

Neiman Marcus

VICTORIA'S SECRET

Direct-To-Consumer in a Multi-Channel World
Specific Challenges & Solutions

February 10 - 13, 2008 • Gaylord Palms Resort & Convention Center • Kissimmee, Florida



Limited Brands & Neiman Marcus

Two Perspectives – Company Sales

\$7,400,000,000



Limited Brands

\$4,400,000,000



Neiman Marcus



Limited Brands & Neiman Marcus

Two Perspectives – Distribution Centers

10 Centers



3 Retail



2- CMH 3PL



2-Regional 3PL



1- Canada



1 –CMH DTC



1 – 3PL DTC

Limited Brands

4 Centers



2 Store Distribution Centers



2 DTC Fulfillment Centers

Neiman Marcus



Limited Brands & Neiman Marcus

Two Perspectives – Selling Philosophy

Specialty Retail
(Intimate Apparel/Personal Care)



Limited Brands

Luxury



Neiman Marcus

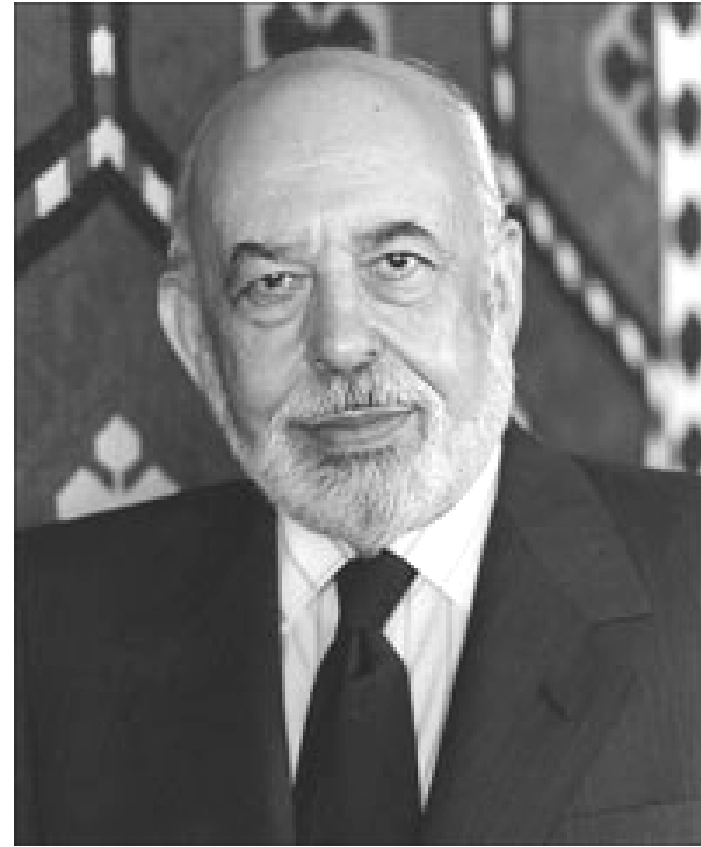


Limited Brands & Neiman Marcus
Two Different Companies – One Focus

Les Wexner



Stanley Marcus



Focus on the Customer

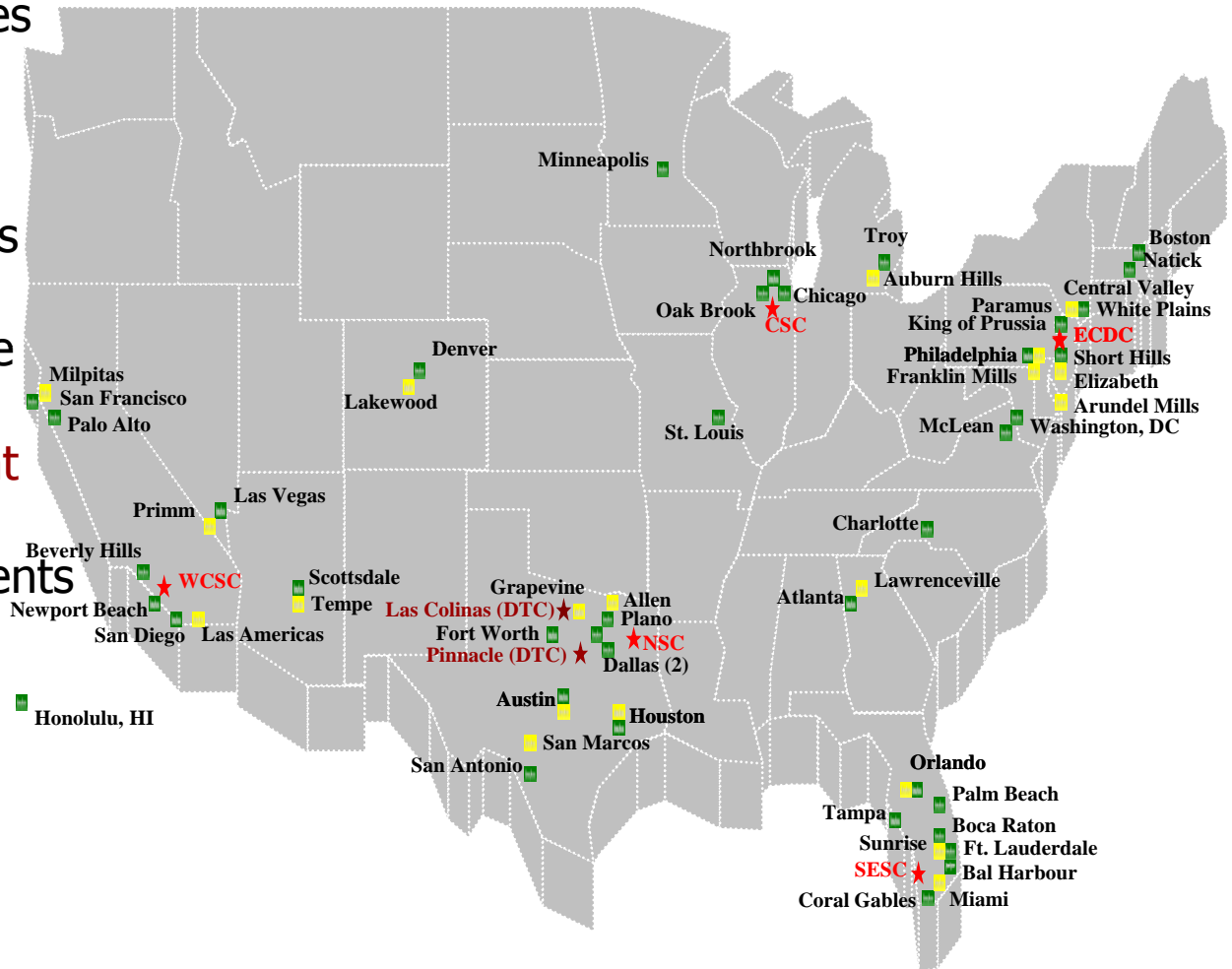


Neiman Marcus

Business Overview

Neiman Marcus Business Overview

- ▶ \$4.4B Annual Sales
 - ▶ \$3.6B Stores
 - ▶ \$0.8B Direct
- ▶ 39 NM Stores
- ▶ 20 Last Call Stores
- ▶ 2 NM Stores DCs
- ▶ 4 Regional Service Centers
- ▶ 2 D-T-C Fulfillment Centers
- ▶ 3,425,000 Shipments
- ▶ 825,000 Store to Consumer
- ▶ 2,600,000 D-T-C
 - ▶ 80% Ground
 - ▶ 20% Air
 - ▶ 98% FedEx



