

## Chief executive's review



*R. A. Baker*

Richard Baker

'On Monday 15th September last year, the day I joined Boots as chief executive, I didn't go straight to the office. I spent most of the morning visiting three of our stores.

I knew that whatever challenges a retailer faces, the answers are most likely to be found in the stores. Because, of course, that's where our customers are. And, no less important, because nobody knows better what's working well, and what needs to work harder, than the people who serve our customers.

I learned a lot from talking to Boots people that morning, not least how passionately they want to see this company achieve its full potential. Despite fierce competition, I'm confident we will – by harnessing that passion, and by acting upon the lessons we learn every day in each of our 1,400 stores.'

## First impressions

When you're as big and famous as Boots, everyone has an opinion about you. I certainly did, before I joined the company. In Boots, I saw enormous strengths: a profitable business, with a strong balance sheet, long established as a leading player and successful brand owner in growing markets.

I also saw a company with an enviable relationship with its customers, based on the kind of trust and even affection that can only develop over quite a few decades. Great locations, too, with a prime pitch on almost every high street, and real potential to exploit our brands, through Boots Healthcare International.

As an outsider, I was also aware of some negatives. My impression, reinforced by hostile press coverage, was that Boots had lost a bit of confidence in itself; that the stores were not as bright and customer-friendly as they needed to be; and that, organisationally, the company was lacking sharpness.

When I started here, my preconceptions were broadly confirmed. But one thing really did surprise me. I'd expected the people to be good. They weren't good – they were absolutely outstanding. In Boots people, I found an inherent level of customer care I've never encountered before; a sense of dedication and purpose genuinely comparable to that of, say, a nurse or teacher. And, as I mentioned above, I found they were hungry for change. Or, more accurately, I should say they were hungry for faster, more radical change.

## Picking up the pace of change

Before I joined Boots, programmes to transform the company had been underway. To mention just one important example, the Lower Prices You'll Love initiative had already begun to make a real impact in changing the perception that Boots couldn't compete on value for money. But we weren't moving forward fast enough.

So my brief wasn't to reinvent the company from scratch, but to inject some urgency and impetus into the process of making Boots The Chemists (BTC) a more modern, competitive and efficient retail business, in order to deliver value for shareholders.

On the following six pages, I'll be explaining how each of those three key adjectives translates into a better shopping experience for our customers. First, though, I'd like to tell you a little more about the broader organisational and cultural changes upon which everything else depends.

## Putting the stores back at the centre of the business

We've made the stores the hero again. For years, our core retail business was worked hard in order to fund new ventures, some of which performed disappointingly. There's no doubt at all that this had a negative effect at store level, where many people felt that their efforts weren't being appreciated, or their needs met, by head office.

Large-scale investment in our stores and the quality of our customer proposition is, of course, a big part of the solution. No less important is the dramatic restructuring of our central management function, which we have now almost completed. Stripping away unnecessary layers of management in head office has sent out the clearest possible signal that we are serious about putting real decision-making power into the hands of those closest to our customers, the people in our stores.

## A better Boots, one step at a time

Just over eight months into the job, I'm encouraged with the progress we've made across all our businesses.

But nobody is more aware than me of the challenges that lie ahead. We face intense competition, both from the might of the multiples and the quick-witted entrepreneurialism of the independents. We've now had most of the quick wins that were available to us, so from now on, we'll have to fight for every percentage point of improved performance.

The good news, though, is that, as an organisation, we're absolutely up for the battle. The people across our business, have a real desire for success. Our strategy – pushing forward modernisation, yet reconnecting to the core values and successful origins of the brand – is the only possible one. And I have around me, a leadership team who share my determination to do the right thing rather than the easy thing, and to build a better business one step at a time.

We've identified our immediate priorities; areas where we can sharpen our performance in the short term. But to complete a programme of change on the scale I've described will take time. It is, at least, a five-year plan; and a huge amount remains to be done, across all our businesses.

By starting to get the fundamentals of retailing right through careful investment, we've begun the journey. And every day now takes us a little closer to a modern, competitive and efficient company that can deliver sustainable profit growth and shareholder value well into the future.

Finally, I'd like to say a huge thank you to all the people in our organisation for their amazing hard work, flexibility and commitment through this period of enormous change. All parts of the company have been effected with jobs changing and working patterns being turned upside down everywhere. Boots people care.



**Modern** These days, when time is precious to almost all of us, nothing matters more to our customers than convenience. They want to shop when it suits them. So a vitally important development last year was our move towards flexible opening hours. As with many other decisions, we left individual stores to drive this one for themselves, depending upon local demand. And virtually all our stores have grabbed the opportunity to serve their customers better by extending their hours. Many more stores now open on Sundays. Once customers are through the door, of course, modern convenience means making shopping easy, quick and enjoyable for them. Our massive investment in our stores is enabling us to do just that in all kinds of ways, from improved signage to advanced touch-screen tills. Are queues a thing of the past at Boots? Not yet, but we're working on it.

