



fresh ideas

Carlos talks with Ben Saunders, a trainee baker at High Wycombe.

Top Right, Carlos talks with Marilyn Barlow and Ashley Carroll, part of the produce team at High Wycombe.

The first phase of our strategy has been very successful and we are already busy on the second phase which will see our stores deliver a dramatically new and better shopping experience for clients.

I am more convinced than ever that the way forward for Sainsbury's is to remain Best at Fresh, Best at Availability, Best at Customer Service and to continue to deliver the best offers and promotions.

All our fresh lines have shown dramatic improvements in our ranges and in-store presentations and we continue to pay close attention to detail and focus on every single local market.

Our people are better trained, feel proud of what they do and the company they work for. Last year we

fully implemented a very ambitious compensation package that will continue to drive performance.

We are aware that we owe our success to our clients and this is reflected in the way that we treat them. We have a talented and motivated workforce who strive to ensure that every client has the best shopping experience. This is our culture.

Our stores, our business

In a market like the UK you need to compete locally. You have to adapt

Questions for Carlos – and the answers



These are a good set of results but aren't you concerned that farmers will react badly to the increase in your profits at a time when many of them are facing huge difficulties as a result of Foot and Mouth disease?

The growth in our profits has not been driven in any way by the consequences of the Foot and Mouth disease. This disease broke out at the end of February, just over a month before the end of our financial year. Long before then our profits were on track to recover strongly after three consecutive years of decline. The recovery is entirely due to the strategy we have put in place over the last 18 months. Even now, however, despite the increase in our profits our net margin after tax is still only 2.5p in the £. Throughout that time we have supported British agriculture by sourcing as many of our products as possible from farmers and growers in this country. The increase in our fresh food sales volumes – over 30% since October 1999 – has benefited many of our UK suppliers and we are working hard to ensure this growth continues.

Aren't you worried by the fact that competitors are now copying your flyers?

Not at all. Anyone who thought they could compete with us just by imitating our flyers must by now have realised their error. The flyers are only one element in our promotional strategy. We rotate our offers every week through separate clusters of stores. This means we in the centre and our store managers have to be very skilful in forecasting, ordering and managing our supply chain. We have only acquired these skills through the experience we have gained over the past 18 months – and we are still learning.

The acid test of building customer loyalty is an increase in the value of the Safeway shopping basket. Have you made any progress in this area?

Yes – our average basket spend from existing clients has begun to grow and, together with the continued growth in customers, is contributing to our like-for-like sales growth.

Sceptics may say that while your sales growth to date has been very impressive, the comparatives will get harder and harder during 2001/2. How do you plan to keep the momentum going?

They were saying exactly the same this time last year – “flash in the pan” was a phrase we heard quite a lot. We will continue to achieve good sales growth this year by developing and refining our promotional strategy, by continuing to transform our stores and by making big improvements in both our fresh and non-food ranges.

If your competitors are investing more on promotions, aren't you going to be obliged to go on increasing your own promotional investment just to stand still?

No. What matters is not the total amount invested in promotions but how effectively the money is used. Anyone can pump money into national promotions and expensive advertising to no great effect. Also, to be successful, you need to believe that strong promotions are the most powerful way of driving sales. Some of our competitors are basically committed to so-called “everyday low pricing” and are only spending more on promotions in response to what Safeway is doing.

Realistically, how many hypermarkets are you going to be able to open in the next few years?

Our first hypermarket, at Plymouth, is planned to open in late Autumn. An existing superstore is being almost doubled in size to 52,000 square feet. This will be a dramatically different large store format to anything yet seen in the UK market. Competitive pricing will be combined with strong fresh foods and a non-food offer which will focus on achieving real authority in a few core categories such as seasonal goods and health and beauty. We plan to extend a further five stores into hypermarkets this year and we are hopeful of eventually achieving between 30 and 50 hypermarket extensions from our existing superstore estate.

your range, service and promotions to suit your local clients. And the people who are in the best position to know what will beat the local competition are the store manager and his team.

