

chief executive's review

Over the last year we have tackled a series of huge projects designed to bring this business up to date – and set it back on the path to long-term sustainable growth. When I look back over the period I am amazed by what we have achieved and proud of all our people who have worked so hard to make sure things went smoothly. Any one of the projects we have undertaken had the potential to really affect trading if they went wrong. Instead, most went better than planned. At the same time we are seeing early encouraging signs that our strategy of offering customers value, convenience and expertise is starting to work.

We are now coming to the end of the first phase of our journey as we start to bed down all the changes we have made over the last 12 months to make sure they are really robust. We are well on the way to being a modern, competitive, efficient retailer.

We now have prices that are sustainable and we have got a better buying programme in place that means we can continue to compete profitably. This is the model that the world's most successful retailers use – and it is the model we will use at Boots as we strengthen our position as 'The Health and Beauty Expert'.

So, as we take the changes we are making to this business up to the next level, I am confident that we can successfully change Boots for the better.

Building a better Boots

Let me list some of the things we have done to build a better Boots. We have lowered more than 3,300 prices – that is a £200m investment. We have worked to buy better, taking £30m off our cost of goods from a standing start a year ago. We have got 80% of the way through a complete overhaul of the supply chain to ensure that the right goods are on the shelves at the right time. We have put 14,000 new tills in our stores. We have redesigned our IT systems. We had our biggest store opening programme for years, with a new outlet opening on average each week, many of them edge-of-town. We closed our Airdrie manufacturing plant, transferring all the work to our Nottingham and European factories – at the same time as we successfully relaunched N°7, the

£200m

invested in lower prices in the last two years

product made there. And while all this was going on we took more than 1,000 jobs out of head office; that is one in three of the people there.

That is not, however, the end of the change. Many of these projects are ongoing. There is more work to do on the supply chain; there will always be more work in IT; we have to continue to offer value to our customers. We must always look to be more efficient and we need to ensure that our shops are sited where customers want to shop and open when they want to visit them.

The expert health and beauty retailer in the UK

That full change programme is one thing. But what I am perhaps most proud of is the success we have been having in our stores. We have continued to grow in the areas of health and beauty and even in the very competitive environment of toiletries.

What has been particularly pleasing is the reaction to our efforts and investments to revive our healthcare business. Health is the cornerstone of Boots. It is central not just to what customers think of the company but also to its economics – making up 40% of our sales and 50% of our profits. That is why I am delighted that we have had the best year in our core pharmacy business for five years. This is a strong platform for the significant growth opportunities ahead. The first and most significant of these will be the change to the new pharmacy contract this year, designed to take some healthcare work off GPs and transfer it to pharmacists. We are already starting to do some of this work.

20%increase in N°7
sales since
February relaunch**£30m**reduction in our
cost of goods

Richard Baker
with Marta,
N°7 consultant,
High Street
Kensington

Our stores are running classes to stop people smoking. We can sign people up to managed weight loss programmes which include the ability to supplement with medicines where necessary.

In beauty our success has been marked. We have strengthened our range authority with a major relaunch of the N°7 cosmetics brand – one that has led to a 20% increase in its sales. We have pushed further into the premium end of the market with more beauty halls and won more contracts with prestige brands. Our fragrances performance has been outstanding, driven by lower prices and new in-store displays.

The toiletries market remains as competitive as ever and a lot of our investment on price has been here. This is part of the reason why our performance has picked up. Growth up 0.1% reflects the deflation in the market and represents held market share. A key factor in our performance has been our management of product mix with a greater emphasis on own-brand and exclusive ranges. In particular, we enjoyed success with a relaunch of our Soltan sun care range as it regained the number one position in the market.

Financial results achieved

All of the changes we have made have, of course, had an impact on our financial results. Operating profits have fallen from £549m to £501m. But let me be clear. This was a vital investment to make sure that Boots can compete in the future. The old economic model, with Boots The Chemists trading on margins of up to 14%, was not sustainable. With the negative headlines that

surrounded our performance in the last quarter of the year, it is important not to lose sight of some important facts. We have continued the top line sales momentum in spite of a difficult market. We had our third successful Christmas on the trot. And our margins, at 10%, are still above almost all our high street rivals.

The next phase

Looking ahead the strategy is clear – to continue building a better Boots. We will focus on our core healthcare market, with all the potential for growth it contains. We will continue to develop products that customers know they can only get from us. We will continue to ensure that we offer value. We will do more to ensure that our stores are where our customers want them and are easy to shop. We will continue to focus on the expertise of our people and the customer care they offer. Underpinning all this will be a constant drive for further efficiencies. We have only just embarked on our journey. But I believe that we have the right strategy and the right people united behind a simple aim; to be the Health and Beauty Expert.

Richard Baker