Understanding Loblaws

June 2005

CORIOLIS RESEARCH

PRESENTATION STRUCTURE

This presentation is structured into three sections: a brief overview of the Canadian market, an overview of Loblaws and an analysis of Loblaws' strategy

PRESENTATION STRUCTURE
First, a brief overview of the Canadian market

Canadian
Market
Overview

CANADA IS VERY SIMILAR TO AUSTRALASIA

In numerous ways – population distribution, demographics, socially, culturally - Canada is very similar to Australasia (Australia + New Zealand)

Population distribution: Canada vs. Australasian
(people, millions, 2003)

Canada	Population	% of Population
Ontario	12.3m	39%
Quebec	7.5m	24%
British Columbia	4.2m	12%
Alberta	3.2m	10%
Manitoba	1.2m	4%
Saskatchewan	1.0m	3%
Nova Scotia	0.9m	3%
New Brunswick	0.8m	2%
Newfoundland/Labrador	0.5m	2%
Northern Territories/ Nunavut/Yukon/PEI	0.2m	1%
	31.7m	100%

85%

Australasia	Population	% of Population
New South Wales	6.7m	28%
Victoria	4.9m	21%
Queensland	3.8m	16%
North Island	3.0m	13%
Western Australia	1.9m	8%
South Australia	1.5m	6%
South Island	1.0m	4%
Tasmania	0.5m	2%
ACT	0.3m	1%
Northern Territory	0.2m	1%
	23.8m	100%

78%

Source: ABS; SNZ; SC; Coriolis analysis

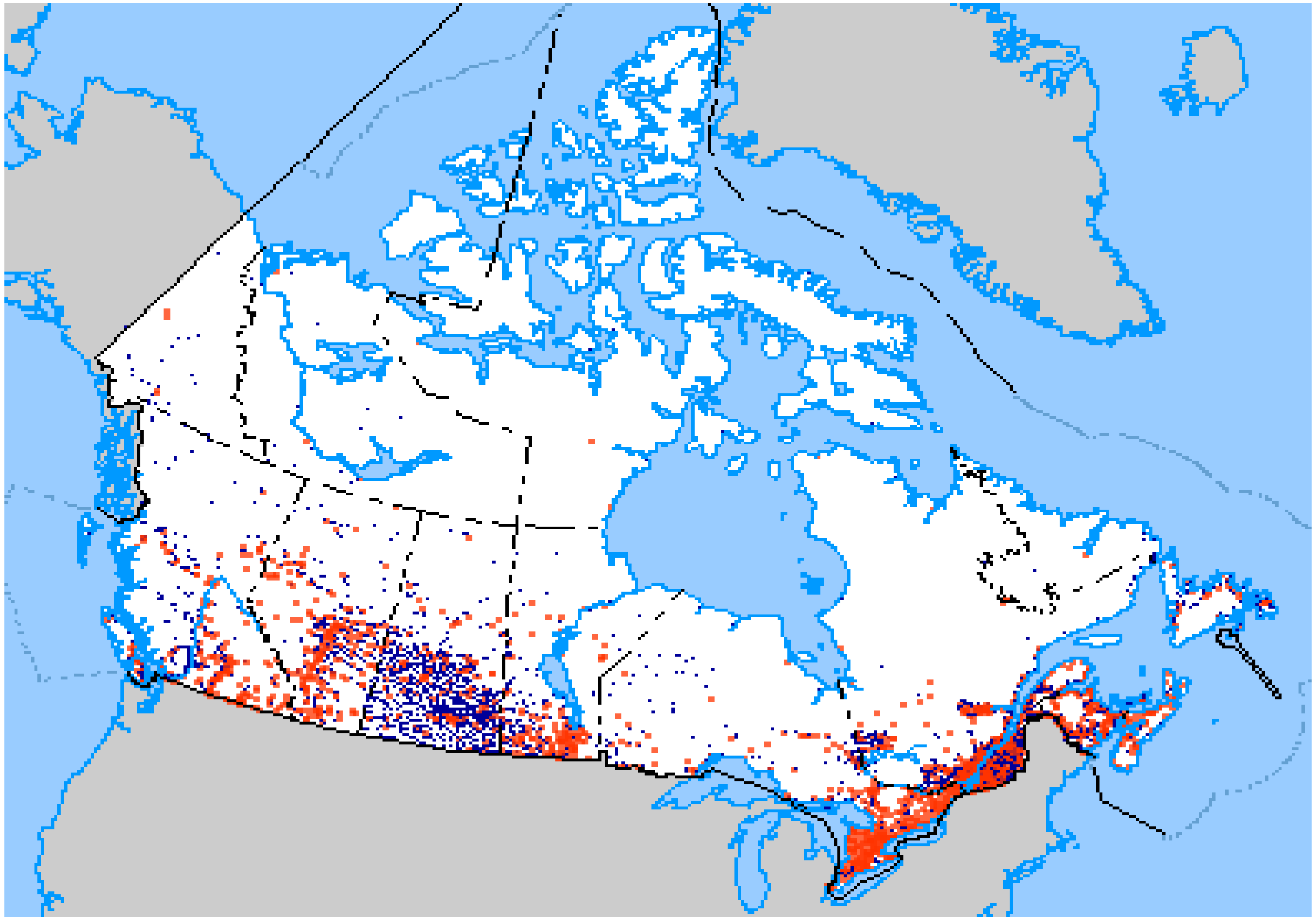
POLITICAL STRUCTURE

Canada is composed of 14 provinces and territories, which are generally clumped into four meta-regions: Western Canada, Ontario, Quebec and Atlantic Canada

Political map of Canada
(2004)

THE GREAT WHITE NORTH
The vast majority of the Canadian population is clustered in the south close to the U.S. border

Canadian population distribution by geographic location
(people, millions, 1975-2005e)

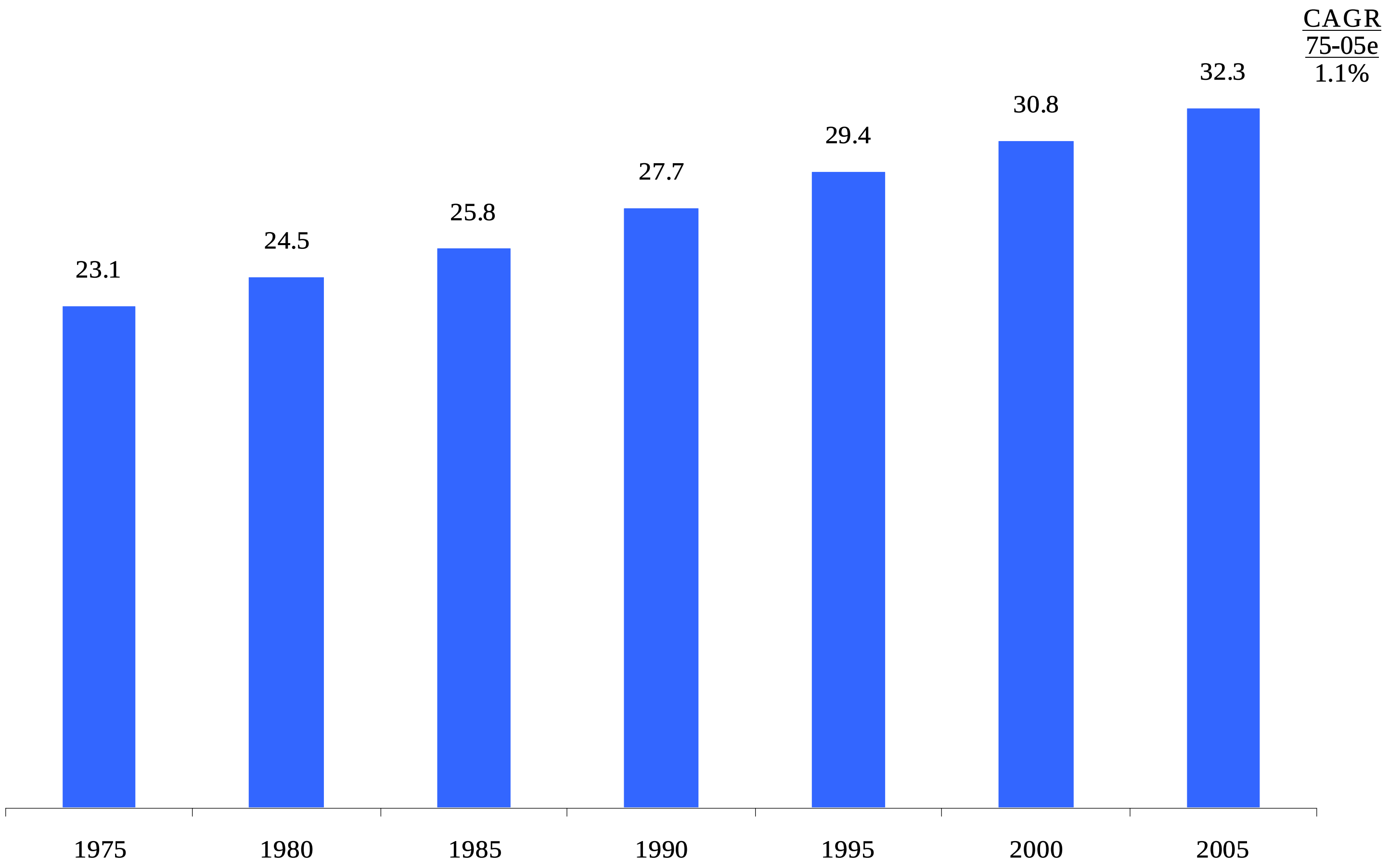


Population less than 1,000

Population greater than 1,000

SLOW POPULATION GROWTH
Canada is experiencing very low population growth of 1.1% per year

