

Boots The Chemists

Boots The Chemists (BTC) continued to drive forward sales and profits in difficult trading conditions. Significant factors included a major fire at one of BTC's central warehouses in Nottingham, a poor summer which affected suncare sales and a mild winter with relatively low incidence of coughs and colds. Despite these factors, turnover rose 7.9 per cent to £3,573.7 million, with counter sales up 7.5 per cent and dispensing up 9 per cent. Sales growth accelerated through the year, boosted by the increasing success of the Advantage Card. Despite the card's £20 million revenue cost, operating profit rose 4.1 per cent to £443.8 million.

Strategy BTC is creating value by concentrating on four strategic goals. It is differentiating its offer to consumers by focusing on beauty and healthcare, positioning Boots as the store that helps customers to 'look good, feel good'. It has embarked on a process of fundamental change to improve its way of working. It is continuing to expand its store portfolio, in a variety of formats, in the UK and The Republic of Ireland. And it is developing profitable new products and activities in areas where the Boots brand adds value.

People To achieve these objectives, BTC has one overriding aim: to get all its people thinking and working more effectively. It is undertaking a far-reaching reorganisation of marketing, stores and central functions, redesigning the way people work. This programme brings together business process engineering, new IT systems and the development of a more participative culture. It will make the organisation more effective, efficient and more responsive to customers' aspirations. Central functions such as personnel, marketing and finance have been devolved. Profit accountability has been driven deeper down the organisation so that individuals can apply their energy and imagination more directly to creating value, guided by the overall strategic objectives.

The aftermath of the warehouse fire in October demonstrated the success of this approach. Even before the fire was finally out, a team had begun to make alternative logistics arrangements and plan the rebuilding. What remained of the 250,000sq ft building had to be demolished, but thanks to a remarkable effort by many individuals the first phase of its replacement was in operation by June, less than nine months after the fire.

Store development The small store expansion programme continued, with 32 more stores opened in 1997/98. BTC's growth is increasingly through more edge of town stores – 13 opened during the year, taking the total to 21. They are proving enormously successful. They generate their own traffic, taking little trade from other BTC stores, and transaction values are typically 50 per cent higher than in the high street stores which remain the core of the chain.

Rapid expansion in The Republic of Ireland has made Boots the country's largest retail pharmacy chain. BTC opened six stores in The Republic during the year, bringing the total to eight. In January 1998 it acquired the Hayes Conyngham & Robinson chemists chain, adding a further 15. Refurbishment of these stores is under way.

Boots The Chemists

Managing Director, Steve Russell	
Sales £m	3,573.7
Increase %	7.9
Profit £m	443.8
Increase %	4.1
Sales split	%
Healthcare	42.7
Beauty	39.8
Leisure	17.5



No7, the leading cosmetic and skincare brand developed and manufactured by Boots, now with a new look skincare range.



Boots The Chemists continued

In April 1998 BTC acquired the Connors pharmacy chain, which has 25 stores in Northern Ireland, five in The Republic of Ireland, three in England and one in Wales. This acquisition gives Boots market leadership in Northern Ireland and strengthens its leadership in The Republic.

Experiments with new formats and layouts continue, with stores of various sizes designated as 'learning laboratories'. A motorway service area store has proved successful, and five more are planned in 1998. Stores in hospitals are still under trial.

Advantage Card BTC's loyalty card, the Advantage Card, was launched nationally in September 1997 after extensive trials. One in three BTC transactions are now linked to the Advantage Card. As expected, by the year end incremental counter sales of an estimated 3.5 per cent had been achieved. Promotions offering bonus card points have been very successful. The card provides valuable insights into consumer behaviour which are already guiding the tactical use of promotions. The next step is to build sales by making use of the card database and its smartcard chip technology.

New products and services Using information from the Advantage Card database, BTC launched Boots Mother & Baby at Home, a home shopping catalogue. The first 500,000 catalogues, mailed in March 1998, contain over 1,500 products ranging from baby food to nurserywear. The catalogue enables BTC to extend its range to items such as maternity wear and baby equipment.

New product development is a key driver of health and beauty sales, major launches in beauty and personal care included the Kyusu toiletries range and the ACT skincare range for teenagers. The relaunch of Boots sandwiches and new chiller cabinets helped to boost lunchtime sales by 25.7 per cent.

BTC is strengthening its market leadership in photo processing through a £27.5 million investment in Advanced Photo System (APS) processing equipment. All 470 in-store mini-labs will be equipped with the machines by early 1999, enabling Boots to offer Europe's first national one-hour APS service.

Pharmacy Pharmacy sales grew 9 per cent and Boots maintained market share. New own brand pharmacy products, giving BTC higher margins, brought the total range to 120 frequently prescribed items.

A promising innovation under trial in the 'learning laboratory' stores is a redesigned pharmacy layout suitable for almost all BTC stores, whatever their size. It enables 80 per cent of prescriptions to be dispensed within two minutes – a key benefit for customers – and provides a consultation area where customers can discuss health concerns with the pharmacist in privacy.

Beauty and personal care Overall sales grew 8 per cent, with a significant gain in market share for cosmetics, but fragrances suffered from intensifying competition. The Advantage Card and stronger promotion boosted haircare, dental care and, particularly, skincare. Relaunches included Natural Collection toiletries, targeted more clearly at young teenage girls and the £45 million a year 17 cosmetics range, one of BTC's largest brands.



Camera sales have risen dramatically, driven by the investment made in Advanced Photo Systems. Boots brand launches also include Boots Anti-Malarial Tablets.

Well that's one way to
stop sunburn



Boots The Chemists continued

mum's been treating herself again



Healthcare Sales were buoyant, growing 7.9 per cent despite the low incidence of hayfever in the summer and coughs and colds in the winter. Smoking cessation products grew strongly, while vitamins and supplements suffered from the mild winter and adverse publicity for B6 products.

Other merchandise areas It was an excellent year for BTC's photo business, which strengthened its market leadership in photo processing, benefiting from its growing dominance in APS. In cameras, APS accounted for 42 per cent of sales. The new Boots brand camera range proved highly successful.

Outlook BTC continues to broaden its offer to customers. In April this year it launched an initial range of nine health and travel insurance products that can be bought 'off the shelf' in 250 of its largest stores. Royal & Sun Alliance carries the insurance risk and provides underwriting and claims services.

Other initiatives include trials of GP surgeries in selected Boots high street stores, operated by an independent healthcare services provider.

The new head office extension opens in January 1999, bringing together people for team-based, cross-functional working.

International Retail Development BTC sees international expansion as a value creating long term growth opportunity which fits with a number of trends including the globalisation of health and beauty brands. The pilot programme has moved from the research phase to 'learning by doing'.

Trading has begun in The Netherlands and Thailand, with sales for the year totalling £5.2 million. Overall losses amounted to £21.2 million, including UK incurred costs and preparatory costs for Japan.

Early indications are encouraging, with consumers responding very positively to Boots own brand products. These now account for 37 per cent of sales in The Netherlands and 47 per cent in Thailand.

In Thailand six stores opened during the year and sales have increased steadily despite the recession. The stores are making an operating profit. Since the year end we have announced a programme of a further 40 stores over the next two years. In The Netherlands, three stores opened in 1997 and four more are planned for 1998. Sales are now good and our experience has led us to make a number of changes to improve profitability.

Work continues on preparations for entry to Japan: 1,400 products have been reformulated to meet local regulatory requirements and 930 have been registered. Negotiations continue with a potential joint venture partner.



Charles Worthington is a premium hair care and men's skincare range exclusive to Boots. ACT was launched as a skincare range for teenagers.