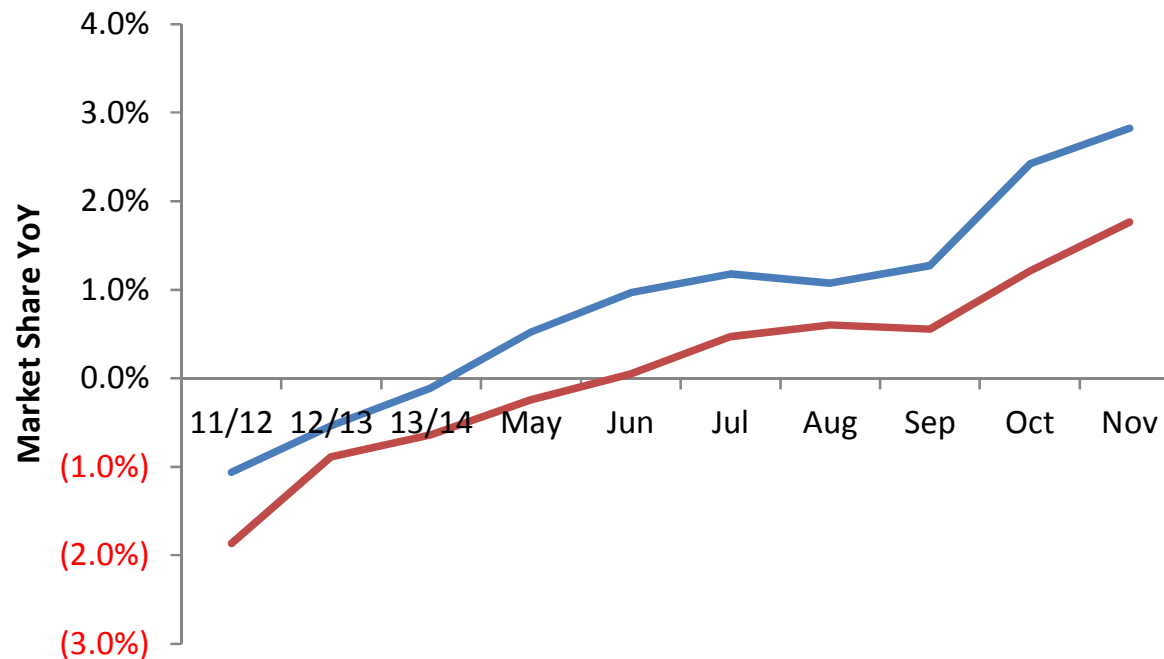
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Waterstones

Performing well against our competitors



* Excludes 50 shades

— High Street — Total Market

- Through better bookselling, we are starting to gain share on the high street as well as in the book market as a whole.
- Based on WH Smith trading announcement, our performance was +1.5% in 2012/13 and +5% in 2013/14.

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Culture of empowerment

With empowerment comes responsibility

- Knowledge
- Friendliness
- Energy

It makes better bookshops that are much more fun to work in, as well as to shop in

Waterstones

WELCOME TO THE CHILDREN'S DEPARTMENT!

Sun 14th Dec

Jeff Kinney

Diary of a Wimpy Kid

The Secret Garden



Waterstones

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Waterstones

Gift

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Integrated Displays

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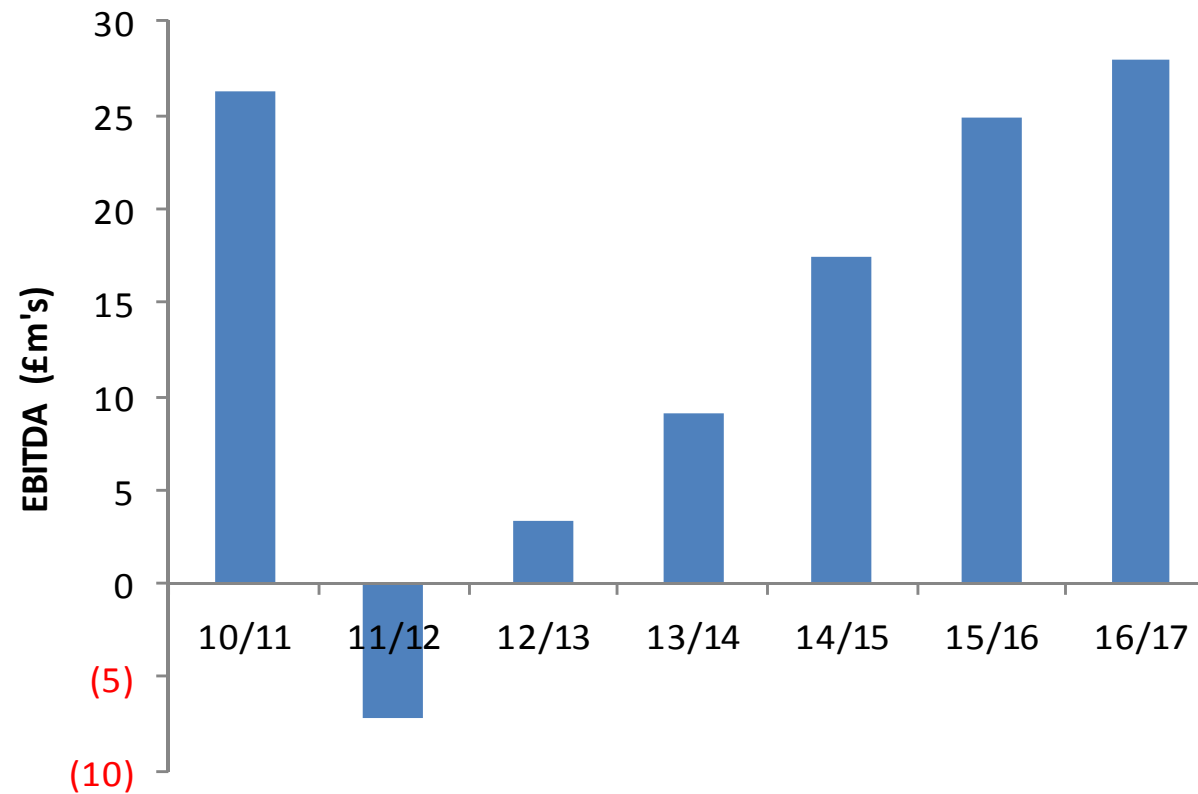
Pocket Money & Impulse Gifts W

- Beautiful new Queue Barrier.
- Extended range of products which we would traditionally have struggled to merchandise.



EBITDA 10/11 to 16/17

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- Back on track after the catastrophe of 2011.
- £17m this year
- Would have been £65m with current ratios and 2010/11 sales

Waterstones



Southwold Books

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**The strategy of a bookshop chain then
is to be an independent bookshop**

Waterstones