

OUR BUSINESS

CHIEF EXECUTIVE'S STRATEGIC UPDATE



We are at our best when we are **completely focused on our customers**. My plan is to keep things simple by putting them at the heart of M&S – every decision starts with them.

STEVE ROWE CHIEF EXECUTIVE

OVERVIEW

I am really proud and privileged to be your new Chief Executive. The most important thing I've learnt in my 25 years at M&S is that we are at our best when we are completely focused on our customers. My plan is to keep things simple by putting our customers at the heart of this business.

I've worked in every part of M&S, from the shop floor to leading Retail and M&S.com, from Menswear merchandising to running our Food division and my most recent position as Executive Director of Clothing & Home. I care passionately about the company and its success.

Before I talk about the future, let me address our immediate past. Our performance over the last year was mixed. Whilst we continued our great performance in Food, the performance of our Clothing & Home business continued to be unsatisfactory. Our International business also had a challenging year and was affected by numerous issues, both internal and external. Overall Group profit was impacted by a number of non-underlying items, which this year include impairments in our International business, our UK store portfolio and a review of our Clothing & Home buying and merchandising system. There are further details on these in the Financial Review on page 24.

I want M&S to play a leading role in the future of UK and international retailing, and I want it to have a clear and sustainable path. When my appointment was

announced in January, I immediately set about gaining a deeper understanding of why parts of the business have been underperforming. I asked myself and the team a series of exam questions about M&S. How can we understand our customers better? Is our current structure right for the company's future? What are the growth opportunities in Food? How do we recover and grow our Clothing business? What do we need to do to respond to the rapidly changing consumer environment, both in the UK and internationally?

Answering some of these questions and tackling the issues will take time. But others are more easily answered. We have set out the first phase of our plan: we addressed how we can better understand our customers and what M&S means to them; we outlined our immediate plans to address recovery and growth in Clothing & Home; we talked about our Food growth opportunity; and we launched a review of our cost base. Details of these are below and we'll report back in the autumn on the other key areas we are still reviewing.

If I was asked to sum up what M&S means to me in one word, I'd say 'special'. M&S is a fantastic brand that has a history of serving our nation with fantastic products. That is why we believe in making every moment special for our customers.

OUR CUSTOMERS

Our customers are now at the heart of everything we do. This means that every

decision starts with them. Our actions are driven by listening to what customers tell us, not by what we think is right for them.

We know who our customers are and we value every one of them. M&S serves 32.2 million shoppers a year, equivalent to over half the UK population and two-thirds of its adults. 20.1 million of those customers buy our Food, which means we have an opportunity with the over 12 million who don't. 58% of our customers are female, and around half are over the age of 50. Our most loyal customers account for around 11% of spend. Looking at who our customers are and how they shop with M&S is crucial to our future. We need to make more of M&S more relevant to our customers more often. There remain great opportunities for growth.

[➤ Read more on p08](#)

CLOTHING & HOME

Our Clothing & Home division has many strengths: we have leading market shares in many categories, perceptions of our quality are high, and customers like many of our innovations. But as the UK clothing market has grown and changed in recent years, we have consistently underperformed.

Clothing & Home has been my focus since I took over running the division in September 2015 and turning around its performance is my number one priority.

We took immediate action in some key areas. We improved availability, sharpened

Our values underpin everything we do...

INSPIRATION

We aim to excite and inspire our customers

INNOVATION

We are restless in our aim to improve things for the better

← PRIORITIES TO ADDRESS

FOCUS ON PUTTING CUSTOMERS AT THE HEART OF M&S AND DRIVING SALES GROWTH

Implementing actions to recover and grow Clothing & Home:

- Re-establish style authority: focus on product, quality and fit;
- Restore price position: lowering prices and reduced promotional stance;
- Enhanced customer experience: sharper ranges, better availability and investment in store staffing.

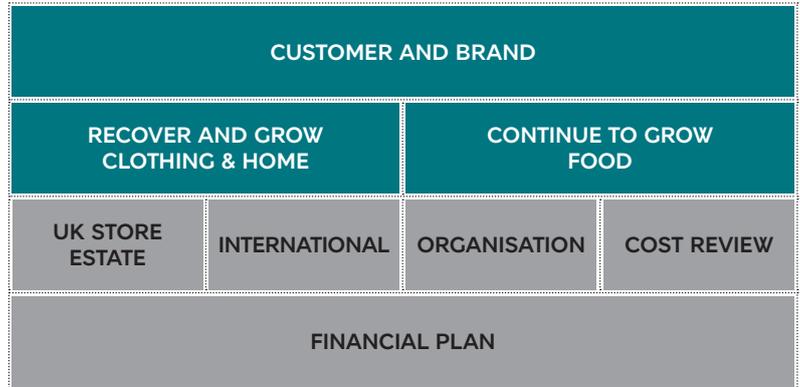
Continuing to grow Food business:

- Build on strengths: focus on quality, innovation and choice;
- Commitment to value credentials: competitive pricing while maintaining margin;
- Improved convenience: extended Simply Food store opening programme.