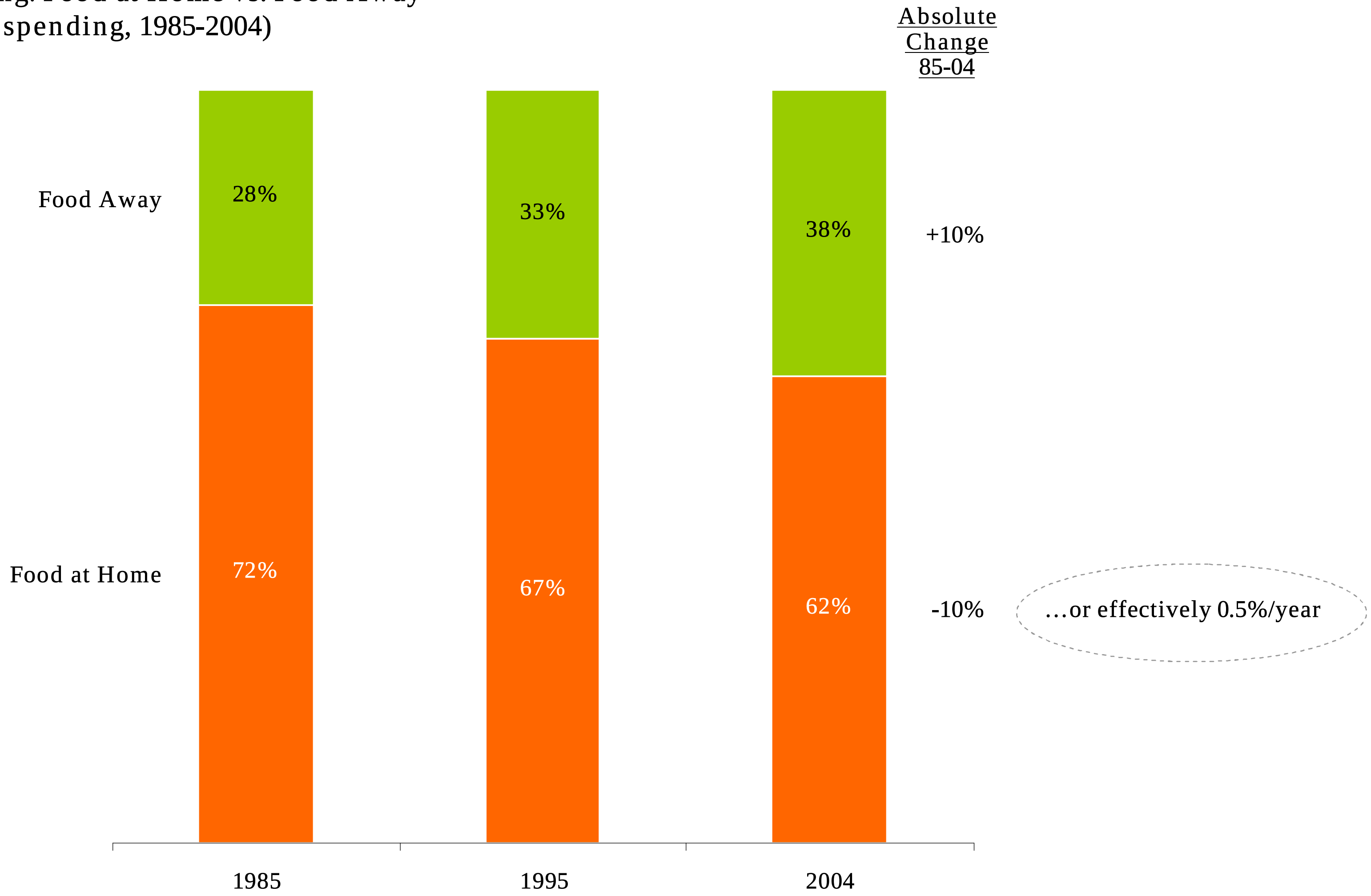
Canadian population growth
(people, millions, 1975-2005e)



Source: SC; Coriolis analysis

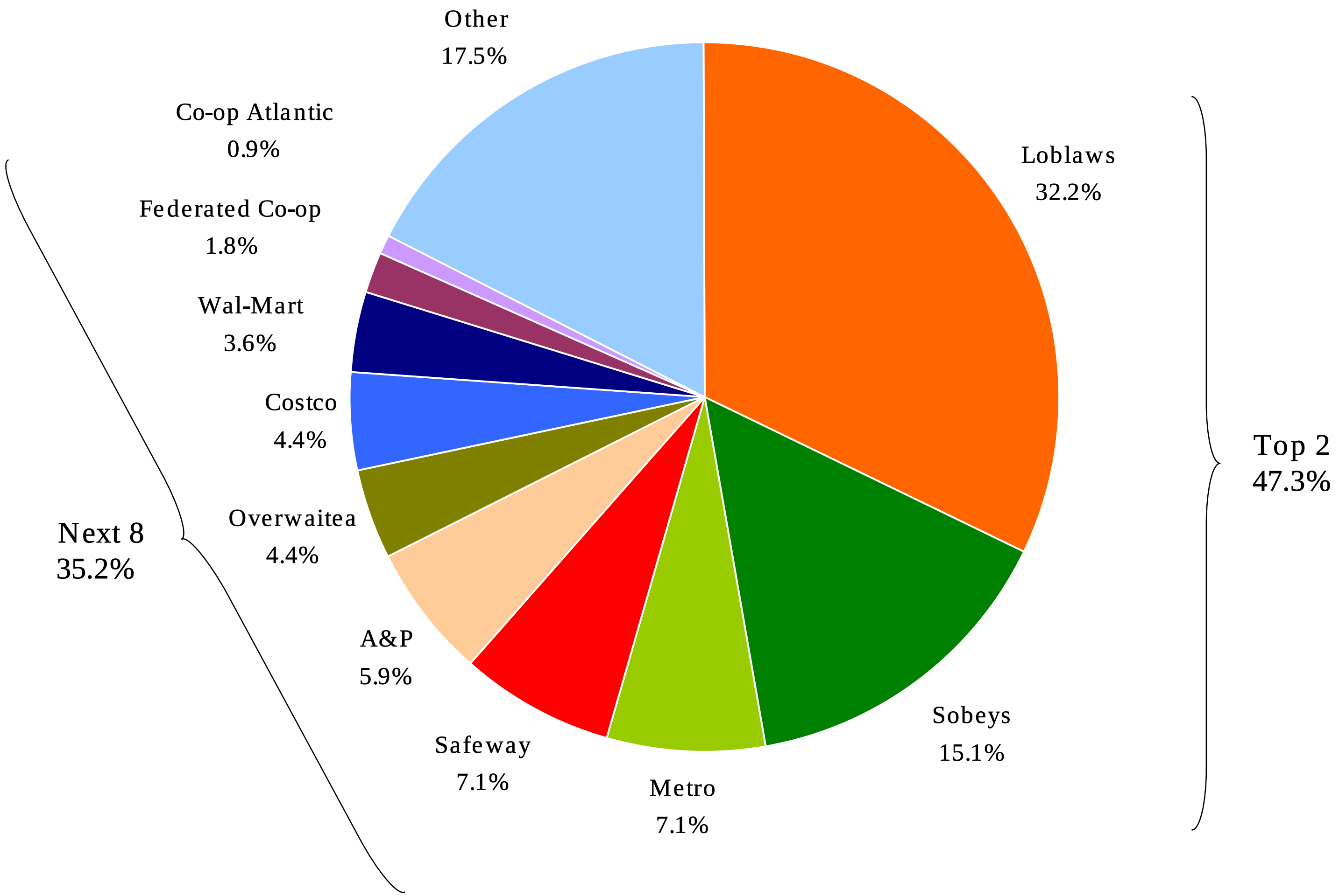
STRONG GROWTH IN FOOD AWAY
Canadian households are spending more money on food away, at the expense of supermarkets

Share of Food Spending: Food at Home vs. Food Away
(% of household food spending, 1985-2004)



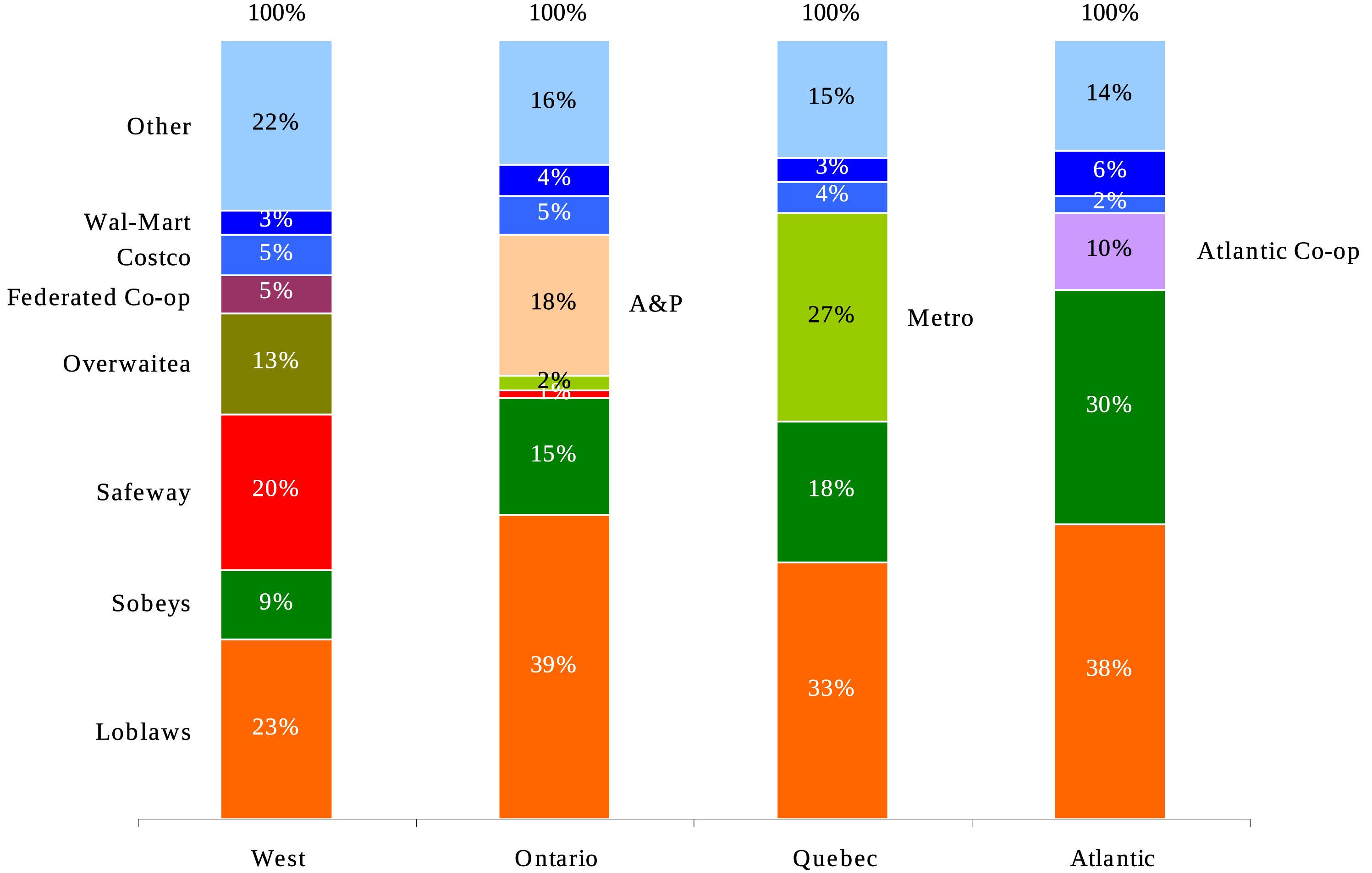
TWO LARGE RETAILERS
Canada has two main supermarket groups (Loblaws and Sobeys) and a number of other smaller groups