Neiman Marcus Corporate Structure

Neiman Marcus

Neiman Marcus
DIRECT

Neiman Marcus

BERGDORF
GOODMAN

Neiman Marcus
DIRECT

BERGDORF
GOODMAN

Neiman Marcus

BERGDORF
GOODMAN

HORCHOW

DAVID YURMAN

VALENTINO

KORS
MICHAEL KORS



Ermenegildo Zegna

ST. JOHN

finale

TAHARI

GIORGIO ARMANI

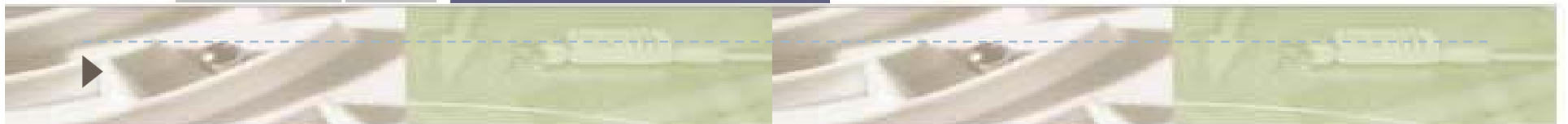


JAY STRONGWATER



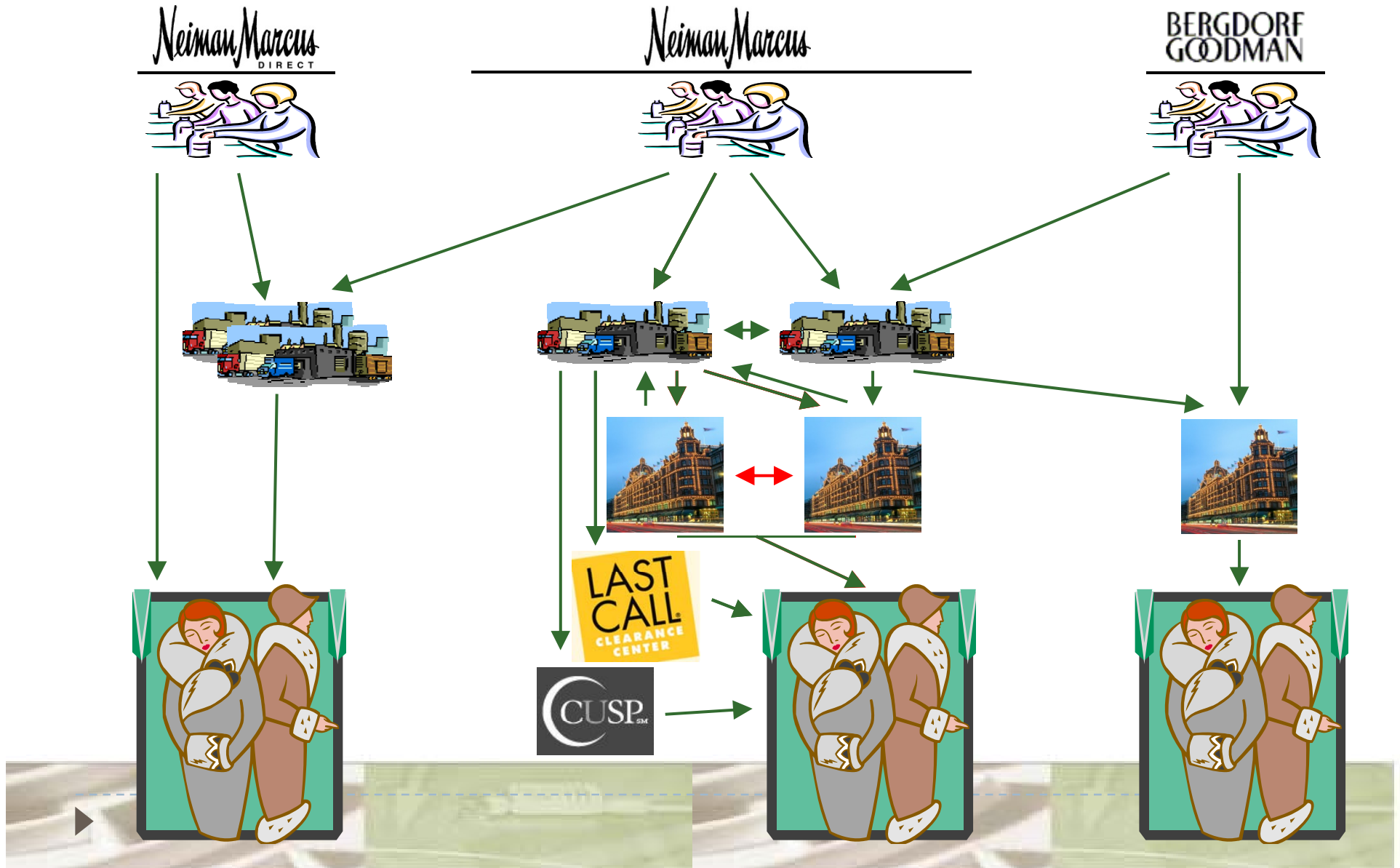
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Salvatore Ferragamo



