



→ by competing from strength – with a clearly differentiated offer that competitors are unable to match.

Even in the face of highly publicised price competition, we've maintained market share in our core health and beauty market.

That should come as no surprise to the 12.5 million people who visit a Boots The Chemists (BTC) store each week. BTC competes aggressively through 250 price reductions and promotions at any time, and is well known for its '3 for 2' and '2 for 1' offers. And the Advantage Card provides four times the benefit offered by supermarket loyalty cards. In survey after survey, customers say they like our approach and recognise that it represents good value. Research shows that across a typical basket of goods our prices and offers remain competitive with those of the leading supermarkets.

We don't compete on price alone. What marks Boots out from all other retailers is its unique combination of value with quality, range and service. And when asked, health and beauty shoppers say these factors are even more important to them than price.

We guard our reputation for quality jealously. And Boots Contract Manufacturing (BCM) gives us direct control over the development and production of innovative Boots branded products.

No one comes near us for range. We offer over 25,000 health and

beauty items and only 16% of our sales overlap with those of the major supermarkets.

But the greatest strength of the Boots brand has always been service and expertise. People trust us because they know they can come to us for sound advice. We employ over 4,000 pharmacists and recruit about a third of all UK pharmacy graduates every year. We have 3,500 beauty consultants and train another 650 each year. We invest £24m a year in training to make our store staff some of the best in the business.

We introduce smart ideas like dispensing carousels that make pharmacy service significantly quicker. And our service is combined with an uncompromising ethical position – our role as the UK's leading pharmacist gives us a unique perspective on everything we do.

We take pains to know our customers well. And the Advantage Card – the world's largest smart loyalty card – is helping us to know them even better. The Advantage Card database is enabling BTC to manage merchandising better and communicate with customers more effectively through direct mail and new instore kiosks. For example, analysis showed that 65% of Botanics buyers chose from only one of the five product categories covered by the range. So the new range, relaunched in January 2000, was specifically designed to move buyers across categories – and sales have doubled.

We're continuing to develop the Advantage Card as a product in its own right. In a novel tie-up with Egg, the internet bank, we're launching the Advantage Credit Card – which earns Advantage points wherever it's used.

Given all these strengths, it's little wonder that when we take the contest to competitors' doorsteps, we prosper. BTC is doing particularly well in edge of town locations, especially when next to flagship supermarkets.

No retail brand is more accessible and more trusted. With 1,400 BTC stores in the UK, we are present in virtually every town, shopping centre and major transport interchange. And this reassuring ubiquity, this promise of being 'there for you', provides a tremendous foundation for extending the Boots brand...

Boots The Chemists average transaction value £

00		7.05
99		6.70
98		6.46
97		6.11
96		5.66

Consumer trust in brands

% trusting brand to be 'honest and fair'

	72
Boots	
	66
Marks & Spencer	
	59
The Body Shop	
	59
Tesco	
	59
Asda	
	57
Sainsbury's	



What we'll always stick to are the quality, trust and value that have earned the trust of generations.



→ by extending into new markets – where our trusted name gives us unique advantages.

Our trusted and authoritative position in both health and beauty markets opens up avenues for brand extension.

Some we've already tested successfully and begun to roll out nationally: over 90 BTC stores now have skincare consultancy units, we'll have around 150 instore dentists and 80 hygienists by the end of the year, and we're currently fine-tuning our chiropody service before taking it nationwide. More new ideas are currently on trial – including beauty treatment areas, a NHS Walk-In Clinic, and instore telephone points where customers can seek advice from NHS Direct.

Looking further ahead, there is obvious scope to build on our expertise in general wellbeing and fitness. Research shows that people are increasingly interested in health and fitness; and ageing populations are increasingly taking responsibility for their own health and wellbeing. We are developing our plans to invest in these growth opportunities by extending the Boots offer.

