

## OUR STRATEGY FOR ENHANCING SHAREHOLDER VALUE IS SIMPLE: WE WANT TO TAKE AN INCREASING SHARE OF THE PERSONAL WELLBEING MARKET, WHERE GROWTH IS UNDERPINNED BY FUNDAMENTAL SOCIAL AND ECONOMIC CHANGE.

Throughout the world's developed economies, we see similar trends. Populations are becoming more affluent, and also older. We believe this represents a major opportunity to create value for shareholders under the Boots brand.

As disposable incomes rise, particularly among women, people have more money to spend on indulgences and on their appearance – on 'looking and feeling good'.

As populations age, people recognise the need to take more care of their health and fitness. National healthcare costs are rising, and governments are reluctant to foot the whole of the bill. So people are buying more of their healthcare themselves.

Distinctions between health, beauty and general fitness are blurring in a broader pursuit of 'wellbeing'. People are becoming more aware of alternative treatments and therapies. They're more ready to experiment. But this is taking them into uncharted territory; they want to be reassured that they're in good hands. As one of the most trusted brands in Britain, Boots is ideally placed to help them.

Uniquely, Boots can do more than take a share of new opportunities in the wellbeing market. We believe that, in many cases, the entry of the Boots brand will itself stimulate market growth. We've seen it in our trials of health and beauty services. Some 50% of our chiropody customers had never sought chiropody treatment before. Half our dental customers had not visited a dentist in the previous five years. And virtually all our customers for laser hair removal were trying the treatment for the first time.

This is compelling evidence of the Boots brand's power to add authority and reassurance – even in such a well-established and highly professional field as dentistry.

### So where are we taking Boots and its authoritative, trusted brand?

In a nutshell: we want to be the leader in health and beauty. First in the UK, and ultimately internationally.

This is not a change of direction. It's an acceleration. We want the Boots brand to fulfil its potential, making best use of the strengths it has always possessed.

### Developing the business model

Focusing all our effort on health and beauty will increase our momentum. This will enable us to develop our business model in five ways:

- Selling not only products but also services. This is an altogether broader way of looking at retail: the Boots brand has the power and authority to extend well beyond conventional retailing.
- Developing our portfolio of brands and creating more magic with them. We're good at creating product ranges that become powerful brands in their own right: N°7, for example, has been the UK's market leading retail cosmetics brand for many years. And after relaunch in January 2000 the Botanics brand has lifted annual UK sales to almost £20m.
- Developing clear trading formats to respond to the specific needs of customers, such as Pure Beauty stores and Health & Beauty Experience stores.
- Putting even more weight behind Boots Healthcare International (BHI), to develop and market our brands internationally. There is no reason why our international operations could not eventually grow to be as large as Boots The Chemists (BTC) in value terms.
- Over the longer term, extending our international retail proposition.

Our focus on wellbeing, taking Boots into a combination of products and services, will differentiate us ever more sharply from our supermarket competitors. In particular, they will not find it easy to keep pace with our new

product development programme and our increasingly broad offering in wellbeing services. Nor will the department stores at the other end of the retailing spectrum, for whom premium cosmetics and beauty services have been a traditional stronghold.

Our international experience has been mixed in recent years. BHI is performing strongly – operating profit has risen from £15.3m to £49.2m in the past two years. I continue to be very excited about the opportunities ahead for BHI, and the prospects for capitalising on our great portfolio of brands. Boots Contract Manufacturing is working ever more successfully with international brand owners, with sales to them up over a third to £39.2m in the past year. In Boots Retail International (BRI) we have found it difficult to get our business model right; however, we are finding the way and are encouraged by our experience in Taiwan.

### Moving people's perceptions forward

In the meantime, the challenge is to change not only ourselves but also the perceptions of consumers and investors. We are acutely aware that no retailer can afford to be complacent, or to take the loyalty of consumers and investors for granted.

Consumers trust us, and we will not jeopardise their confidence in our integrity, expertise and value. They believe we have the credentials to help them into areas that interest them – like complementary medicine. But to achieve the transformation and growth that we envisage, we need to become more exciting, vibrant and contemporary.

We also need investors to view us this way. They, too, see us as possessing traditional virtues – they know we can manage costs and margins. But to achieve strong long term growth they know we'll have to do more than run an efficient business. Can we find new ways to stimulate and inspire consumers? We can and we will – by

becoming more relevant to the way people's health and beauty needs are evolving, with fresh ideas that command decent margins.

### **Simplifying and clarifying**

A new vision calls for a new structure. Our aim is to simplify, clarify and reduce costs.

For the past decade we have had a number of separate business units, each with its own objectives, financial targets and infrastructure. Now we are forging a simpler organisation with a single strategic intent:

- Our UK customer-facing businesses will work together as Boots UK and Ireland.
- Boots Retail International will operate as the international extension of Boots UK and Ireland.
- We will continue to grow our share of global self-medication markets through Boots Healthcare International.
- Service and support operations like IT, logistics, manufacturing and property management will be fused into a central service organisation.

This restructuring has involved changing the responsibilities of two of my board colleagues. Ken Piggott becomes managing director of retail operations, Boots UK and Ireland, responsible for the delivery of our offer. Barry Clare becomes marketing director, responsible for the development and integration of our UK customer offer. He retains his responsibility for our international businesses BRI and BHI – supported by a new BHI managing director, Paul Stoneham, who joins us from Alberto Culver International in August.

One by-product of the restructuring will be significant cost reduction – a considerable contribution to our target of saving £100m by the end of the next financial year. This will be in addition to BTC's target of £160m cost savings over four years, to be completed in 2004.

Clearly, Halfords stands apart from this structure, and from our focus on



**WE'RE CLEAR ABOUT THE OPPORTUNITY. WE ALSO KNOW HOW WE'RE GOING TO SEIZE IT. WE'RE MOVING QUICKLY TO TAKE FULL ADVANTAGE OF THE LONG-ESTABLISHED STRENGTHS OF THE BOOTS BRAND.**

health and beauty. But observers should not read too much into this. Halfords is a good, profitable business. Its success comes from applying very much the same skills and values that consumers see in the rest of Boots – integrity, expertise, honest value, quality own brands. Changes in the business are driving significantly more value and this search for greater value will continue.

As we increase our pace and drive, it is vital to have good, motivated people at every level. Our ambitious and innovative plans need people who are enthused by what we can do, and are determined to win. We have training and development programmes in place to ensure that our store staff can make shopping at Boots a noticeably more satisfying experience – and to ensure that our managers work together effectively, seeing the big picture rather than being confined to their own departmental silos.

### **Staying true to our roots**

The transformation is already under way. We're becoming more confident, though without arrogance or complacency. It is no coincidence that we've just appointed one of our youngest-ever board members – Andy Smith, aged 40 – as group personnel director.

Boots may be changing, but we're staying true to our roots. Jesse Boot was a herbalist, so in a sense our new Health & Beauty Experience format is bringing us full circle. The potential for what we're doing has always been in our genes, and now the timing is right.

For many years, Boots has been distinguished from competitors by its expertise in helping people to take care of themselves, symbolised by the pharmacist – the 'man in the white coat'. Today, the person in the white coat is just as likely to be a woman – and he or she may be a dentist, an aromatherapist or a beautician. But the promise of dependability, integrity and authority remains the same: no one knows more about wellbeing than Boots.

**Steve Russell, Chief Executive**