

# A more efficient Boots

We've never been in any doubt that the success of our efforts to build a better Boots depends on increasing our efficiency. We need to be continually driving down costs, eliminating waste and removing the obstacles that prevent our people performing to their full potential. And in 2005/06 we won important battles on all those fronts...

## Our best year yet for better buying

Bringing down the price we pay for the goods is crucially important in enabling us to offer our customers better value while maintaining margins. Over the last year, we saved around £50m by better buying.

Our increasing use of electronic auctions made a significant contribution. By inviting qualified suppliers anywhere in the world to bid for our business, we are able, for example, to save £670,000 on three million hair accessories.

Of course, this method is only appropriate for certain types of 'commodity' purchase. In the case of our leading suppliers, we take a longer term view. Our aim is to develop joint business plans, exploring with them how we can best grow sales of their products in our stores. It's a 'win-win' approach which provides a very positive framework for negotiation, and we moved forward on this mutually profitable basis with 50 key suppliers during 2005/06.

On the basis that efficiency begins at home, we also continued to tighten up our own manufacturing operation. We've cut Boots Manufacturing's underlying unit running costs by nearly 25% over the last three years.

## Making IT easy

Major IT projects have a habit of going wrong, with expensive consequences for the organisation concerned. Ours, which was very major indeed, was completed successfully and on schedule last year.

We've invested around £120m in one of Europe's largest SAP systems, which encompasses everything from finance and treasury functions, through HR and property, to planning precisely how each of our stores should be laid out and what products should be stocked, in order to optimise performance. For Boots, this kind of space and range planning is immensely complex, because virtually all our stores are different shapes and sizes, and already our new system is making a measurable difference.

In addition to the new tills now installed in all our stores, we began rolling out the use of radio frequency hand-held terminals, enabling our people to carry out essential stock management in real time. And our MyStoreNet intranet site is now providing our managers with minute-by-minute updates on every aspect of store performance.

For many years, Boots was a leader in the use of IT within the retail sector. Having fallen off the pace in the 90s, we've now put ourselves back at the front of the field – and, crucially, it's our customers who will feel the greatest benefit, as increasing efficiency improves their shopping experience across all 1,400 of our stores.

## Award winners for energy-efficiency, leaders in reducing waste

Our record as an energy-efficient business is extremely good. We've generated our own power at our headquarters site since 1915; and our current combined heat and power plant meets virtually all our energy needs at our Nottingham site far more efficiently than if we used electricity from national power stations.

Far more economically too. We reckon that generating our own energy in this way saved us £1m in 2005/06, as well as reducing our carbon dioxide output by around 3,500 tonnes. And we've been working very successfully with the Carbon Trust to continue to improve our carbon management performance, by making all our stores, over time, as energy-efficient as possible. We're delighted that our efforts won us a Big Tick award from Business in The Community in 2005, but we know there is still room for improvement. Over the next three years, we'll be investing over £5m with the aim of achieving annual savings of £2m-£3m and further reducing our carbon dioxide emissions by over 8,000 tonnes.

Our performance in the field of recycling and waste management is equally impressive. We started recycling packaging as long ago as the 1930s, and today the list of things BTC refuse to treat as disposable waste stretches from single use cameras to the bubble wrap used to protect stock in transit. As a result, we recycled no less than 50% of the waste we produced in 2005/06, which equates to a saving on waste disposal of over £3m.

#### **Our Store-Friendly Supply Chain: phase one complete**

From a customer's view, identifying problems in a retailer's supply chain is easy: a gap on the shelves where their favourite product should be. But putting things right is a much more difficult undertaking; so we are very pleased that in 2005/06 we completed phase one of our Store-Friendly Supply Chain (SFSC) programme.

The principle underlying this major efficiency initiative is to take the work of unpacking and sorting products out of stores, and back to the warehouse. As a result, over 80% of items arriving at stores from our distribution centres are now ready to go straight onto the shelves, a huge saving in time and energy for busy store managers and their teams.

There's a major financial benefit too. Year-on-year we have reduced inventory in BTC by £43m as a result of better stock management and supply chain efficiencies. In achieving this, there has been no adverse effect on sales as our record-breaking Christmas demonstrated.

Phase two of our SFSC programme is now about to get underway. Over the next three years, we'll be investing around £70m in a new Stores Service Centre at our Nottingham site; a state-of-the-art automated facility that will take the efficiency of our supply chain operation to another level.

#### **A responsible approach to the human cost of increased efficiency**

We expect the greatly increased efficiency of our supply chain to result in 2,250 job losses over a three year period. Naturally, we regret this and will do everything we can to help the people concerned cope with the consequences.

Our record in this respect is a good one. In the last year, for example, we completed the closure of our factory in Airdrie. By working closely with the local council, we have helped to attract new employment to the area – and 95% of our former employees have now either found work, returned to education or chosen to take early retirement. We have also been active in redeveloping the site of our factory for the good of the community, and have donated around £3.6m to local regeneration.

#### **An even more efficient future**

We're very clear that efficiency is a journey, not a destination. So we won't be relaxing our efforts to improve our performance in all of the above areas in 2006/07 and beyond. In particular, our investment in a super-efficient new base for our entire supply chain represents a huge opportunity to add value to our stores, in a way that our customers will be sure to appreciate.

#### **Measuring our performance**

We are also currently developing new targets for measuring the effectiveness of our supply chain reorganisation, which will be based on the proportion of goods delivered to stores ready to go straight onto the shelves.

	2005/06	2004/05
<b>Saving through better buying</b>	<b>£49m</b>	£34m

Our target for 2006/07 is to achieve further savings.