In a comparable way, Halfords has successfully trialled new shop formats which are achieving significant sales improvements by appealing to serious auto and cycling enthusiasts.

Our approach remains shareholder value driven. As we pursue new

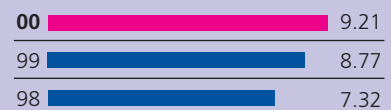
opportunities with strong margin potential, we will not shrink from pulling out of areas where margins are becoming unattractive. We're withdrawing, for example, from leisure areas such as music, video and cookware, because we can use the space for new activities that increase focus and create more value.

Expert advice will continue to be a central part of our offer as we extend the Boots brand. We're already experienced in recruiting and training professionals in fields such as pharmacy, optometry, dentistry, chiropody and beauty care – and we expect to broaden into more new categories this year. Halfords is recruiting more full-time store staff who share the passions of auto and cycle enthusiasts and have the knowledge to give them credible advice.

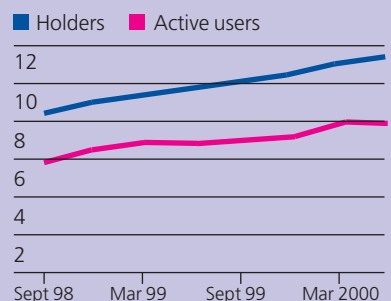
Dialogue with customers helps us ensure that we can take them with us when we move into new markets. We never take their trust and loyalty for granted. The Advantage Card, with over 12 million holders, gives us unrivalled insight into their interests and behaviour. This guides our communication through direct mail, magazines, catalogues and most recently the internet. And we are making these channels more interactive, so that we can listen to customers and understand them.

The better we understand, the more we can do...

Boots The Chemists average Advantage Card holder transaction value £



Boots The Chemists Advantage Card users m





We can open up new opportunities because people see us as experts in health and wellbeing.

→ by exploiting the power of our own brands – and our expertise in creating new ones.

We have long-established strength in own brands. At BTC, Boots own brand ranges account for nearly 41% of counter sales. Halfords is a trusted name in its own right for auto parts and cycles – own brands now represent almost 50% of sales and it's the UK brand leader in motor oil and car batteries.

This success contributes substantially to the strength of our margins. And it extends far beyond 'own label'. Boots is almost unique among retailers in its ability to create a succession of brands that have self-sustaining market prominence and consumer appeal.

No7 is the UK market leader in cosmetics, with annual sales of nearly £90m; and 17 cosmetics generates over £40m a year. Natural Collection has grown into a £40m brand, and Soltan's sales of nearly £25m make it clear leader in the UK suncare market. Britons swallow over 500 million Nurofen tablets a year, making it the nation's No1 painkiller. And relaunched in January, Botanics is now an £18m brand.

We established a brands unit to focus our investment in new product development on brands with real growth potential. The first fruit of the new approach was Tricologie, a novel haircare range with special point of sale material enabling customers to select exactly the right combination of

shampoo and conditioner for their type of hair. Since launch in October it has increased their average spend on haircare products by 20%. In May 2000 we launched Glitterbabes, a range of co-ordinated cosmetics, accessories and stationery for pre-teen girls. And in June we launched Fresh! – a cheeky range of fun but sophisticated bath and gift products. We plan to create four more major new brands in this financial year.

Our brands are not me-too products. We have an enviable record of innovation – and being able to develop products in-house at BCM means we can bring new products to market quickly and retain more of the value chain. We're also good at keeping brands fresh – as with the recent relaunch of Botanics, where we applied detailed understanding of the way customers were selecting from the range of an already successful brand.

Our ability to create brands (and the products behind them) makes us an attractive partner. Charles Worthington, now a £13m haircare brand, showed what we can do in collaboration with proprietary houses and specialist companies. We launched Liz Collinge cosmetics in April, and other high-profile partnerships are in the pipeline.