Canadian retail grocery market share by group
(% of sales, 2004)



STRONG REGIONAL GROUPS
Many of the smaller Canadian retail groups are strong regionally

Canadian retail grocery market share by group by region
(% of sales, 2003)



Source: company reports; Canadian Grocer; NBF; xarious published sources; Coriolis analysis

MAJOR CANADIAN SUPERMARKET GROUPS

There are a large number of strong participants in the Canadian market, including four US based retailers (Safeway, A&P, Costco and Wal-Mart)

Key attributes of major Canadian supermarket groups
(various, 2003/4)

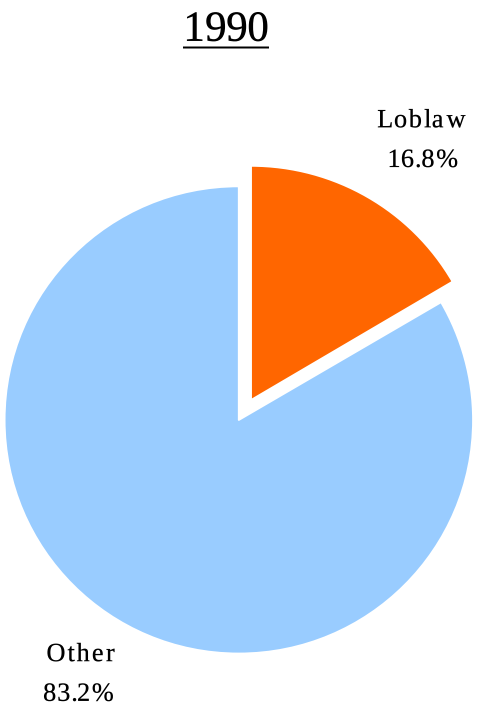
Group	Ownership	Group Sales (in Canada)	Grocery Sales[1] (2002)	# of stores	Geographic Spread	Key Formats	Notes
Loblaws	Public (L) & Weston Family	C$26.2b	C$24.9b	1,641+	National	Loblaws Others+	Acquired Provigo and Agora in 1998
Sobeys	Public (SBY) & Sobey Family	C$11.0b	C$11.7b	1,300+	National	Sobeys IGA Price Chopper	Acquired Oshwa Group 1998
SAFEWAY	Public (SWY)	US$3.5b	C$5.5b	215	West	Safeway	Subsidary of Safeway US
METRO	Public	C$5.1b	C$5.5b	1,018	Quebec Ontario	Metro Super C Loeb	
A&P	Public (GAP)	US$2.7b	C$4.5b	176	Ontario	A&P Dominion Food Basics	Subsidary of A&P US
Overwaitea B.C.'s very own food people.	Private (Jim Pattison)	C$3.4b	C$3.4b	177	West	Overwaitea Save-On	
Costco Wholesale	Public (COST)	US$5.2b	C$3.4b	62	National	Costco	Subsidary of Costco US
WAL*MART	Public (WMT)	C$9.0b	C$2.8b	213	National	Wal-Mart	Subsidary of Wal-Mart
CO-OP	Federated Co-op	N/A	C$1.4b	~300	West	Co-op	

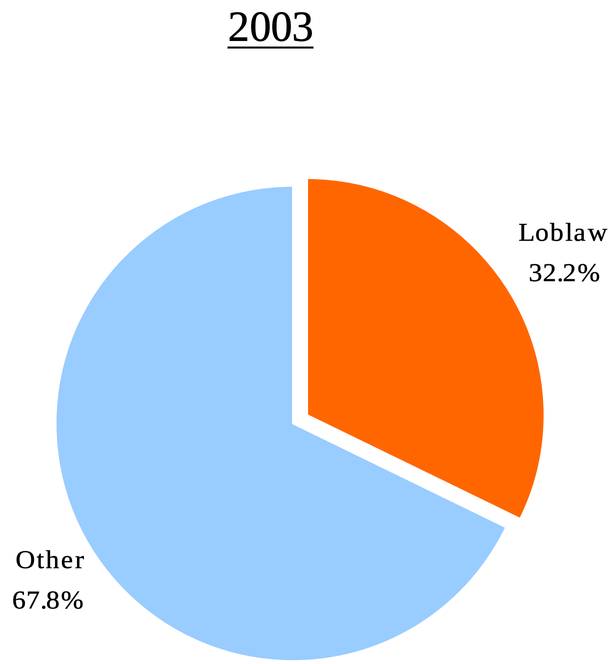
1. Grocery sales includes sales of wholesale franchise and independent stores supplied by the group; excludes GM sales of Wal-Mart and Costco
Source: company reports; Canadian Grocer; NBF; xarious published sources; Coriolis analysis

PRESENTATION STRUCTURE
This section gives an overview of Loblaws to put the company into context

MARKET SHARE GROWTH
Loblaw has more than doubled its Canadian market share in the past decade

Loblaw’s Canadian market share growth
(% of supermarket/retail food, 1990 vs. 2004)



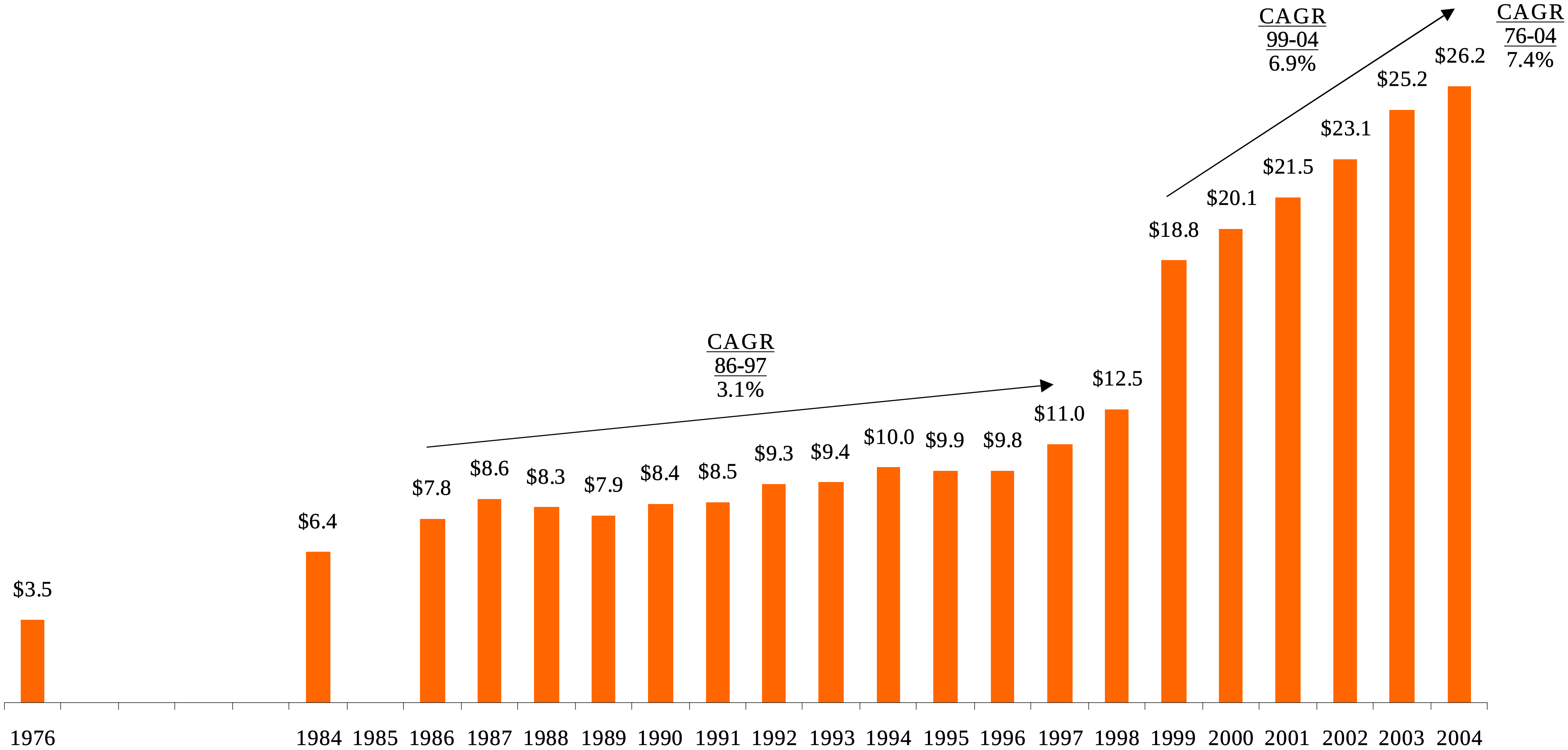


 Source: company reports; Canadian Grocer; NBF; xarious published sources; Coriolis analysis

