

Our strategy for growth



Bewitching

Our aim is to lead sofa retailing in the digital age. We intend to strengthen our market position, lead from the front and embrace the challenges and opportunities of the digital age.

Our strategy is centred on three interrelated pillars across which we see £40m of incremental profit opportunity in the medium term spread broadly equally across the pillars.

The strategy reflects the Group's expertise, scale, retail assets and supporting infrastructure and the ability to utilise these enablers to both improve our operating efficiency and unlock the growth potential across the brand portfolio.

01

Drive DFS core

A renewed focus on driving the core DFS business across all channels

01 Omnichannel

Develop seamless customer journey across channels

Focus for 2020/21

- Further enhancements to seamless customer journey
- Incremental product sales opportunities via DFS website

02 Product innovation

Enhance our unique and differentiated product offer

Focus for 2020/21

- New 'data-driven' product launches to drive conversion, improve margin and attract new customers to the DFS brand
- Collaborate with our brand partners and roll-out new eye-catching models

03 Customer proposition and service innovation

New services to engage customers

Focus for 2020/21

- Evaluate 'video in store' proposition trial
- Light-touch refresh for selected showrooms

02

Build the platforms

Build platforms to enable profitable Group growth

01 Cost efficiency and property cost reduction

Reduce our relative cost base

Focus for 2020/21

- Flexible, strategic approach to lease negotiations – medium-term cost savings targets remain on track
- Repurposing retail space to improve productivity and customer proposition

02 Supply chain

Best-in-market two person sofa delivery and installation

Focus for 2020/21

- Complete Group-wide rollout of inventory management system
- Extend trials of 7-day extended hours delivery model
- Roll-out of Sofa Delivery Company into new locations

03 Marketing investment

Data and insight driven efficiency and effectiveness across the Group

Focus for 2020/21

- Applying data-driven econometric analysis to target significant improvements in marketing ROI

03

Unlock new growth

Unlock and deliver new profitable growth

01 Sofology

Develop a nationwide business

Focus for 2020/21

- Targeting 6-10 new showrooms in key locations
- Continued development of omnichannel initiatives
- Increase marketing intensity to build brand awareness

02 Dwell

Broaden reach through digital, wholesale and right space

Focus for 2020/21

- "Pivot" Dwell to a wholesale brand
- Disposal of Sofa Workshop (completed September 2020)

03 International: Netherlands

Break-even and beyond on current model

Focus for 2020/21

- Develop options for medium-term growth

Strategy in action

01 Drive DFS core

Incremental gains from wide-ranging omnichannel initiatives

Our experience during lockdown and the subsequent careful re-opening of our showrooms highlighted that customers really value being able to shop online, in-store or a combination of both channels. This unique period presented a genuine test of recent omnichannel investment, highlighting the resilience of our digital infrastructure and the creativity of our commercial teams. In the year ahead, we're planning more initiatives across a range of areas to further enhance our customer experience.

We're continuously investing in technology to improve customers' shopping experience across our showrooms and websites. With the purchasing process increasingly beginning online, customers are able to use a growing range of online tools to help them find their dream sofa, helping differentiate us from competitors. In the last year, achievements included an expansion in the number of sofas in our Augmented Reality visualisation tool database, allowing customers to use smartphones to visualise a wider range of models and colours in their own living space. The completion of our shared web-to-store customer basket allows customers to create an editable shortlist of preferred options they can take into the showroom. Combined with the launch of our appointment booking facility, customers can discuss potential purchases with well-informed colleagues at a time that suits them.