Our market strength also enables us to negotiate 'exclusives' – as Boots Opticians has done with the technology behind its Near and Far varifocal contact lenses.

But surely any brand worthy of the name should reach beyond these shores? Is Boots doing enough to exploit the international potential of these great brands? In the past, we may have had other priorities – but that's now changing fast...

Boots The Chemists own brand sales £m

00		1,490
99		1,443
98		1,367
97		1,296
96		1,219

Halfords own brand sales £m

00		237
99		214
98		197
97		172
96		136



Tapping Advantage Card data helps us keep brands fresh – the relaunch of Botanics has doubled sales so far.

→ by reaching out internationally – with products and services that have worldwide consumer appeal.

Tomorrow the world? Well, today actually! Boots Healthcare International (BHI) is marketing in around 130 countries, and Strepsils and Nurofen are fast becoming global brands.

After years of carefully directed investment, BHI is becoming a force in over the counter medicine worldwide – and increasingly profitable. Over the past five years it has been Europe's fastest-growing self-medication business. Strepsils is now market leader in 20 countries and Nurofen is the leading analgesic in three. An important factor in this success has been constant innovation to extend ranges (there are now 14 Nurofen variants including liquid, effervescent and children's versions) and to meet local market needs with tailored products such as the Strepsils Ayurvedic range in India, which combines Western and traditional Indian medicine.

Over the past three years we've been building an overseas retail business. Boots Retail International (BRI) is proving that our traditional strengths – value, quality, range and service – are in demand in much of the developed world.

In Bangkok, Rotterdam and Tokyo, consumers have taken to Boots branded ranges with enthusiasm. Own brands

account for some 33% of BRI's overall sales. In fact, customers have been so impressed with the performance of our brands that we are currently exploring ways of introducing them to new international markets.

It's still early days for BRI, but it is already developing as a truly international organisation rather than a series of foreign outposts. Among over 1,300 staff in Thailand, the Netherlands and Japan, fewer than 20 are UK expatriate managers. In Thailand, all but two of the executive management team are now Thai nationals. Rapid progress to local management is an important part of BRI's strategy, and each country's executive team is composed largely of local nationals from the start. This approach has helped the business to attract local staff of the highest calibre.

We now employ over 80 pharmacists in Thailand – more than anyone there except the government. The store staff have responded with real enthusiasm to our training programmes – and as a result, our service is visibly better than that of competitors.

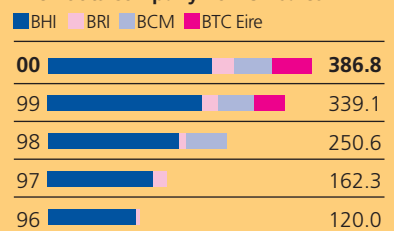
Our international healthcare and retailing businesses are strongly supported by BCM and generate increasing amounts of business for it. As we venture into new territories it becomes increasingly important to be able to develop new and specially tailored products quickly. Who else could have reformulated and repackaged some 1,400 products, in time for BRI's entry into Japan – as well as developing special products for the Japanese market, such as a No7 branded skin whitener?

The progress we've made so far convinces us that we can substantially increase the scale of our overseas sales.

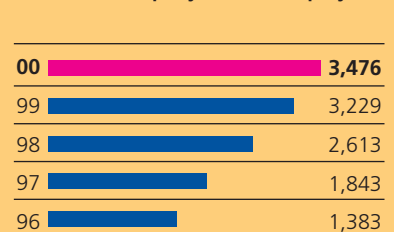
As well as reaching out around the world, we've also been exploring new communication channels with our e-shopping websites and our

handbag.com joint venture. Although these are currently directed at the UK market, the internet knows no national boundaries. It offers almost unlimited possibilities, if you're prepared to look at the world in a new way...

The Boots Company non-UK sales £m



The Boots Company non-UK employees





We've proved that our brands can travel, and you'll now find more Boots stores in Bangkok than in Birmingham.