SALES GROWTH

Loblaw's had a period of slow sales growth in the mid-80's and 90's, however, since Loblaw acquired Provigo, growth has returned

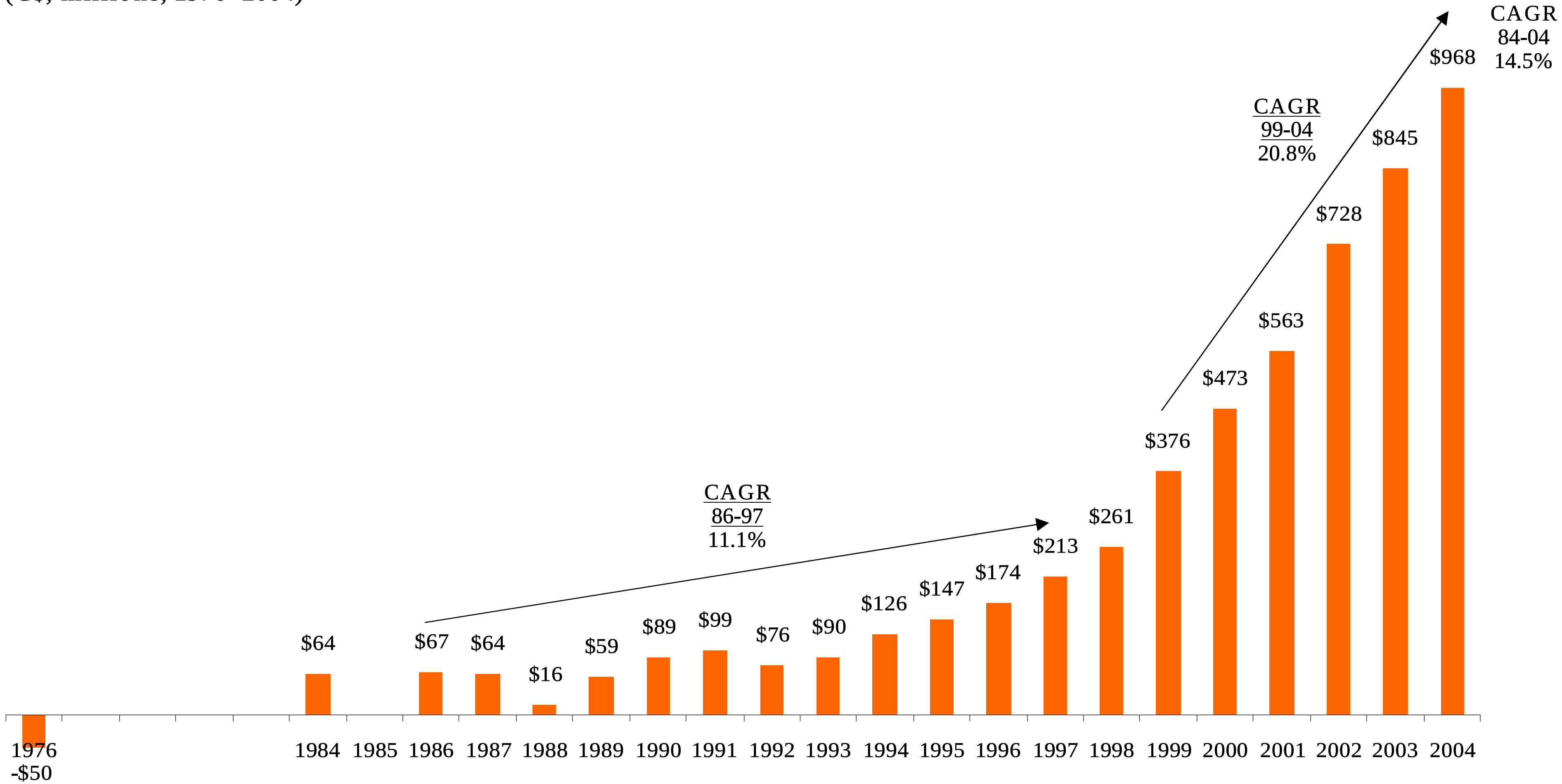
Loblaw's group sales by year
(C$, billions, 1976- 2004)



Source: company reports; Coriolis analysis

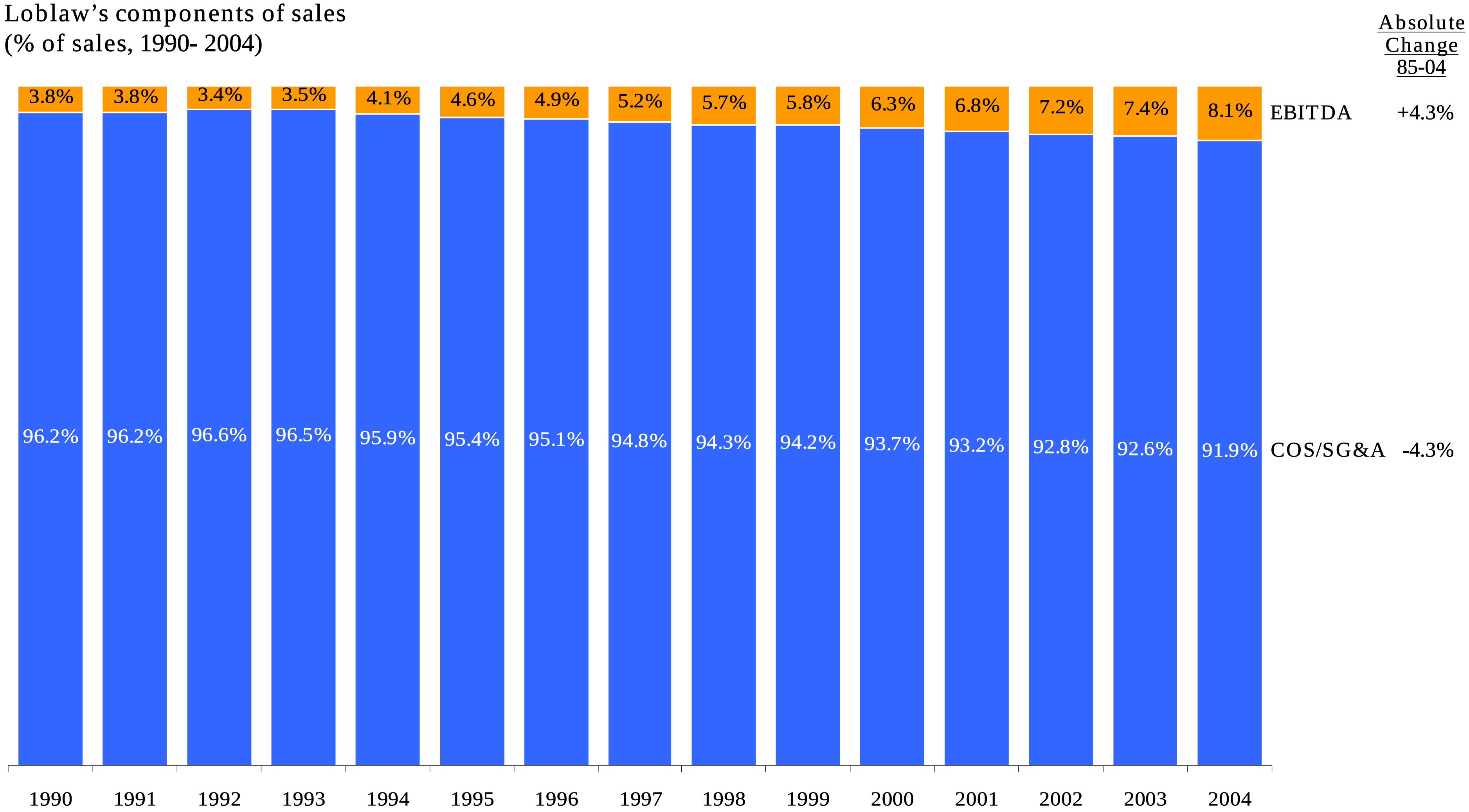
PROFIT GROWTH
However, during the period of slow sales growth, Loblaw was dramatically increasing its profitability

Loblaw's group net profit by year
(C$, millions, 1976- 2004)



Source: company reports; Coriolis analysis

CONSISTENT PROFIT GROWTH
Loblaw has delivered on steady, consistent profit margin growth over the past fifteen years



Source: company reports; Coriolis analysis

ACQUISITIONS AND DIVESTITURES

Loblaw's acquisitions strengthened it's position in Canada; divestitures got it out of the U.S. market

Loblaw's major acquisitions and divestitures since 1975
(various)

