



Turning over a new leaf at Waterstones

Since he was brought in to rescue Waterstones by its owner in 2011, James Daunt has made some tough decisions. So what's the story behind his novel approach? By Nicola Harrison

Booksellers by nature are "gentle folk", according to Waterstones managing director James Daunt. But what does that bode for the turnaround of the books retailer? Daunt is, after all, a bookseller through-and-through, having run his six-store book chain Daunt Books for 24 years.

While Daunt, a self-confessed introvert, clearly has passion and know-how when it comes to books, does he have what it takes to transform a cumbersome 300-store retailer that some claim has lost its relevance to the consumer?

Judging by some of the tough decisions he has made since taking charge in 2011, the evidence suggests he does.

Along with a dramatic shift in the way Waterstones buys and merchandises its books, the well-spoken and articulate Daunt slashed costs in order to secure a future for the business.

He did that by kicking off a round of "horrible" restructuring that resulted in about 200 store staff at manager level losing their jobs.

Daunt can be tough when he needs to be. "Right from the beginning I said 'we sell our way out of this hole or we sink, and not all of you are good enough'. That's a very hard thing to say. One of the problems of booksellers – or one of the nice things about us – is we are nice, intelligent, sensitive, quiet, booky people, so doing all of that was really quite difficult," he says.

Running a £400m-turnover business marked a new chapter in Daunt's successful career as an upmarket bookseller. Daunt Books – which he still owns – is cherished by the well-heeled middle classes of Hampstead, Marylebone and Chelsea. Now he finds him-

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self running a relative giant that has been riddled with problems, from outdated systems to a lack of cash.

Daunt was parachuted in by Russian billionaire and former banker Alexander Mamut, who saved Waterstones from likely administration when he bought it from HMV, which went bust 18 months later.

"Alexander Mamut saved Waterstones, and that was a miracle because he was prepared to do that and no-one else was," says Daunt.

Daunt says he and Mamut are on the same mission: to keep bookshops on the high street. And in Waterstones' case, they are making some headway.

While Waterstones is not out of the woods yet – sales are still falling and it is in the red – the numbers are going in the right direction. Pre-tax losses fell to £23m in the year to April 27, 2013 – Waterstones' first financial year under the leadership of Daunt – from £37.3m the previous year. Total sales slipped 2.9% to £398.5m, an improvement on the 14% slump the previous year.

Right: The children's department in Waterstones' Wakefield branch;
Below: James Daunt



And Daunt says in the current year he expects Waterstones to report an improved sales decline again after gaining share, and he anticipates breaking into the black at an EBITDA level.

But he will not rest on his laurels. "We generate a modest amount of cash but a business like ours needs to generate a lot," he says. "We're a £400m business and we should have an EBITDA of around £20m just to stand still. We're not quite there yet but we certainly think we're going to get there."

For a man with one of the toughest turnaround jobs in retail, Daunt seems relaxed and has an air of quiet confidence as he sits in the top floor cafe of Waterstones' flagship Piccadilly store.

Perhaps that comes from working with an owner with very deep pockets who has invested £25m into the retailer each year since he bought it.

"We have had the good fortune of having an inspiring owner who has allowed us to invest," says Daunt.



"He's learned, he's cultured, he cares about bookshops. He has his own ideas. His primary motivation is to see Waterstones restored."

A new chapter

Daunt has kick-started great change, but it has not been easy.

"Big retailers are quite slow old beasts to change," he points out. "If you don't invest for decades, there is a lot of catching up to do."

Under Daunt, Waterstones has invested in its supply chain, store revamps, and a new EPoS and finance system to replace one that had not been updated in years.

"But it's not just that you're grappling with systems, you're also dealing with a very strong and particular culture," says Daunt. And that was reflected in the buying process.

Under the ownership of HMV, the retailer focused on buying best sellers in huge volume and distributing them

evenly throughout the estate, regardless of the nuances of particular markets. The retailer also had an unhealthy fixation on promotions. "Front-of-store was almost the same everywhere," says Daunt. The returns rate was running at between 23% to 25%, and Waterstones could no longer afford it.

"When you're operating shops in Hampstead and Harrogate but also in Bury and Burnley, you can't really sell the same books in all of those places," he says matter-of-factly.

So Daunt set about introducing a more local offer across Waterstones' estate. "Every shop has to become much more individual to present a personality which is distinctive and local," he maintains.

The returns rate was slashed to 7%. "For me that's extremely important – we're putting the right books in front of customers. I clearly sound like and have a history of being an up-market bookseller. I'm not actually, I'm

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just somebody who wants to sell the right books to the right people."

As part of the plan to get the top line growing again, and in the face of physical book sales falling, Daunt is also looking to build Waterstones' 'related products' revenue. The retailer operates cafes in 17 stores at present, and book sales in those shops have gone up as a result, according to Daunt. Waterstones is also selling more stationery, toys and games.

The retailer is piloting a new store format in Wakefield, reflecting some of the changes made at its revamped stationery and gifting area in the basement of its Piccadilly flagship.

The black fit-out associated with Waterstones has gone and the shop instead features bright fixtures and mixes books with associated product in a new way. "We're trying to make it flexible and we're trying to make it accessible," he says.