We will continue to drive forward with our strategy of decentralisation and giving our managers the tools, skills and information they need to run their stores as businesses. For well over a year now they have been getting daily profit and loss accounts for their stores. All of them now have full control over the key fresh product ranges for sales forecasting and ordering and many are also able to manage their stock in real time.

Decentralising decision-making authority to our stores, backed by a performance incentive plan enabling store managers to double their salary, is creating the kind of working environment and opportunities our people have been demanding for a long time.

Developing new formats

The diversity of our store portfolio is one of our greatest assets. We have the opportunity not simply to operate big and small stores but also to develop different formats. We currently operate with three formats – convenience stores, supermarkets and superstores – and we will shortly be adding a fourth format – that of hypermarket.

We have successfully tested our new supermarket format in our store in Lewes, Sussex, and our new "Fresh to Go" concept in our store at St Katharine Docks. Between January and the beginning of April we rolled out these new formats and ideas to 51 supermarket and convenience stores in London and the South East. Since the end of the year we have opened our first new supermarket concept at Wimbledon and the first new superstore concept at Woking, which both include the full "Fresh to Go" offer.

Other new ideas we have been developing and trying out include our first in-store restaurant, Café Fresco, as well as our new photo processing and dry cleaning facilities. All of these opened at High Wycombe at the beginning of April 2001. We believe there is a lot of potential in these three concepts and their initial results justify an ambitious roll-out programme.

All three of these concepts will take retail services well beyond that which is currently offered today in the UK. The new format work we have done so far has had a big impact on the sales performance of the stores which have been refitted.

Many of our stores in the South East are now achieving double digit like-for-like sales increases, with particularly strong growth in our fresh food sales. Over the next few years we will be rolling the new formats out across the entire portfolio.

Building customer loyalty

Our 10 million clients – over one million more than in the autumn of 1999 – are now very familiar with the Safeway flyer which is delivered through their letter-boxes every week. Our flyer is now delivering by far the most attractive food offer in the market. When we launched our promotional strategy 18 months ago the consensus in our industry was that "everyday low pricing" was

Although your sales volumes are up by just under 20% compared with two years ago, don't you still have an underlying weakness due to your lack of scale relative to your bigger competitors?

When I first joined Safeway, it seemed to me that the main reason why we were failing was that we always tried to tackle bigger, stronger competitors head-on. All experts on military tactics say you should never do this. So the strategy we've been pursuing over the past 18 months has focused on competing in ways which don't depend on scale. None of our four key business goals depend on scale. But they do demand tactical flexibility, speed of decision and, above all, a local focus. These are the skills we have developed, both at the centre and in our stores.

When will you regard Safeway as "best at fresh" and what do you still have to do to get there?

There are several benchmarks we will use – customer feedback, media coverage and, above all, sales performance. Our fresh sales volumes have increased by over 30% since the Autumn of 1999 – a faster rate of growth than any of our competitors have managed. But we have to keep this going, and this will depend partly on price and availability but also on range and quality. We will be best at fresh when we are the retailer to whom everyone looks for new ideas, for better execution and for top quality fresh food at competitive prices. Our "Fresh to Go" concept shows what we can do – but this is only the beginning.

Many companies have launched cultural change programmes over the past few years, but most of them have fallen well short of their goals. How will Safeway succeed where others have failed?

I don't underestimate the challenge, but I am confident we will be successful. I think there are three basic elements to changing a business culture. First, you must have a very clear sense of what you wish to be and the sort of people you need to realise this

vision. Second, your people need to feel a strong sense of ownership and involvement – you can't make them change just by telling them. Third, people need to see that it's working and that they are benefiting from it. I believe we have all three elements in place in Safeway – but it will take time to get everyone in the business fully on board.