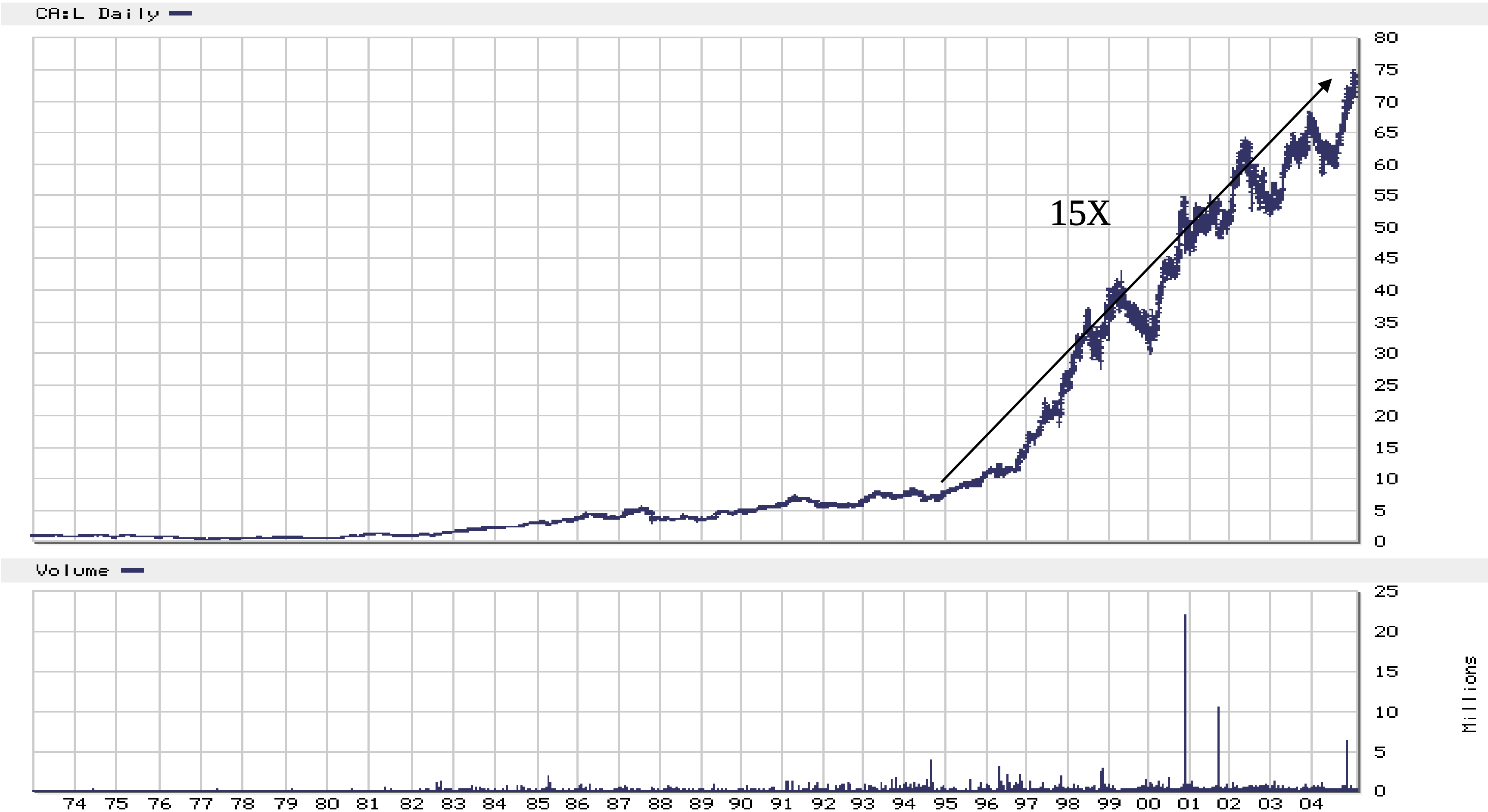
Year	Action	Company	# of Stores
1976	Divestiture	Stores in Chicago, Syracuse and California markets	250
1986	Acquisition	Stores in St. Louis (from Kroger)	26
1987	Acquisition	Mr Grocer franchise independent group	40
1988	Divestiture	P.J. Schmitt Co. wholesale business	-
1988	Acquisition	Fortino's supermarket chain (Ontario)	?
1992	Acquisition	Former Steinberg stores (Ottawa)	10
1992	Acquisition	Dominion Stores (Newfoundland)	18
1995	Divestiture	Remaining U.S. operations (St. Louis & New Orleans)	?
1998	Acquisition	Agora Foods / Oshawa Foods Atlantic Canada	?
1998	Acquisition	Provigo	239/109/655+

"The Company is prepared to enter new markets through the opening of new stores, as in its stated plan, to enter the Quebec market, or from focused acquisitions when opportunities arise. The Company is also prepared to exit particular markets and redeploy assets elsewhere when it is strategically advantageous to do so, as demonstrated by the disposal of the United States retail business in 1995." ***Loblaw Annual Report 1996***

Source: company reports; Coriolis analysis

SHARE PRICE
Loblaw's shares have been a good investment

Loblaw's share price
(C$, actual, Jan 1973- Feb 2005)

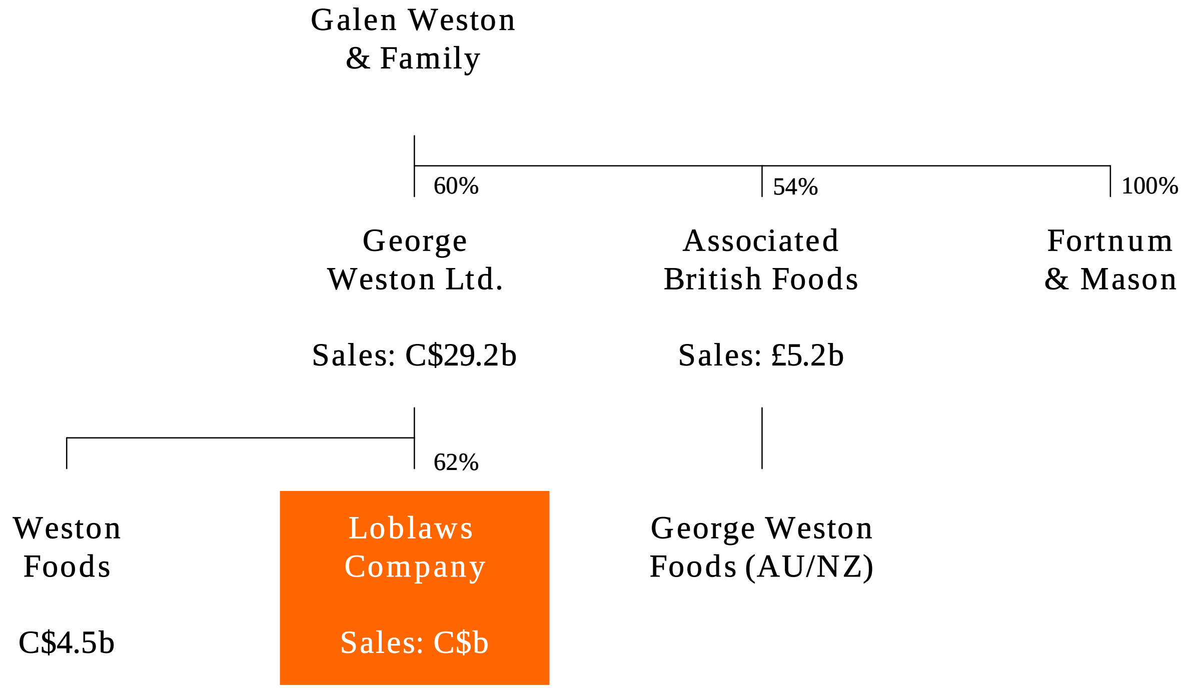


Source: BigCharts

LOBLAWS OWNERSHIP STRUCTURE

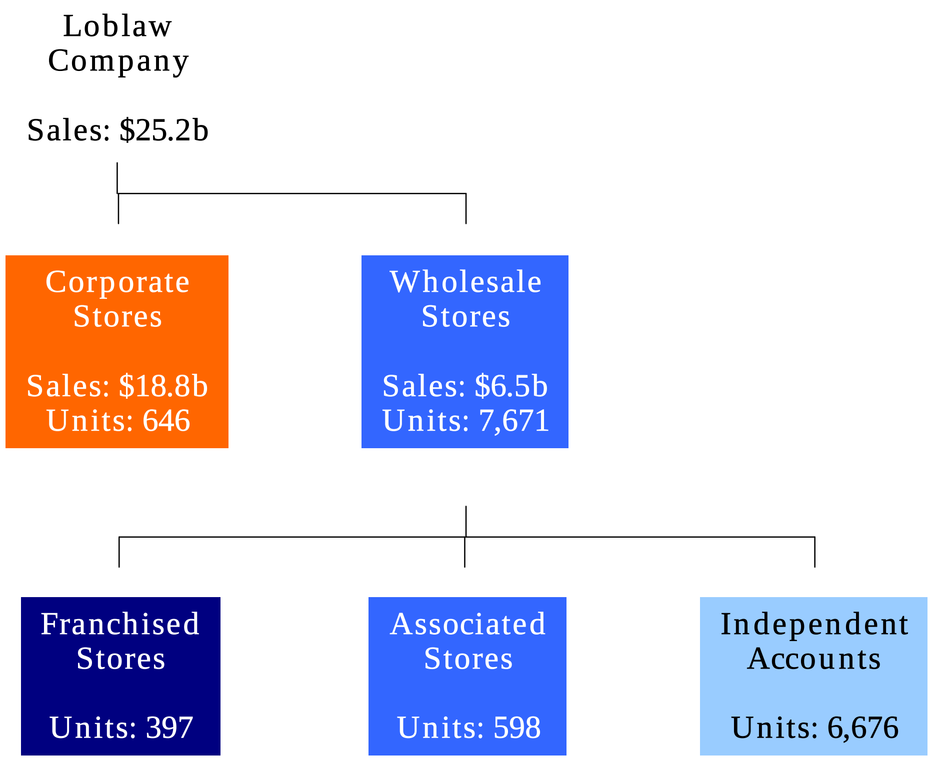
Loblaw, owned 62% by George Weston Foods Limited, which is in turn owned 60% by Galen Weston and family

Ownership structure of Loblaws
(various, 2004)



LOBLAWS COMPANY STRUCTURE
Loblaw's functions as both a retailer and a wholesaler

Company structure of Loblaws
(various, 2003)



Source: company reports; Coriolis analysis

NUMEROUS BANNERS

As a result of wholesale activity and acquisitions, Loblaws has a large number of both retail and wholesale store formats and banners

Loblaw store formats and banners
(2004)

