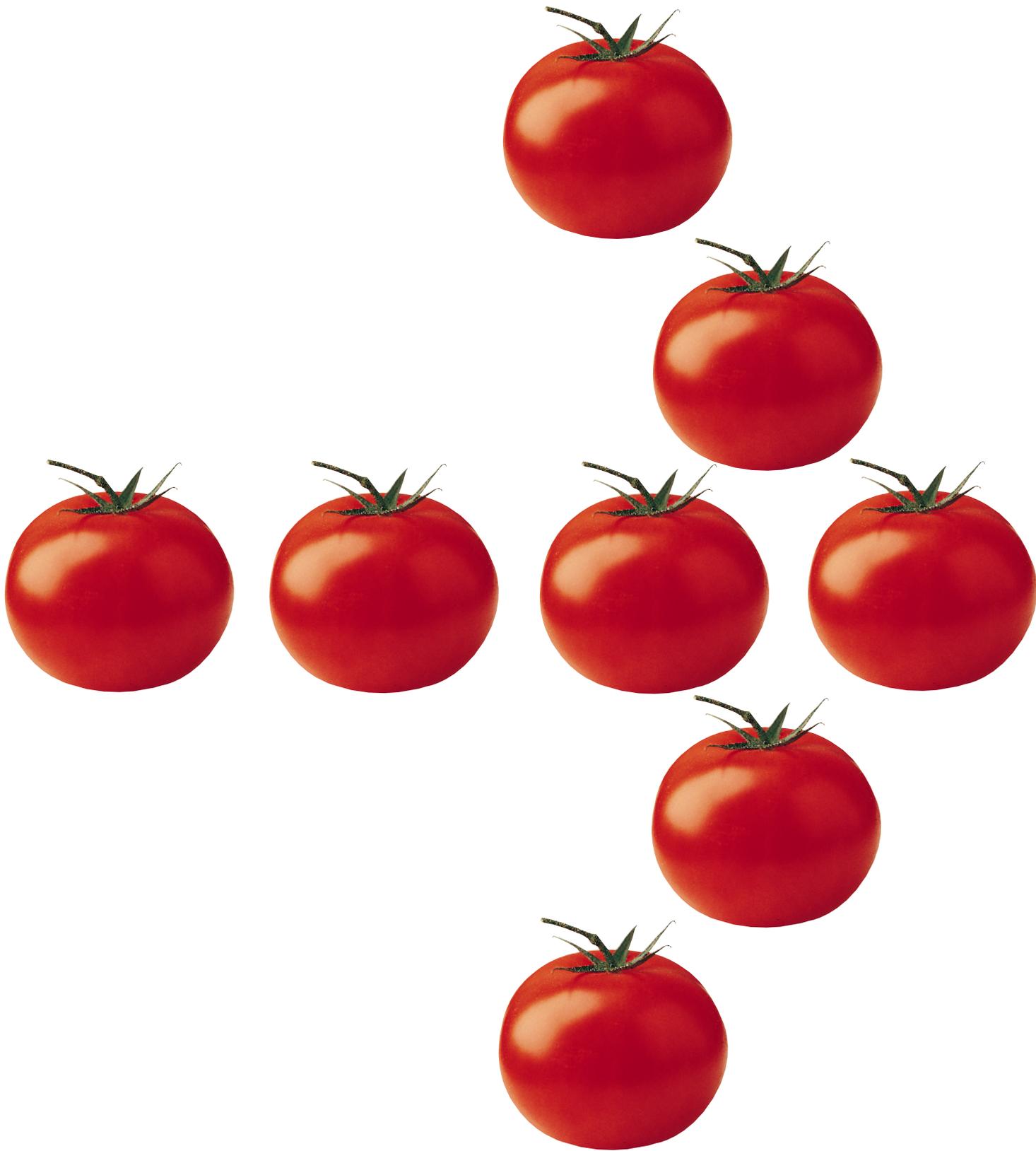
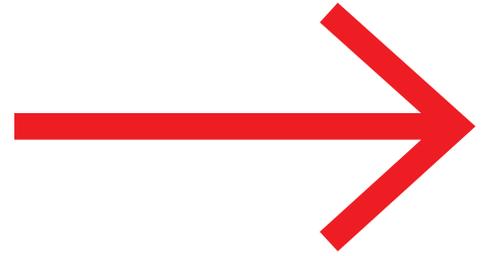


when where how?