Driving profitability for shareholders:

- Continued tight control of costs and cash;
- Focus on shareholder returns.

Additional strategic questions, including International, UK store estate and organisation to be answered in the autumn.



our price points and reshaped the structure of our Womenswear team to better reflect the way our customers shop. This new structure means that garments are now bought by product category – such as skirts, shirts, or trousers – rather than by M&S Collection and the sub-brands, such as Autograph and Limited Edition. This way we reduce needless proliferation. We have also dropped 'General Merchandise' as the catch-all name for the non-Food half of our business: we should be using the same language as our customers to describe our business.

We have a lot more to do. We have been giving customers too many reasons not to shop with us. They tell us that we have not got the balance between fashion and style right and that we don't offer enough choice. They say that we are sometimes too expensive and that our stores are difficult to shop. In addition, we know that our internal structure has meant that we have not pursued areas of high growth quickly enough. Our plan this year is to address the root causes of these issues. We will continue to lower prices across the board and reduce the number of promotions. We will put increased emphasis on contemporary styling rather than slavishly following catwalk trends, and we will focus on innovations that are genuinely useful to our customers.

We know that our customers want to feel that they're getting great value every time they shop with us. It is for the customer – not us – to decide what constitutes value.

But I would say that the equation customers use when assessing value is satisfaction minus price. Did they enjoy their experience? How good is the product? Does it fit well or taste good? How was the service? These are the building blocks of satisfaction. Once the customer has assessed these, she can subtract the price and determine whether she's received value.

FOOD

In our Food division we have an engine for sustained, profitable growth. The opportunity remains for us to grow our Simply Food store network in the UK and internationally as we strive to make every food moment special for our customers around the world. We will continue to innovate, with an emphasis on health, convenience, special occasions and gifting. We will offer customers real choice by carefully tailoring our ranges to the location of the store and the mission of the shopper. Whether they want a pork pie or a superfood salad, a pint of milk or a chicken tikka prepared meal, we will strive to give them the best there is. In addition to the 250 Simply Food stores we have already committed to, we will open a further 200 by the end of 2018/19 to make our great food offer accessible to even more customers.

COSTS

We will continue to be prudent on costs. In some cases, our processes have become too complicated and we continue to review the way we work with a view to simplifying it.

We will use any cost savings to invest in more store colleagues. After all, they are the people who are closest to our customers.

OUR PEOPLE

Fairness and consistency are important to me. I believe in rewarding people for success, wherever they work in the company. We have reviewed how we reward our employees and have proposed a new approach to pay and pensions. The proposed pay changes, which would make us one of the best payers in UK retail, would reward our people in a fair and consistent way and include proposals for a significant base rate increase for our Customer Assistants. The proposed new approach to pensions would ensure we offer all employees the same Defined Contribution Scheme; a competitive pension scheme that is sustainable for the future. Members of the Defined Benefit Pension scheme would not lose any benefits they have previously earned and would be auto-enrolled into the Defined Contribution Scheme. We have started a period of consultation with National Business Involvement Group, the appropriate representatives within M&S's network of elected employee representatives, on both of these proposals and will listen carefully to their feedback. I believe that these changes would mean we can offer one of the best pay and benefit packages in UK retail, so we can keep retaining and attracting the best people to our business.

INTEGRITY

We always strive to do the right thing

IN TOUCH

We listen actively and act thoughtfully

CHIEF EXECUTIVE'S STRATEGIC UPDATE
CONTINUED

LOOKING AHEAD

There are many areas of our business that we are still reviewing. In the autumn we will report back on future growth channels. We will also give an update on the plans for our UK store portfolio, and the shape of our International business.

I wrote at the start of this section that I am proud to be your CEO. I'd like to tell you why.

Ever since I started working for this great company over a quarter of a century ago as a Saturday boy in the Croydon store, I have seen how it has improved the quality of people's lives through innovation and giving customers what they want. M&S is responsible for hundreds of high street firsts that are now part of everyday life, from fresh pasta and avocados to machine washable bras and Lycra. M&S has brought a better quality of life to the nation.

I have had a wonderful M&S career to date and am privileged to have worked in almost every department of the business. I've never had a job I didn't enjoy. And I've seen first-hand how M&S can be a force for good: we have led the way in sustainability and, through Plan A, this will continue.