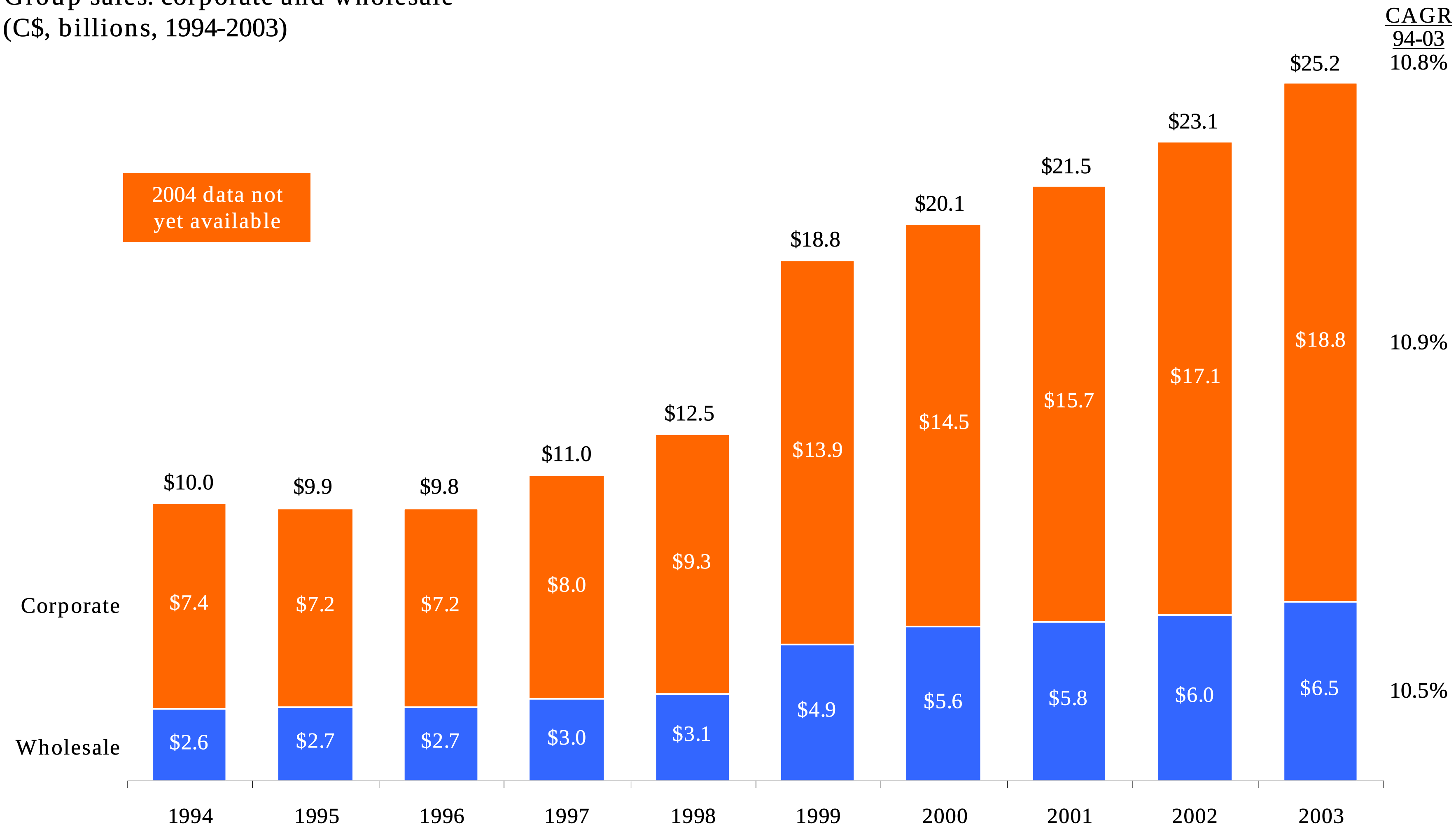
	Retail	Wholesale
West	Superstore; Wholesale; Extra Foods	Shop Easy Foods; Lucky Dollar Foods; SuperValu; Extra Foods
East	Loblaws; Superstore; SaveEasy; SuperValu; Zehrs Food Plus; Superstore; Zehrs Markets; Dominion	nofrills; Fortinos; SaveEasy; independent; valu-mart
Quebec	provigo; Loblaws; maxi; Les Entrepôts Presto	Intermarché; AXEP; dépanneur proprio; L'Éconone; Atout-Prix

Source: company reports; Coriolis analysis

CORPORATE VS WHOLESALE SALES

While corporate sales are three times the size of wholesale sales, both sectors are showing strong growth

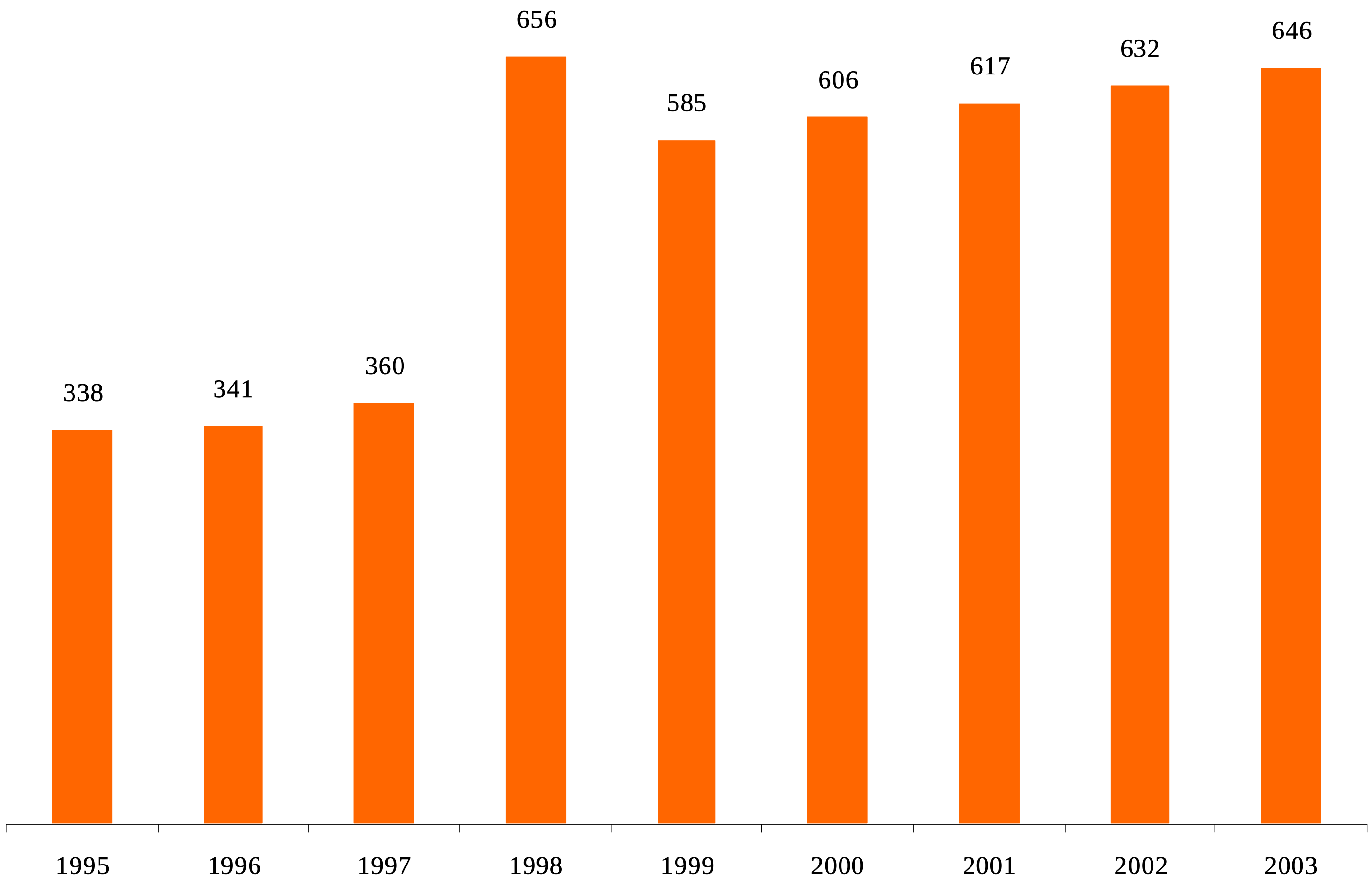
Group sales: corporate and wholesale
(C$, billions, 1994-2003)