We have an ongoing campaign to guarantee that our products are always available. The Fill that Gap! initiative extends from our staff on the shop floor to our suppliers, many of whom access our supply chain databases via the Internet





chain of events

Better communication with suppliers, extra investment and more supply chain information have improved daily availability levels

In the six weeks running up to Christmas 1998, independent surveys showed our product availability to be as good as that of the market leader and significantly ahead of other competitors. This really helped our sales over Christmas and cut our wastage bill significantly over the previous year.

Managing availability

How have we achieved this success in an area which, in the past, has proved to be a problem for Safeway?

– Over the past year we have been creating a new emphasis on the need for great product availability. ‘Fill that Gap!’ was launched as an internal Safeway campaign in 1997 to increase everyone’s awareness of the importance of product availability. Since then it has focused the entire business on a common performance yardstick, which

is both tougher than that traditionally used in our industry and more sophisticated because it’s based on what customers see on shelves. It detects gaps in availability during the trading day but also exposes quality issues because it tells us when customers are not buying popular lines. Store Managers get a clear understanding of their store’s performance and are able to improve it. There’s been a substantial improvement in hour by hour availability, which is now running consistently at 96%.

– We’ve improved our supply chain systems so that in the event of a technical problem, our back-up arrangements prevent serious disruption. We now have much better information about what’s going on in any part of our supply chain. We’ve also greatly improved our ability to

manage the peak seasonal trading times.

– Store Managers now feel much more responsible for availability. We have reviewed our replenishment and stock management methods in store. As a result, we’ve developed a replenishment programme for all our stores which we launched in 1998 and which will be in every store by September of this year.

– Finally, we have integrated our supply chain operations more closely with those of our suppliers. For example, we have developed a Supplier Information System (SIS) which gives our suppliers a direct window into our supply chain via internet technology. They can view sales, order and sales forecasts and Safeway depot and store stocks and, therefore, plan their own production and stockholding better. Around 300 suppliers are now using SIS.

The Meat supply chain



Supply chain by **Richard Williams,** Supply Chain Strategy Director



These improvements represent a real advance in our performance, but we are aiming to go one better this year by achieving a further increase in average daily availability levels to at least 97%. We will do this by completing the roll-out of the store replenishment programme, achieving wider usage of SIS by our suppliers, reducing costs by improving our effectiveness and developing a real time stock file for our stores. Moving to a real time system, in which all sales, deliveries and stock transactions will be processed as soon as they actually happen, is part of a longer-term strategy which will ultimately produce our next big improvement in product availability. This in turn will reinforce our strategy of making Safeway more distinctive by further improving our customers' trust in our product availability and their appreciation of our service.

Keeping the market moving

A lot of nonsense has been written over the past few months about the alleged refusal of supermarkets to 'pass on' the dramatic reductions in the market values of pigs and sheep to their customers in the form of lower prices.

So let's get a few facts straight: We, like our competitors, don't buy our supplies of pork and lamb direct from farmers. For several years now, we have bought all our pork and lamb from selected processors under our Farm Assured scheme. Meat processing companies buy livestock on the open market from farmers and from that point onwards manage the entire process until they sell the finished, packaged product to us and deliver it to our depots. The price we charge our customers is driven by what we have to pay those processors who supply us and by competition from other supermarkets.

