

- Sales growth 1.3% ahead of the industry average
- £40 million investment programme to strengthen our brand
- Improving product ranges through Category Management



Our performance in a tough market place, reflected in our sales, is being driven by the growing strength of the Safeway brand. Ever since we started repositioning our brand five years ago, we've been targeting young families as the customer group who offer us the best opportunity for profitable growth. We measure our success by the total spend we are attracting from family shoppers – up by 22% since 1996; the trips they make to our stores are up 7% and the average size of their weekly shopping basket is up 14% over the same period. We're attracting more families and those who shop with us are spending more because we're listening to them and giving them what they want in terms of product range and quality, availability, value for money and service.

Over the past few years we've been working hard to meet their expectations –

which, like much else in our industry, are always rising. Today's bright idea is tomorrow's 'must have'. And over the past 18 months we've invested extra resources in our brand because we want our offer to be as good as the best in the industry.

#### Products

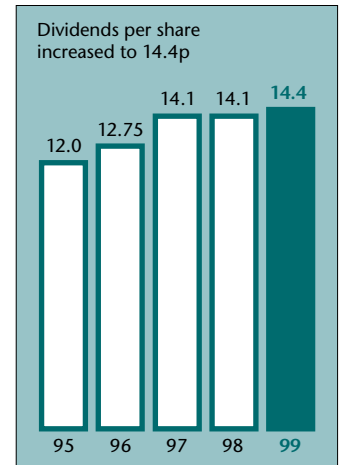
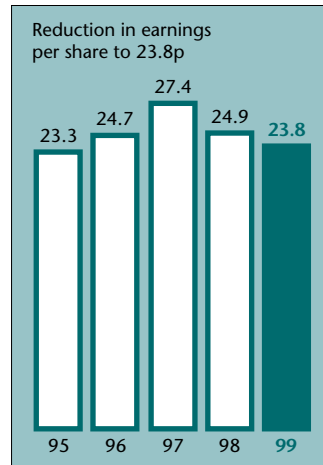
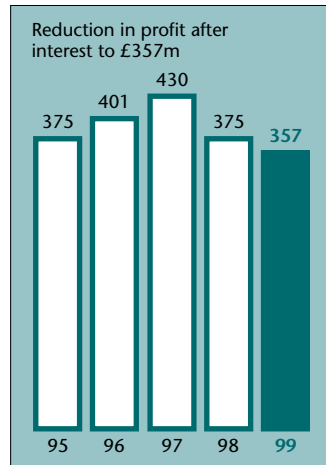
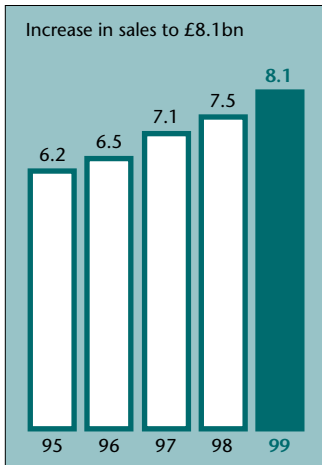
Our priority is to extend and upgrade the quality of our product ranges, particularly those that are critical to family shoppers.

We've increased the number of lines we carry in an average superstore by over 1,200 through a competitive benchmarking programme we introduced last year.

Alongside this, we've been testing and are now starting to roll out Category Management. We're using Category Management to make Safeway more distinctive by developing a really compelling offer in those key product ranges which influence where family shoppers do their big weekly shops. We launched this programme a year ago with a series of end-to-end reviews of these key ranges, bringing together improved quality, availability, value, merchandising and communications to deliver a much improved offer to our target customers.

During the year we covered fruit and vegetables, bakery, meat, wine and Christmas seasonal lines. The results were very encouraging. For example, our sales of fruit and vegetables increased by 17%, our bakery sales went up by 10% and our share of the declining meat market has also started to grow. The success we've achieved so far has helped us develop a template which we're now using in a full roll-out of Category Management.

# making shopping



Before property, exceptional items and the costs of the 1998 store portfolio review and redundancy programme. 1999 was a 53 week year.

### Availability

Putting more and better products on our shelves doesn't give us higher sales unless we keep those shelves full. Through an internal initiative called 'Fill that Gap', we've raised availability on our biggest selling lines to a consistent level of 96% on our internal measure, which we believe to be in line with the industry norm. This year we're aiming to go one better by extending 'Fill that Gap' to 600 mainly fresh lines, which are important for family shoppers.

### Value

Over the past four years we've steadily improved our customers' perception of the value we offer. We're also using our ABC card to reward those customers who spend most money with us. Our double and triple ABC points promotion, which ran from April to October last year, both encouraged our existing customers to spend more and brought us an additional one million ABC cardholders. It also strengthened our customers' perception of the value we offer. Since the start of the current year we have relaunched this promotion, with slightly higher customer spending thresholds for a period of three months.

The benefits of better product availability, improved ranges and sharper value all came together at Christmas and Easter to give us our best ever performance during these peak trading periods.

### Making our brand different

Much of this activity has been focused on doing what our major competitors are doing, but doing it better. However, the key to building longer-term competitiveness is also to be different. Our customer promise captures this difference by focusing on making shopping **easier** for young families. Taking the hassle out of shopping isn't just about cutting the length of queues at the check-out. It's about making the whole shopping experience as easy as possible – including what happens when our customers return home and prepare their next meal. 'Ease' is about the quality and design of our products as well as the obvious features of customer service.

Customer care is a well-established point of difference for Safeway and we are working hard to make it even more distinctive. We now have Shop & Go in 166 stores and provide crèches in over 100 stores. Meanwhile, our Mystery Shopper results have improved significantly since our Customer Care Performance Share Option Plan was launched in November 1997.

Offering really good customer service makes the food shopping trip a much more enjoyable experience. This, of course, underlines the importance of our people in stores. Over the past year we've done several things to help our people become more involved in delivering our customer promise and improve every aspect of our

business. For example, in the autumn we launched 'Food For Thought', an initiative to encourage our people to send in their ideas for generating more sales, cutting costs or doing things more effectively. We received over 4,000 ideas in three months – many of them with significant potential to improve our performance in some way or other. We're also developing better ways of running our stores, giving store management teams more authority and information to help increase their share of their local market. We're very pleased with the results in our trial stores so far and we are now extending the trial to more stores.

### Raising our game

The initial results of the many initiatives we've taken should enable us to maintain our sales growth and improve our sales per square foot. The food retail market is growing very slowly, with low inflation and fierce competition. But I believe we can achieve our objectives by continuing to focus on rolling out Category Management as fast as we can; matching the market leader for availability; and continuing to improve the customers' belief in the value of our offer. We will achieve these targets with more decentralised decision making, bringing both our stores and support divisions closer to our customers and giving our people more opportunity to deliver Safeway's customer promise. It's thanks to our people that we have made real progress in a difficult year and I'm confident that together we can do even better this year.

**CD Smith**  
26 May 1999

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