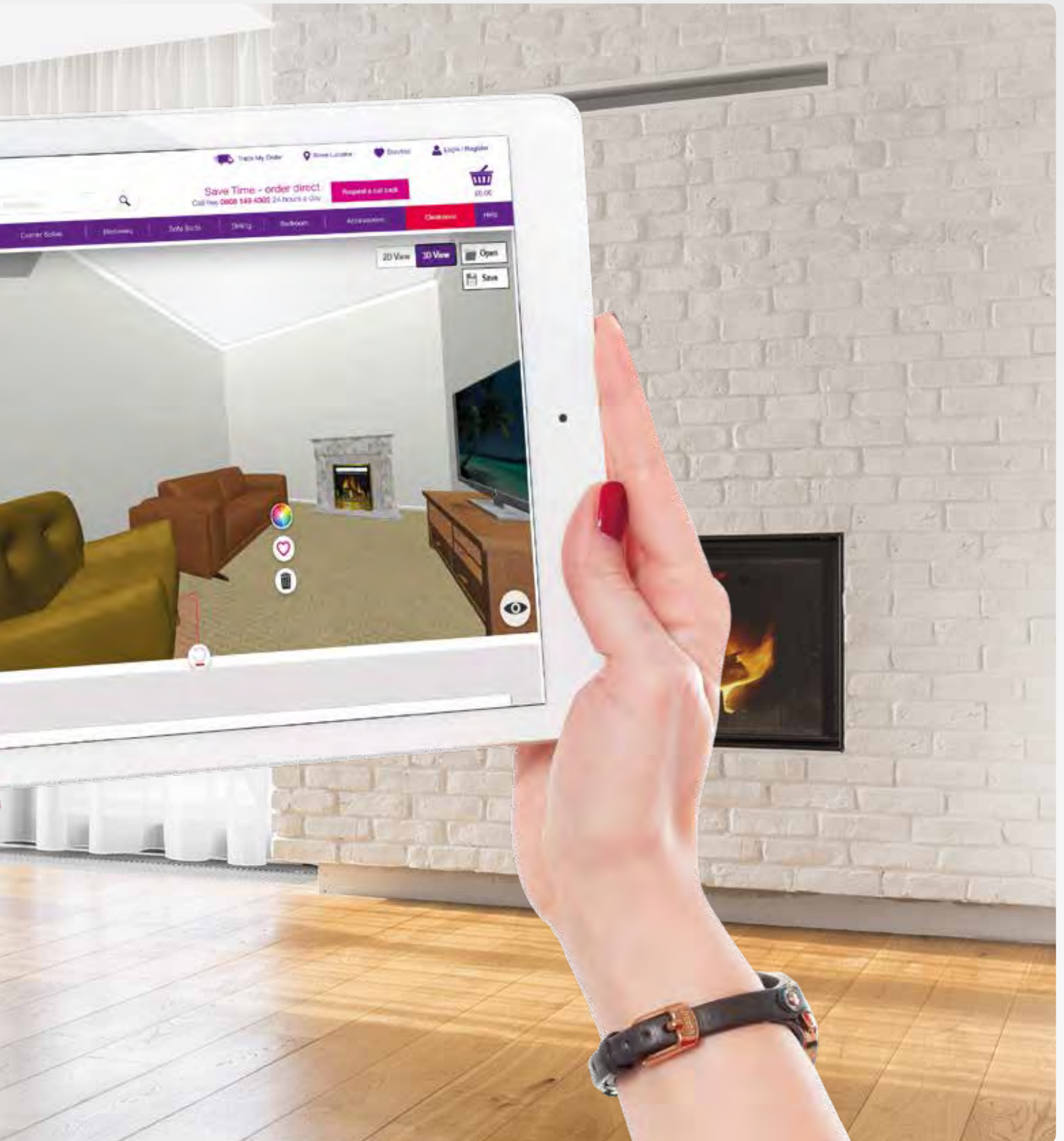
In the current year, drawing on successful learnings from Sofology, we are trialling live video-in-store communication, so customers can interact directly with local DFS colleagues before travelling to the showroom.

Product innovation also remains at the heart of DFS. We're excited about our new product launches in the year ahead, which include ranges to appeal to all of our major target customer groups, such as Halo Luxe and further exclusive brand range extensions. We're making increasing use of data and customer insight to improve our product ranges, and drive sales of our exclusive branded products.

The surge in post lockdown visits to our showrooms underlines that showrooms remain at the heart of the sofa purchase customer journey. We've been refreshing our showrooms with better lighting, new flooring and improved visibility across the shopfloor, leading to higher sales and a significantly improved customer feedback.