We therefore need to understand what has been happening to the processors' business. Over the last three years, renewed concerns about safety have encouraged customers to trade up to the better quality cuts of lamb and pork. As a result, only 22-30% of the carcass of an animal sold on the open market actually finds its way, packaged and ready to cook, to shoppers. The rest has to be disposed of by the processor.

Until approximately two years ago, processors could normally find overseas markets for the bulk of the carcass in Russia, Eastern Europe and the Far East. But since these markets collapsed, the processors have had to pay to dispose of a lot of unwanted lower grade meat. To cover this additional cost, they have had to charge more for the better quality cuts. As a result, the decline in livestock prices has not found its way through to the final consumer. Retail prices have fallen significantly, however, because supermarkets still promote fresh meat and often sell it at little or no profit in order to keep the market moving. This is in addition to everything we have done as part of Category Management to upgrade our fresh meat offer and increase our sales. We want to see a growing market for meat in the UK which will support farmers, processors and retailers alike and deliver good value to our customers. Virtually all the fresh meat we sell is reared, slaughtered and processed in the UK and we will continue to support British producers to the hilt as long as they continue to meet our quality and safety standards.

Logistics by **Lawrence Christensen,** **Logistics Director**



Logistics is in some respects one of the least visible parts of Safeway. While Safeway lorries are a familiar sight on our roads, they are only one element in our logistics operation. This covers the entire supply chain and its efficiency is critical to the success of our business.