The only time we have stumbled as a company is when we've become introverted, lost sight of the customer or failed to keep pace with modern living.

People who know me will tell you that I believe in simplicity, honesty, efficiency and teamwork. More than anything, I believe in our people throughout the company.

M&S is a special company. Our food is special. Our clothes are special. Our people are special. Plan A is special. I am proud of the role that M&S has played in people's lives. I want to be equally proud of the role it plays in the future.



STEVE ROWE CHIEF EXECUTIVE

UNDERSTANDING OUR CUSTOMERS

Analysing our customers reveals that we have three clear groups, defined by how frequently they shop with us and how much they spend, and we believe that tapping into these behaviours and reconnecting with our customers will help us to deliver

growth. We have been in listen mode and we have heard some common reasons for why customers are not always choosing M&S, and now understand how to use these to reignite their affection and become more relevant more often.

BY UNDERSTANDING OUR CUSTOMERS...

CUSTOMERS	CUSTOMER CHARACTERISTICS		
Total customers 32m	WOMEN	BOTH FOOD & CLOTHING SHOPPING	SHOP A SINGLE MISSION
	58%	30%	90%
	OVER 50	MEN	UNDER 35
	54%	42%	22%

...AND THEIR SHOPPING HABITS...

CUSTOMER by type	CLOTHING		FOOD	
	VISITS per year	SPEND per visit	VISITS per year	SPEND per visit
Occasional 22m	2	£14	4	£9
Core 7m	8	£28	11	£19
Top 3m	26	£25	75	£14

...WE WILL DELIVER WHAT OUR CUSTOMERS WANT...

IN CLOTHING:

- A focus on style rather than fashion
- Better fit that flatters
- Better availability
- Clearer pricing and value definition
- Inspiring and effortless experience

IN FOOD:

- Further ahead on trends
- Inspire with recipe ideas
- More adventurous mid-week
- More personal
- Inspiring and effortless experience



...INCREASING OUR CUSTOMER VISITS AND SPEND.

LEADERSHIP TEAM

We are committed to putting our 32 million customers at the heart of everything we do. Simplicity and teamwork are key to us achieving this.

We recently implemented a streamlined management structure that allows us to work as one team, in a simpler and more efficient way at pace and with vigour. This new structure, coupled with a new emphasis on fact-based decision-making, means that we are better able to focus on our customers' requirements.

As part of the changes, we reorganised the responsibilities of our executive directors. Patrick Bousquet-Chavanne has become Executive Director, Customer, Marketing & M&S.com and assumed new responsibilities for M&S.com and Plan A. Helen Weir, Chief Finance Officer, has assumed responsibility for Strategy Implementation. Consequently, our International business will now report

directly into me. We look forward to welcoming Laura Wade-Gery back from her maternity leave in September 2016 and we will update on her responsibilities on her return.

We are establishing a tighter Operating Committee of eleven to replace the former Management Committee. This team will be accountable for the day-to-day running of M&S and for the development and execution of our strategy.

Joining the Executive Directors on the Operating Committee are: Andy Adcock, Food Director; Jo Jenkins, Womenswear, Lingerie & Beauty Director; Sacha Berendji, Retail Director; Paul Friston, International Director; Dominic Fry, Communications & Investor Relations Director; Simmone Haywood, Acting HR Director; and Amanda Mellor, Group Secretary and Head of Corporate Governance.

We know that every decision we make must be for the benefit of our customers, our employees and our shareholders. Our first priorities are to turn around our Clothing & Home business and grow our Food offer. We will do this by using customer intelligence and data to drive our decision-making. By listening to what our customers tell us, we can give them more products that excite them and we can help to make every moment special. I believe that at M&S we know more about our customers than we've ever known before; by harnessing this information, we can make the right decisions and act with clarity on behalf of everyone who shops with us.

There is a new ethos of collective responsibility among the senior leadership team; from our unstinting attention to our customers' needs to the importance of acting as a team. We are totally aligned in our approach: to do everything in the best interests of our customers.

OPERATING COMMITTEE



Steve Rowe
Chief Executive



Helen Weir
Chief Finance Officer



Patrick Bousquet-Chavanne
Executive Director, Customer,
Marketing & M&S.com



Laura Wade-Gery
Executive Director,
Multi-channel



Andy Adcock
Food Director



Jo Jenkins
Womenswear, Lingerie &
Beauty Director



Sacha Berendji
Retail Director



Paul Friston
International Director



Dominic Fry
Communications & Investor
Relations Director



Simmone Haywood
Acting HR Director



Amanda Mellor
Group Secretary and Head
of Corporate Governance