With a record order bank as we head into the new financial year, we're expecting to be busy on a number of fronts, but we believe our targets of constant improvement across the DFS brand leave us well placed to deliver further profitable market share growth into the medium term.





02 Building a leading Group-wide supply chain platform

Our two-person sofa delivery and installation service has long been a source of competitive advantage for DFS, but we're looking to leverage this further as we seek to build on recent systems investments and service initiatives to develop a best-in-class Group-wide platform.

As we move towards an increasingly integrated Group structure, we are rolling out our leading DFS supply chain platform to support our upholstery-led brands. This results in a more efficient use of our distribution infrastructure, delivering economic benefits and reducing the environmental impact through less overall delivery miles. To this end, in the last year we have extended a number of trials and initiatives as we put in place a number of key building blocks for the future.

In the last financial year, we continued the development of our Stockwise inventory management system that will be integrated across the Group's different retail brands, enabling us to fulfil a range of orders from the same customer delivery centre regardless of which retail brand sold to the customer. We have also completed the rollout of our in-day delivery tracking system allowing customers the ability to track, online, the progress the delivery team are making against the estimated time of arrival on the day of delivery.

In our Belfast Customer Delivery Centre (CDC), alongside a full trial to test our systems integration, we also introduced our new 'Sofa Delivery Co.' branding and vehicle livery, which was received positively by both customers and colleagues. In our Glasgow CDC, in addition to our brand launch, we also began full trials of a new working practices model which combines more flexible shift patterns for colleagues with the ability to offer 7 days a week, extended hours delivery to customers, improving both customer satisfaction and employee work-life balance with an industry-leading 4 on 4 off colleague shift pattern.

In the current year, our priority is to complete the roll-out of our fully integrated supply chain systems and The Sofa Delivery Co. branding across all our CDCs and the StockWise inventory system across all of our Group retail stores. As our retail competitor set continues to evolve, we believe our supply chain initiatives will allow us to retain our leadership of the sector and achieve further profitable market share growth.





03 National expansion of Sofology

Delivering profitable expansion of our Sofology brand is a key element of our group growth strategy. New showrooms are performing well and we're pursuing a range of initiatives aimed at delivering attractive medium-term sales and profit growth.

Launched in 2016 and owned by the group since 2017, Sofology is DFS's younger sibling, bursting with energy and ideas. A leader in product design, Sofology appeals to customers with stylish, contemporary tastes. With only 45 showrooms in the UK, Sofology is roughly a third of the size of DFS and we expect the brand to deliver incremental sales and profit growth as we target a chain of around 65-70 outlets in the medium term. Despite a lockdown affected end to the year, Sofology opened three showrooms in FY20, which are performing in line with expectations. We are targeting 6-10 new showrooms in FY21, taking advantage of favourable lease terms.

Growth doesn't only come from new showrooms. We're targeting like-for-like sales growth from increased brand awareness, high NPS scores and from our highly engaged colleagues via a number of new initiatives, including improvement in our web sales performance, incremental sales from accessories, as well as continually innovating from a product perspective. Recent product launch successes include the 'Palm' sofa, as featured in our latest Owen Wilson advert, and the 'City Living' range appealing to space-constrained urban dwellers, that builds on the success that the DFS brand has had with the 'So Simple' range.

Improved profitability and return on capital are important parts of the Sofology growth story and we continue to explore the benefits of best practice exchange and the growing adoption of group-wide platforms, such as the Belfast Sofa Delivery Co. trial and Sofology showroom co-location with DFS. Launched in the digital age, Sofology has long prioritised the omnichannel customer journey and its 'Go in Store' innovation is now being trialled elsewhere in the Group. A larger showroom network will also allow the chain to deliver improved economies of scale from its already highly visible nationwide TV campaigns.

Last but not least, with environmental credentials increasingly critical to every consumer brand, Sofology stands at the forefront of the Group's Environmental, Social and Governance (ESG) efforts. The Group's new ESG strategy sets a series of brand targets in key areas such as sustainable sourcing, diversity and flexible working. We intend to turn ESG leadership versus our main upholstery competitors into a sustainable source of competitive advantage.



Weekend



 **sofology**®