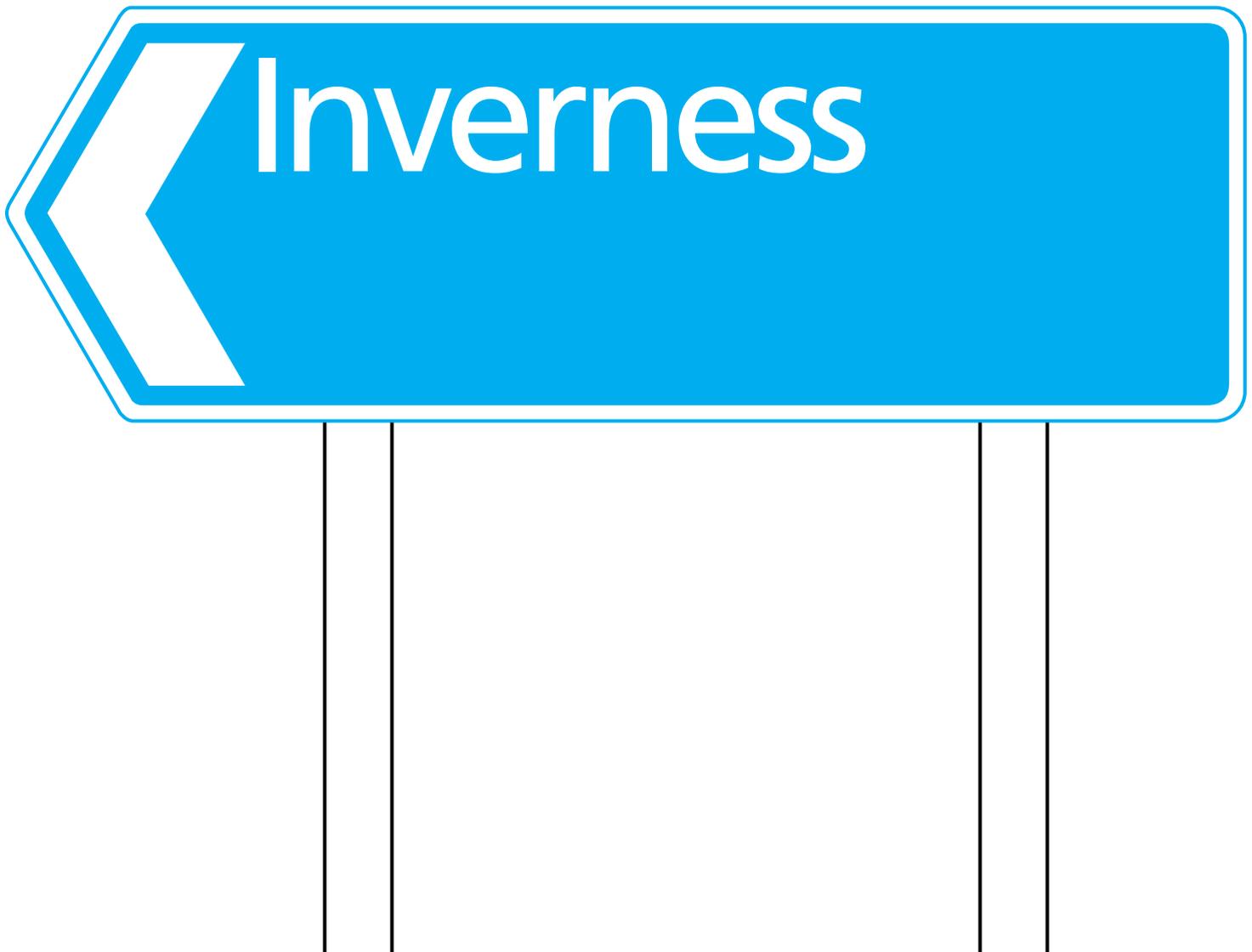
Supply Chain Operations

Supply Chain Operations, which employs 200 people at our head office, forms the nerve centre of our supply chain and is responsible for the flow of products from our suppliers to our stores. In this sense it represents the 'software' of our logistics system. Distribution forms the 'hardware' – its job is to deliver products from our regional distribution centres to our stores. Our 600 strong transport fleet delivers a total of 9 million cases every week to our stores, representing around 17,000 orders from 2,000 suppliers. This represents a total annual distance travelled of around 100 million kilometres.

The cost and environmental impact of our logistics operation makes energy conservation a high priority. Several initiatives have been launched in recent years to cut our transport costs and, equally important, reduce both vehicle emissions and traffic congestion. For example:

– In the early 1990's Safeway pioneered 'backhauling', the shorthand term describing how we use our lorries to carry suppliers' products on their return journey from stores to depots, when they would otherwise be empty. During the year Safeway backhauled around 73 million cases of products, thereby avoiding nearly

Getting the goods on our shelves is not just about loading up lorries our priorities, as is cutting costs, reducing emissions and easing traffic



16 million supplier road kilometres.

– Since 1997 we have been using alternative fuels such as Compressed Natural Gas to deliver to 50 stores in the London and Home Counties area.

– An exciting initiative was the launch, in 1997, of our partnership with EWS (English, Welsh and Scottish Railway) to deliver 2,500 cases of Safeway products by rail everyday between Wakefield in Yorkshire and Gravesend in Kent. This effectively reduced lorry journeys by 130,000 kilometres a year. In November 1998 we extended this trial to begin rail deliveries to five Safeway stores in Scotland. This was made possible by a grant of up to

£0.7 million from the Scottish Office. It will mean that over 9,000 lorry journeys will be taken off the road over the next three years, avoiding some 2.3 million road kilometres and easing congestion on the A9 route from Perth to Inverness. Good news for long-suffering car drivers!

Over the past few years we have reorganised our distribution network to achieve greater efficiency and operational flexibility.

Earlier this year we leased the former Booker distribution centre near the M1 at Northampton. This will enable us to take on more range, increase our capacity to cope with peaks in demand – for example,

the Millennium – and further improve the efficiency of our network.

The main focus of our future investment in Logistics will be to deliver products from our suppliers to our stores in even shorter timescales. This will reduce costs by shortening the time which our products, especially fresh foods, spend in our supply chain and ensure that they are as fresh as possible. The more money we can save by shortening these lead times and continuing to reduce vehicle running costs, the more we can invest in delivering our customer promise and building the distinctiveness of Safeway.

and driving from a to b. Energy conservation is high on the list of congestion