Neiman Marcus Channel Overview

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Direct-To-Consumer Issue #1

*– Difficult To Predict
Business Growth –*

Neiman Marcus Direct-To-Consumer

Discovering the Potential / Delivering on the Promise

The success of the On-Line Fashion business has been remarkable. Delivering results has been like...

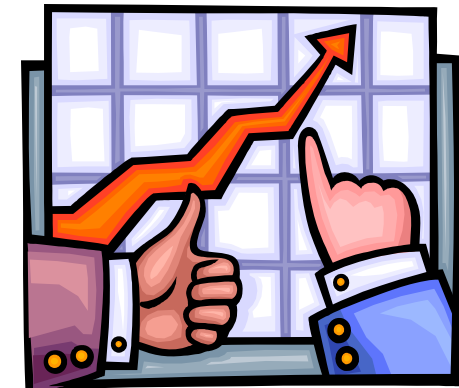


Direct-To-Consumer Issue #1

Difficult to Predict Business Growth

In an era of rapid expansion, the toughest issue we face is the ability to accurately predict the growth of our business.

- ▶ Fashion = Online?
- ▶ Fragmented Buying Offices –
 - ▶ NMD vs. Neiman Marcus Online (NMO) vs. Stores
- ▶ Different SKUs vs. Store Channel
- ▶ Large Number and Assortment of SKUs
- ▶ NMO = Limited History
- ▶ Explosive Growth –
 - ▶ Fashion = √
 - ▶ Sitelets = √
- ▶ Value-Added Services –
 - ▶ Monogram, Gift Wrap, etc.

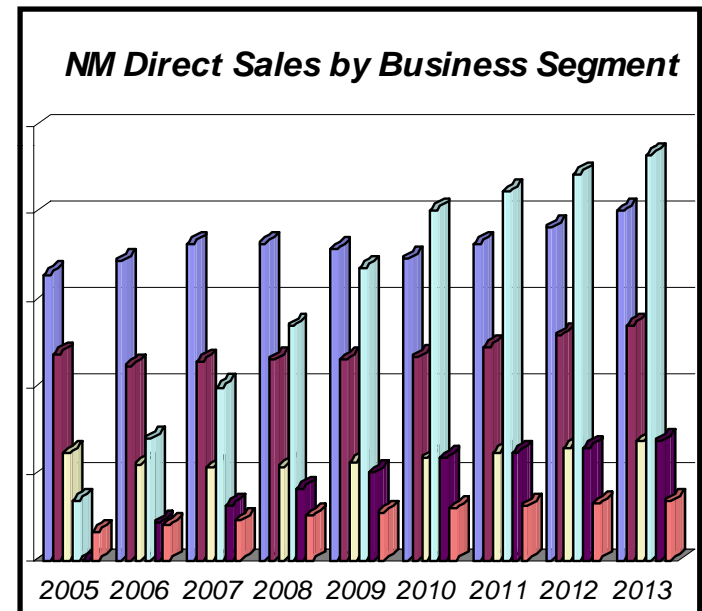


Direct-To-Consumer Issue #1

Projecting Business Growth

Discrete planning by channel / processing characteristic allow us to develop and implement flexible and responsive solutions.

- ▶ Senior Management Input
 - ▶ Future segments to emphasize
- ▶ Plan Sales Growth by Channel
- ▶ Convert Sales to Units by Channel
 - ▶ Process units, not sales
- ▶ Plan Throughput and Storage Requirements Separately
- ▶ Grow Inventory by Channel
 - ▶ Focus Divisions and Promotions
- ▶ SKU Count Growth
 - ▶ Active growth / Inactive “editing”



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Direct-To-Consumer Issue #2

*– Rapid Expansion in a
"Constrained" World –*

Direct-To-Consumer Issue #2

Rapid Expansion in a “Constrained” World

Capital and **Labor** are becoming increasingly constrained as we rapidly expand our Direct-To-Consumer offerings.