Source: company reports; Coriolis analysis

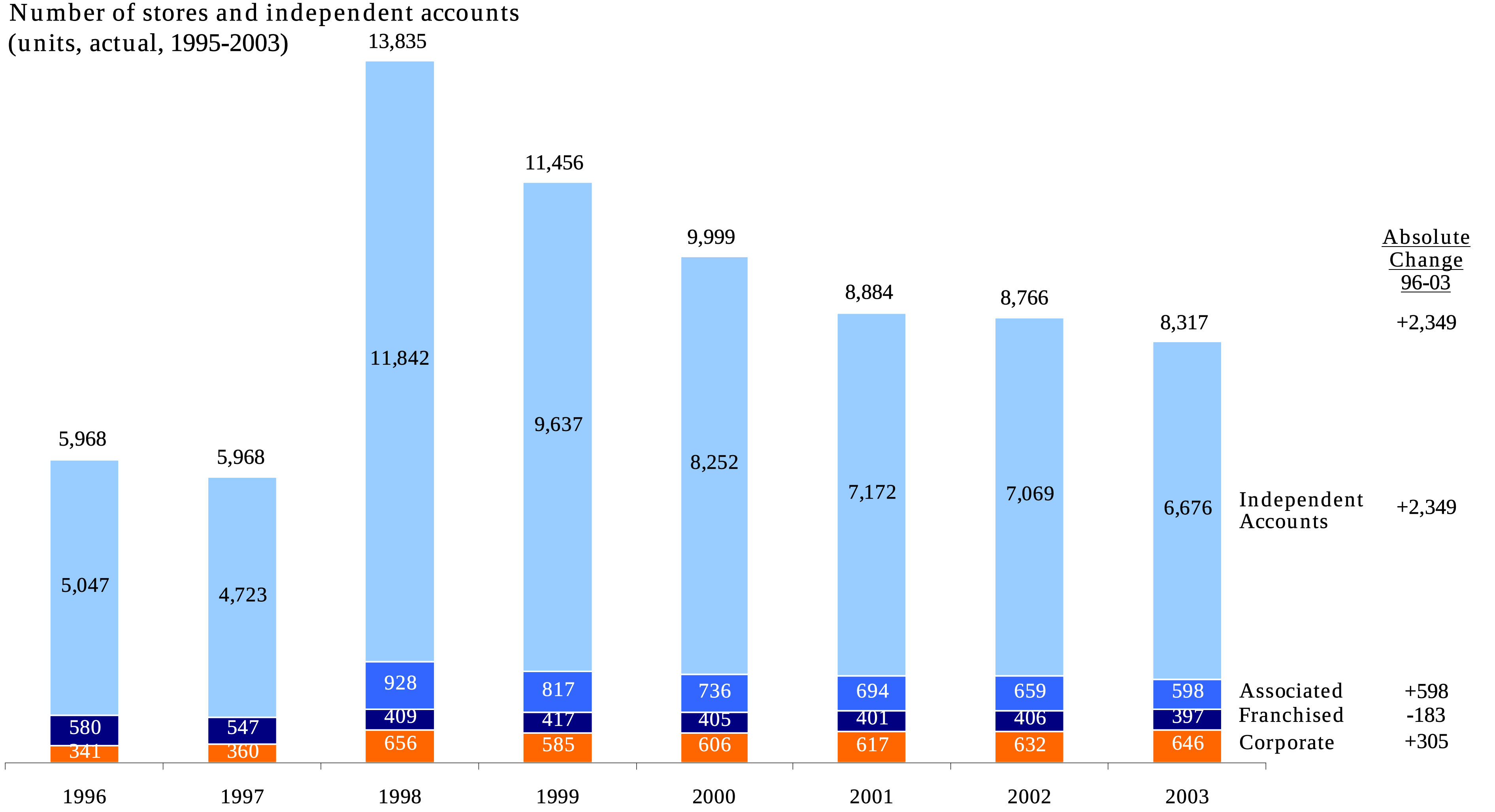
GROWTH IN CORPORATE STORES
Overall growth in corporate store numbers has been driven by acquisition and organic growth

Number of corporate stores
(units, actual, 1995-2003)



Source: company reports; Coriolis analysis

CHANGING WHOLESALE STRUCTURE
Loblaws is evolving toward fewer, larger wholesale stores/accounts

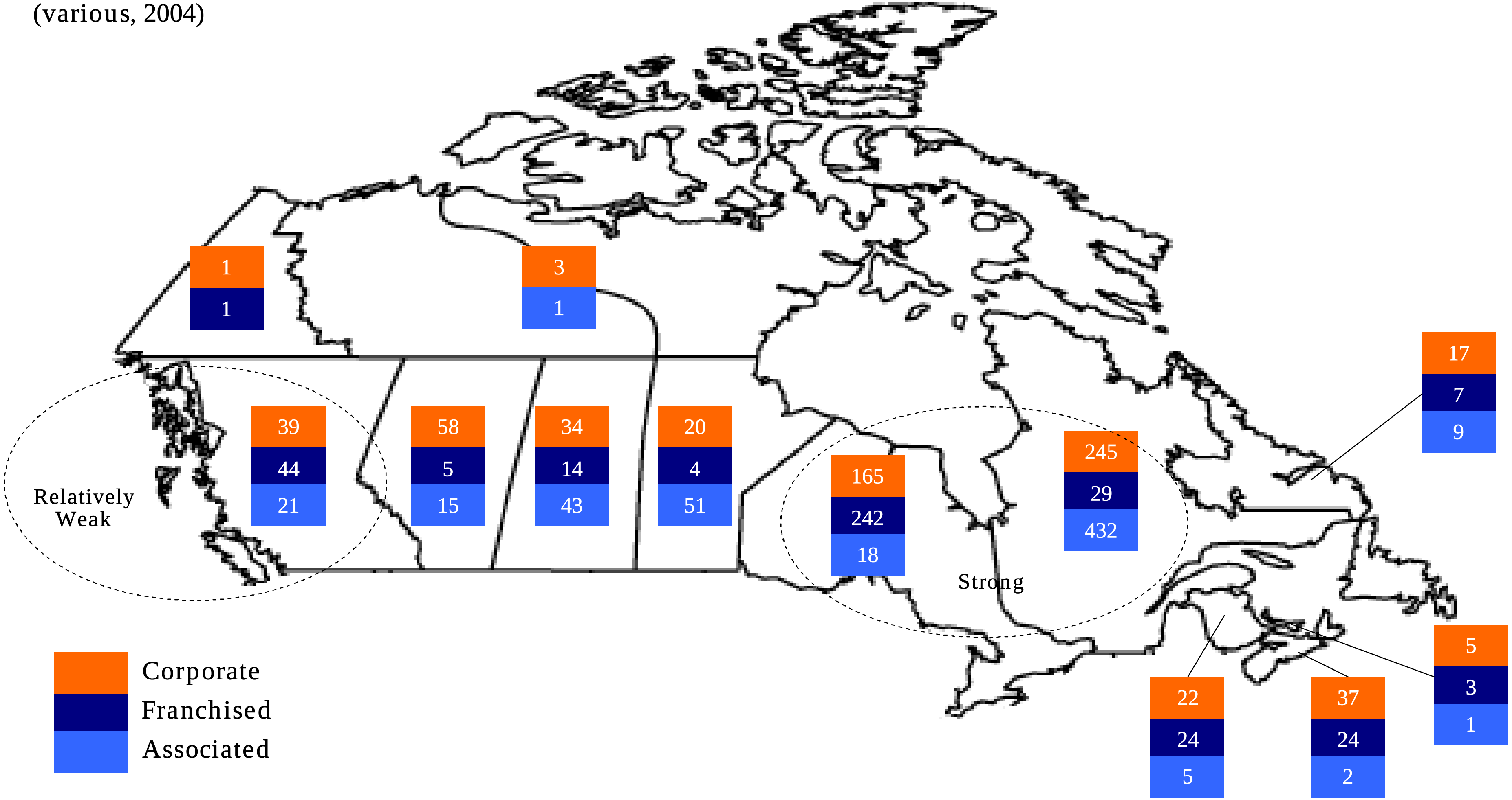


Source: company reports; Coriolis analysis

STORE LOCATIONS BY TYPE

Loblaw's store portfolio is strong in the highly populated centre of the country, but relatively weak in the far west

Loblaw's store locations by ownership type and province
(various, 2004)



Source: company reports; Coriolis analysis

PRESENTATION STRUCTURE
The final part of this presentation looks at Loblaw's strategy

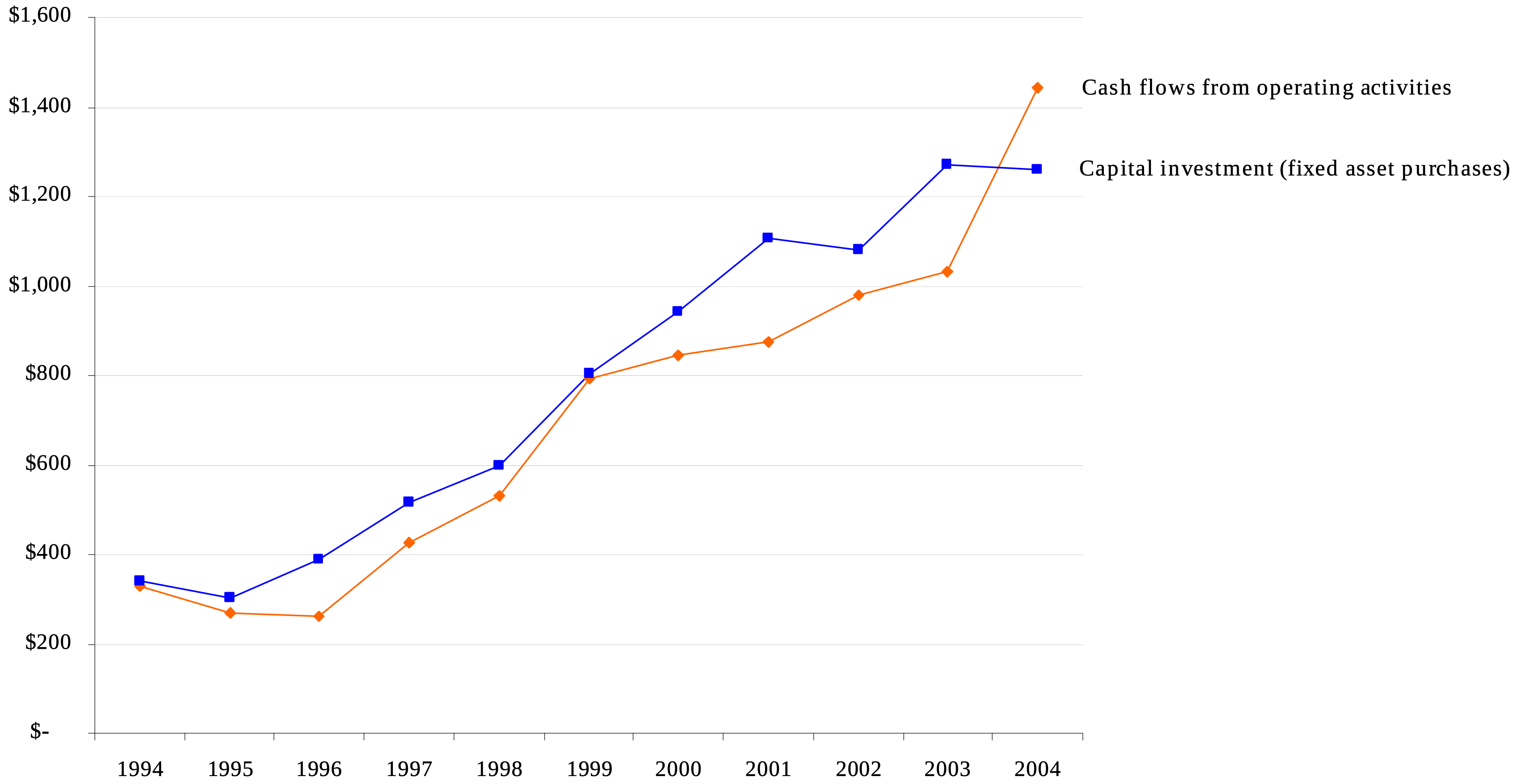
LOBLAW'S SEVEN STRATEGIES

Loblaw management has consistently enunciated seven strategies to the financial community for over a decade