You still have a lot to do to deliver your business goals. How will you ensure you have enough people with the right skills and experience to do what needs to be done?

One of the first things I did when I joined Safeway was to sort out the key roles at senior level. We followed this up by reorganising the central functions, outsourcing some of them and reducing headcount by 700. Simultaneously, we put more people on the sales floor to give our clients better service. But this isn't just a numbers game. We're putting a lot of effort into our training and development programmes and into ensuring that the right people are in the right jobs. It's also very significant that over the past year we've been able to recruit some high quality people from other companies in our industry. Two years ago this would have been impossible.

When you joined Safeway, the Company looked to be going downhill. Since then it has been turned around. As you know, however, Safeway is now in that phase of its renaissance when an unwelcome bid could well arrive. How will you remain independent?

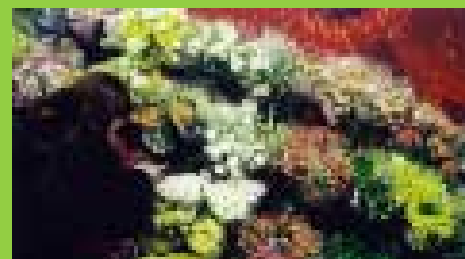
By continuing to drive our strategy forward and deliver our goals. We've had tremendous support from our clients and our shareholders over the last two years and I'm confident that we will continue to please them. We've come a long way and we've still got a lot more to do, but I am confident that within the next two years we will be number one in our chosen areas of excellence.





Our flyers are delivered to over eight million homes each week and are an excellent way of communicating our deep-discount promotions to our clients.

Iamm Dimitrov, Café Fresco chef at High Wycombe, prepares a fresh fish display.



the way forward. Since then our competitors have seen for themselves the big increases in sales volumes and like-for-like growth which our flyers are delivering. Indeed, in recent months our competitors have started doing promotions and distributing their own flyers – some of which look remarkably like ours! It will, however, as they will soon learn, take far more than a look-alike flyer to match our strategy and achieve the same results.

Having achieved our initial goal of attracting more clients into our stores, the challenge for us now is to encourage them to become regular main shoppers and build their loyalty to Safeway. Our priority, therefore, is to drive forward with our goals of being best at fresh, best at availability and best at customer service. The rest of this Annual Report focuses on the progress we have made with each of these goals during the year.

Driving Safeway forward

The first phase of our strategy was completed during the second half of the year. It was aimed at attracting new clients into our stores and laying the ground work for a longer-term programme to build their average basket size and their loyalty.

The second phase has now begun. This will involve the rapid transformation of our store portfolio, as

the new convenience, supermarket and superstore concepts are rolled out. We will also extend a selected number of superstores and run some of them as hypermarkets. In this second phase we will carry on with everything we are currently doing to be best at fresh, best at availability and best at customer service, while upgrading our non-food ranges and rolling out our new-style in-store photolabs, dry cleaning shops and restaurants.

Our people have achieved a huge amount over the past year and I believe our momentum is now irresistible. By the end of phase two, the transformation of Safeway will have been completed and we will be the first choice retailer in the market.

I want to give a very big “thank you” to everyone in our company who has worked so hard to deliver what we have achieved but also to our suppliers without whose trust and support this would not be possible today.

Safeway still has a lot to do. There is only one way to the top and there is no stopping if we want to get there.

Carlos Criado-Perez
23 May 2001

The Operations Board

Day-to-day operational management is conducted by the Safeway Operations Board. The members are:

Carlos Criado-Perez, Chief Executive
Lawrence Christensen, Supply Director
Jack Sinclair, Trading Director
Karen Bray, Marketing Director
Jim Maclachlan, Stores Director
Jonathan Davies, Stores Finance Director
Jim White, Human Resources Director
Fiona Bailey, Director for Culture

The Operations Board meets weekly and is responsible for the day-to-day management of the business, together with the planning of Company strategy for approval by the Executive Board.