- ▶ **Capital** is Restricted –
 - ▶ Fund Systems and Stores (and Debt)
 - ▶ Physical Infrastructure is stressed
- ▶ **Labor** is Tight –
 - ▶ Low unemployment rate
 - ▶ Las Colinas Fulfillment Center located in upscale, office area
 - ▶ Not much available labor
 - ▶ Very difficult to hire to Peak (2.0 x)
 - ▶ Pinnacle Fulfillment Center located in urban area
 - ▶ More available labor
 - ▶ Largely Hispanic workforce; very loyal and dependable
 - ▶ High Accuracy and Productivity



Direct-To-Consumer Issue #2

Designing for a “Constrained” World

Using Technology, Flexibility, and Imagination to address tight Capital and Labor enables us to do more with less.

- ▶ Technology – Achieving More with Less
 - ▶ Space and Labor restricted; use Technology to compensate
- ▶ Flexibility is Key - Design and Attitude
 - ▶ “The only constant is change – Embrace It!”
- ▶ Isolate Separate Business Segments
 - ▶ “Ship-alone,” sitelets, value-added services could operate independently vs. other segments
- ▶ Minimize Disruption to Existing Operations
 - ▶ Leased facilities for phased expansion / take pressure off main facility
- ▶ Detailed Planning and Project Management are Essential
 - ▶ Phased implementations; no “big bang”
 - ▶ Implement post-Peak, not pre-Peak



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– Solutions –

Direct-To-Consumer Solutions

Horizontal Carousels for Order Consolidation

The use of Horizontal Carousels for Order Consolidation replaced labor and space with technology.

- ▶ Space Utilization –
 - ▶ Available unused space in old fur vault
 - ▶ Opened existing space for Hanging expansion
- ▶ Labor Savings –
 - ▶ 7 - 9 FTEs at Peak
 - ▶ 4 FTEs average
- ▶ Service Improvements –
 - ▶ Immediate shipping of completed orders
- ▶ Return on Investment –
 - ▶ IRR was indisputable as best choice
- ▶ Lessons Learned –
 - ▶ New systems / training were underestimated



Direct-To-Consumer Solutions

Voice-Directed Order-Picking

Implementation of Voice-Directed Order-Picking has delivered substantial results in a very limited timeframe in our Pinnacle and Las Colinas facilities.



- ▶ Short implementation horizon
- ▶ Small impact on existing systems
 - ▶ Technology “overlays” existing
- ▶ Increased productivity / reduced training time for new hires
- ▶ Productivity = 18%+
 - ▶ Small dip in first two weeks
- ▶ Accuracy = + 0.3% (to 99.9+)



Limited brands

Business Overview

Limited Brands

Building a Family of the World's Best Fashion Brands

Limited Brands sells women's apparel, lingerie, beauty and personal care products through its more than 2,900 stores. The Company recorded sales of over \$7 billion in 2007 and employs more than 100,000 associates throughout the United States. The Company's products are also available online at VictoriasSecret.com

Our Brands include:

- ▶ Victoria's Secret
- ▶ Bath & Body Works
- ▶ C.O. Bigelow
- ▶ Henri Bendel
- ▶ La Senza
- ▶ The White Barn Candle Company



Limited Brands

Business Overview

Over \$7 Billion Annual Sales

- ▶ \$5.5B Stores
- ▶ \$1.4B Direct

10 Distribution Center's

- ▶ 3 Retail (OH)
- ▶ 2 CMH (LLS-3PL, OH)
- ▶ 2 Regional DC's (External 3PL) (NJ & CA)
- ▶ 1 Canadian DC (Montreal)
- ▶ 1 CMH Direct to Consumer (OH)
- ▶ 1 (External-3PL) Direct to Consumer, (KY)

72 Million Package shipments

- ▶ 40 Million Packages delivered via 'Pool Environment' to Stores
- ▶ 2 Million Packages delivered via FedEx to Stores
- ▶ 30 Million Packages delivered via USPS/UPS Direct to Consumer (both Outbound & Returns)





VICTORIA'S SECRET

Business Overview



Victoria's Secret Direct

sexy. sophisticated. 24/7

Through Victoria's Secret Catalogue and VictoriasSecret.com, Victoria's Secret Direct makes it possible for our customers to experience the sexy and sophisticated intimate lifestyle of Victoria's Secret 24 hours a day, 7 days a week.