**Looking good** Modern businesses listen to their people. One thing I heard again and again from our people when I started was how much they hated their old fashioned uniforms. So we invited them to help design a new one. Four new designs were created, in consultation with a panel of store representatives, and the winner was chosen by a Pop Idol-style phone vote which 14,500 people voted in. Watch out for the winner in your local branch, soon!

**Health centre presence** Another example of the right kind of store, in the right place: the seven new health centre pharmacies we opened in 2003/04. As old GP surgeries are merged into large purpose-built health centres, there's a big opportunity for us to offer our traditional dispensing expertise right there, where patients need it.

**Doing the right thing** Is it modern to possess a sense of corporate social responsibility? For Boots, not really; it's been woven into our fabric since the days of our founder, Jesse Boot. But I'm delighted that, as we refined our reporting methods last year, our performance in all the major CSR assessment schemes improved dramatically.

**Our new 24-hour branch at Stansted airport has been very successful, demonstrating the importance for a modern retailer of being in the right place, at the right time. On the same principle, last year saw Boots making a move towards the edge of town.**



**Competitive** Over the years, Boots has been able to command a price premium, justified by both the quality of our products and the expert customer care provided by our people. But, with value for money higher on the nation's shopping list than ever, we're 100% clear that we need to compete much harder in this respect. Last year, we made real headway, reducing prices on around 2,000 lines by an average of 18% – and making it clear to customers that value for money is here to stay at Boots. Well-managed price investment enabled us to do this without serious damage to gross margins. At the same time, we further sharpened our competitive edge right across our customer offering – from introducing innovative new Boots brand products, through making our merchandising work harder, to strengthening our core pharmacy business. And, of course, those extended opening hours mean that we can compete longer as well as harder.

**Of course, offering real value for money to shoppers young and not-so-young is only part of what it means to be competitive in the modern high street. Put simply, we have to do everything better than other retailers, to give customers as many reasons as possible to visit Boots – whether for the expert advice of our pharmacists or for products of a quality not available elsewhere.**

**Christmas all the year round** Building on our best Christmas for a decade in 2002, we again performed excellently over the festive period. And since then, we've been applying the same successful merchandising formula – a great product range attractively displayed in themed areas of our stores – to other seasonal occasions, such as Valentine's Day and Mother's Day.

**Shapers** A major relaunch of our popular Shapers healthy-eating range in January has enabled us to tempt even more hungry customers into our stores, with all kinds of mouth-watering new products. We're well on track for substantial increases in sales over the next three years.

**★★★★★ products** Our product expertise is a huge source of competitive strength. Last year, for example, our market-leading Soltan range took sun care to an entirely new level, with the first ever five-star UVA protection ratings. So for anyone who wants to take the best possible care of their skin, every holiday now has to begin at Boots.

**Picking up more dispensing business** We never forget that, first and foremost, we are chemists. And to further strengthen our position in this market, we last year gave a big push to our Prescription Collection Service. For customers, especially those short of time or mobility, it's highly convenient, since they no longer need to pick up repeat prescriptions from their doctors, but can simply call into our stores when they are ready. For us, the benefit is significantly increased customer loyalty.



**Efficient** Running a business efficiently is, very largely, about attitude. It's about instilling in people the sense that they can get things done right here, right now. And it's about removing the obstacles that stand in their way. Our radical management restructuring has played a very important part in that. But, in the past, the single biggest problem our stores faced in serving their customers efficiently was a highly complex and slow moving supply chain. So we're rebuilding it from scratch, working backwards from the shelf to the warehouse. The aim is to ensure that our stores always have exactly what our customers want, when they want it. And as our new outsourcing agreement with Unipart has come into effect over the last year, alongside the introduction of new stock management processes, we're getting closer to delivering on that every day.

**Getting in Shape** With over 3,000 people, our head office operation had become slow-moving and very expensive. Through our Getting in Shape programme, we cut around 1,000 of those jobs last year, simplifying management and saving £31.4m. It's never easy to tell people they are out of a job. Once the decision was announced in January, we implemented it very quickly – but with real concern for the well-being of all the individuals concerned. Virtually all the redundancies were achieved voluntarily.

**Making IT easy** Throughout our business, our IT systems were in urgent need of updating, but the renewal process was frustratingly slow. As our new outsourcing agreement with IBM and Xansa came into effect last year, we were able to pick up the pace dramatically. Our new intelligent pharmacy system, for example, is now operational in well over 550 stores; while new touch-screen tills are being installed in eight stores every night. It's a massive and highly complex programme, but our IT strategy couldn't be simpler: to make it faster, easier and cheaper for our people to do their jobs and for our customers to enjoy their shopping.

**Supplying 1,400 stores is a huge operation, but there's no question we had allowed it to become over-complicated. For the stores, that means long delays in receiving the stock they need – and when it arrives, a lot of work sorting it and getting it onto the shelves. In future, that work will be done in the warehouse. Single-picked items will be delivered every day, direct to the shelf, saving our stores enormous amounts of time and dramatically increasing availability.**