But with a physical market in ➤



◀ decline, and the unstoppable growth of e-tail powerhouses such as Amazon, is there a future for the high street bookshop – and if so, what will it look like? Daunt believes the bookshop has a future, and one in which it will continue to sell physical books.

"I can't think of anywhere else that everyone enjoys being in," he says. "You enjoy being in them when you're in a buggy, you like going round them on a Zimmer frame, and all points of age in between. They're just nice to be in."

In future, bookshops are more likely to have cafes in them to increase dwell time, and they are more likely to have a large children's department and more events, according to Daunt.

He points to a positive trend in the US, where the growth of digital books is slowing. "The big question for us is how much time do people spend reading? With tablets, Netflix, social media and all those sorts of things, it's easier to spend your time on things that aren't reading," he says. "But the death of reading has been declared many times. It's up to us and publishers to advocate reading as a pastime."

So he is plotting more bookshops across the country.

Advantages over Amazon

When it comes to Amazon, Daunt is philosophical. He is keenly aware of its power but has also identified advantages Waterstones has over it. And he wants to leverage them.

Discoverability is one such strength, he believes. "The internet hasn't yet worked out how to make books as easy to fall across as walking around here does," he says, pointing to his surroundings in the Piccadilly store. "You walk around this shop and you're going to come out with some books you would never have dreamt of. How does that work online? Well it doesn't. Not yet."

Daunt has also spotted opportunities to benefit from the power of Amazon. In 2012 he struck a deal to sell the retailer's Kindle device in Waterstones' stores. It may have raised eyebrows, but Daunt insists it was the right thing to do. "I don't ever agonise beyond what does my customer want? You can sit in our cafes and read your Kindle. As long as you are in my shop I'm happy."

But, he laughs: "I'd much rather you didn't buy anything from Amazon of course – physical that is."

But despite facing a fearsome competitor such as Amazon, Daunt has not given up on online, and Waterstones relaunched its website in the summer.

In the future Daunt hopes to see



The decision to stock Amazon's Kindle was based on customer demand

online to connect the reader with authors and other book lovers, to enable Waterstones to recreate its specialist in-store service as best it can.

In that way it can differentiate itself from Amazon – but can it ever compete on price? "That really would be an embarrassing fight," he laughs. "But for some people we're just nicer. And we do give all sorts of other things, like loyalty cards, and pick-up in store."

"I shop in Waitrose, which is mad because it's expensive. There's a Sainsbury's next door, and if I shop there it's less expensive and I get the same food. So why do I shop in one and not the other? It's nicer. I come out of there happier."

It is an interesting analogy and doubtless Daunt will hope Waterstones can emulate some of Waitrose's success as the more upmarket rival to the cheaper alternatives.

When it comes to the supermarkets and their power in books, Daunt is surprisingly sanguine. "If people are encouraged to read they buy more books, and at some point they're going

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to come through our doors," he says. "So I like the supermarkets, but it doesn't do great things to our market share."

Books in the blood

Clearly Daunt admires Waitrose. But could he ever see himself running another retailer? After all, if he manages to turn Waterstones around, Daunt will be a man in demand. "I have a great interest in the way other retailers work and I admire hugely what they do at Next and Waitrose, and I absolutely unapologetically go and steal what others do. But I am a bookseller."

"You could put the riches of the world before me to run the Body Shop or whatever it is, and I wouldn't do it. [Next boss Simon] Wolfson sells frocks, that's what he does. I expect he would royally screw up the bookshops if he came to run them and I would definitely royally screw up his frocks business if I was to take over that."

Does Daunt have any regrets about leaping out of his comfort zone and attempting a turnaround on such a huge scale? Emphatically yes, he says. But more because he lacks the time to pursue his love of being a shopfloor bookseller than anything to do with the scale of the task at hand.

"And I don't get home as early as I used to either. It's a lot of hard work," he says.

"My analogy is it's like skiing a couloir – it's very steep and very narrow and really fun, your legs are going like billy-o, and if you're asked if you have regrets half way down, it's, 'oh shit'. But there are none when you get to the bottom – assuming you're still standing."

Daunt, it seems, is more than capable of making the tough decisions Waterstones needs while still managing to retain his gentle nature.

WATERSTONES' GOT TALENT

A big challenge for Waterstones is attracting, and keeping, great staff.

"Bookselling is not an easy job," says Daunt. "It requires you to have a mastery of product that few other areas of retail do. There are hundreds of thousands of products. It requires people who are very highly read, which tends to mean they're extremely highly educated, which frankly means they can do all sorts of other jobs which pay more than the pittance that I pay."

"We've got a real problem on our hands. But we've got to make more

money so we can pay our guys more. We sadly haven't kicked into that virtuous circle yet. So at the moment it's all about trying to make the job more interesting, taking away the bureaucratic elements that were really dispiriting. People do enjoy it and find an intellectual stimulation from it."

"Without being too sacrosanct about it, the vast majority of people who work here do it because they love it and they think it's important. Which is sort of unusual."

Daunt has not looked outside to

bolster his team. When he arrived at Waterstones he found a talent pool of young motivated people that he could tap into. He singles out retail director Rik McShane and Kate Skipper, director of buying, in particular.

"We haven't brought a single person in from outside, everybody's come up," he says. "Rik was manager of [the Piccadilly flagship], Kate was the children's buyer. There's a whole bunch more, all internal, all young. And they work hard."