- ▶ Victoria's Secret Direct reaches more than 390 million customers each year through Victoria's Secret Catalogue - and our Web site is one of the fastest growing and profitable e-commerce destinations on the Internet.

Basic Facts

- ▶ Net sales (millions): \$1,416
 - ▶ Sales change: 16%
- ▶ Circulation (millions): 383
 - ▶ % Change: 4.48



Victoria's Secret Direct

Business Overview

- ▶ Over \$1.4 Billion 'Global' Annual Sales
- ▶ > 120K unique Sku's related to Direct to Consumer (not shared with Store Channel)
- ▶ 7 Million Customers
- ▶ 16 Million Orders
- ▶ 24 Million Packages
 - ▶ 18.6M Ground Service Packages
 - ▶ 3.9M Domestic Air Service Packages
 - ▶ 1.5M International Packages (210 Countries)
- ▶ 6 Million Packages Returned
 - ▶ >60% Utilizing VSD Returns Program
 - ▶ <40% Paying for Returns Postage





VICTORIA'S SECRET



*– New Distribution
Center Start-Up –*



Direct-To-Consumer Issue #1

New Direct-To-Consumer Distribution Center Start-Up

Fall 2007 has been a very challenging season for VSD as we have worked through operational issues related to the move to a new Distribution Center.

- ▶ Aug 2007 Moved into new DC
 - ▶ Doubled Capacity
 - ▶ New MHE, WMS & TMS
 - ▶ New Procedures
 - ▶ Over 1K new 'seasonal' associates
- ▶ Challenges
 - ▶ Phenomenal Growth (Sales, SKU's, Promotions)
 - ▶ Throughput (300K- 450K units/day)
 - ▶ Accuracy (Goal 0.15% Error Frequency)
 - ▶ Expedited (Offer of Overnight, 2nd Day, 3rd Day Services)
 - ▶ Suppressed Value-Added Services



Direct-To-Consumer Issue #1

New Direct-To-Consumer Distribution Center Start-Up

- ▶ Solutions
 - ▶ Phenomenal Growth (Sales, SKU's, Promotions)
 - ▶ Consistent communication with Brand to balance demand & throughput
 - ▶ Throughput (300K- 450K units/day)
 - ▶ Weekdays, weekends, Shifts
 - ▶ Leverage processing of single line vs multi line orders
 - ▶ Autobagger
 - ▶ Accuracy (Goal 0.15% Error Frequency)
 - ▶ Focus on 'few that drive the many'
 - ▶ Command & Control Center
 - ▶ Pick, Pack, Systems (WMS,WCS, TMS), MHE
 - ▶ Expedited (Offer of Overnight, 2nd Day, 3rd Day Services)
 - ▶ Suppressed Value-Added Services





VICTORIA'S SECRET



*– Spring 2008
Overview –*



Direct-To-Consumer Solutions

Spring 2008 Overview

Improved baseline sales growth (from - 4.2% to flat) is a result of the improved Fall 2007 late season performance discussed previously, as well as the decision to add paid 2nd day shipping to the Web on February 1 (compared to May 1 previously).

- ▶ Both 3rd day and 2nd day expedited shipping are active for the entire season, we plan to offer next day shipping in Summer 2008
- ▶ Marketing strategies, including liquidation, reactivation, and email surge programs, contributing to increased demand.
 - ▶ Total demand is now planned at mid single digits
 - ▶ optimized catalogue circulation strategy to reduce marketing expense
- ▶ Demand planning based on continued improvement to DC productivity.



Direct-To-Consumer Solutions

Questions