	Strategy
1	Use all of the cash flow generated in the business to invest in the future
2	Own all of the real estate to maximize flexibility for product and business opportunities
3	Use a multi-format approach to maximize market share over the long term
4	Focus on food but serve the customer's everyday needs
5	Create customer loyalty and enhance price competitiveness through a superior control label program
6	Implement and execute plans and programs flawlessly
7	Constantly strive to improve the value proposition

REINVEST CASH FLOW
1. Use all of the cash flow generated in the business to invest in the future

Sales mix by category by store format
(% of sales, 2004)



Source: company reports; Coriolis analysis

SPEND MONEY TO MAKE MONEY

Loblaw management believes you need to spend money to make money

- "Loblaw has religiously invested virtually all of its free cash flow into store network and/or infrastructure upgrades. Loblaw has typically lead the industry in capex/sales ratio opening or renovating more square footage per year than all of its industry competitors combined. Loblaw has one of the most current store networks in Canada." ***James Durren, analyst, NBF, Oct 2003***

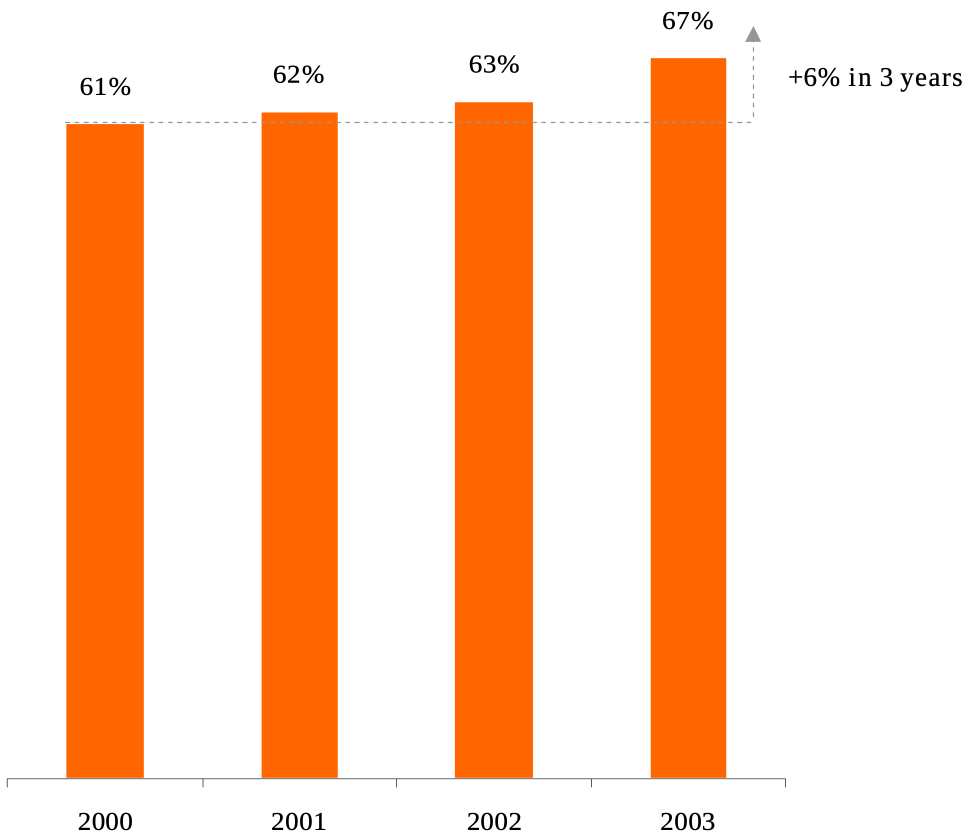
- "We've got a huge part of our capital going into these big stores over the next few years… It's a big property challenge, but so far we're very pleased with the results." ***Galen Weston, Chairman, Loblaws, Dec 2004***

- "Loblaw became Canada's largest food distributor by continual reinvestment in modern facilities and selected formats in existing markets. The company has long recognized that in a seemingly mature, low margin business one needs to spend money to make money. It is no accident that in food retailing it is most often the case that the number one player has the best assets in the market. Loblaw is a financially sound company with both the ability and commitment to spend cash to grow its business. Generation of strong cash flow is a key determinant of its ability to compete effectively." ***Patricia Baker, analyst, Merrill Lynch, Jun 2000***

OWN ALL YOUR REAL ESTATE

2. Own all of the real estate to maximize flexibility for product and business opportunities

Percent of corporate store sites owned by the company
(% of sites, 2000-2003)



REAL ESTATE IS A GOOD INVESTMENT
Loblaw management believes real estate ownership provides flexibility and is a good investment

- "Real estate decisions were centralized due to their importance in business strategy, capital allocation and their impact on the income statement. Richard Currie viewed real estate differently than other food distributors. He noted, "We have a policy of owning real estate and leasing fixtures, whereas for most of the supermarket industry it is just the opposite." The Company adopted this philosophy for two main reasons. First, real estate had been an appreciating asset and Currie had a policy of "<u>own potentially appreciating assets, lease certainly depreciating assets</u>." Second, real estate ownership provided flexibility. By owning a property, Loblaw was free to change the store format or to bring in any services (e.g. a pharmacy) without worrying about a landlord's agreements with surrounding retailers. Loblaw took real estate so seriously that Richard Currie still approved every site personally." ***HBR, Oct 1995***

- "Real Estate: The availability and conditions affecting the acquisition and development of real estate properties may impact the Company's strategies and financial performance. The Company maintains a significant portfolio of owned retail real estate and, whenever practical, pursues a strategy of purchasing sites for future store locations. This enhances the Company's operating flexibility by allowing the Company to introduce new departments and services that could be precluded under operating leases. At year end 2003,the Company owned 67% (2002 – 63%) of its corporate store square footage." ***Loblaw Annual Report 2003***

- "Maintaining flexibility is a cornerstone to Loblaw's strategic approach to food distribution. Real estate ownership provides maximum operating flexibility. It presents operating flexibility to change a store size, make additions, or downsize at the store level." ***Patricia Baker, analyst, Merrill Lynch, Jun 2000***

- "Loblaw owns 67% of its corporate store locations. This allows Loblaw to add new businesses (i.e. pharmacies, gas stations) and over the longer-term change formats (i.e. Loblaw vs. No Frills format) as market dynamics dictate without facing landlord constraints." ***James Durren, analyst, NBF, Oct 2003***

MULTI-FORMAT APPROACH
3. Use a multi-format approach to maximize market share over the long term

MULTI-FORMAT FOR MARKET SHARE

Loblaw believes this range of store formats allows it to the maximum possible market share

- “You can’t go into battle with only ships or planes or infantry or tanks.” ***Richard Currie, President, Loblaws, Oct 1994***

- “All of the different formats used essentially one supply chain. This was what Loblaw called the "Bus bar" approach (multiple outlets could be plugged into a single system) and allowed Loblaw to share resources between banners and achieve economies of scale in areas such as finance, logistics, information technology and warehousing.” ***HBR, Oct 1995***

- “All manner of retailer must ensure that they address the needs of each market with the right assets. Loblaw brings a variety of banners and formats to each market. We liken this to a portfolio approach. Not all food shoppers are alike. The market by definition is segmented. It is with this fact in mind that Loblaw brings a portfolio of stores to bear on each and every market.

- Providing this kind of choice permits theoretical access to the entire market, i.e. a target market of 100% of households. Limiting one’s positioning to a single format would thereby limit one’s target market. Access to the entire market would no longer be available. If 20% of a given market consists of discount store shoppers, a discount food format only has access to 20% of the market, theoretically.

- Yet this portfolio approach is not driven only from a desire to penetrate one hundred percent of households. Running with a number of formats allows for recycling of older assets. Loblaw has ably converted many stores which had become too small to serve certain markets to their No Frills discount banner. This effectively realigns a real estate asset and generates incremental sales and profits.” ***Patricia Baker, analyst, Merrill Lynch, Jun 2000***

- “Canada is a small, geographically diverse market with limited population density and intense price competition. Loblaw’s multi-formats and corporate/franchise ownership experience significantly extends the Company’s geographic reach while maximizing ROIC.” ***James Durren, analyst, NBF, Oct 2003***

NEW FORMAT INNOVATION
Loblaw regularly develops new store formats

New store fascia developed by Loblaw
(various)

Store Fascia	Year Started	Store Format	Objective
nofrills lower food prices	1978	Limited Assortment Store	Recycle older stores in poorer areas to a price fighter
the real Canadian Superstore	1979	Supercentre	Offer a complete one-stop shop Full line in-store pharmacy
independent	1986	Local Supermarket	Franchise program for independents in rural markets
THE REAL CANADIAN WHOLESALE No Membership Required	1991	Wholesale Club	Counter success of Price Club and Costco in Canada

Source: company reports; Coriolis analysis


Rennie & Liz's
no frills
lower food prices


Atlantic
superstore

SIX KEY STORE FORMATS
Loblaw currently operates six key store formats under numerous banners

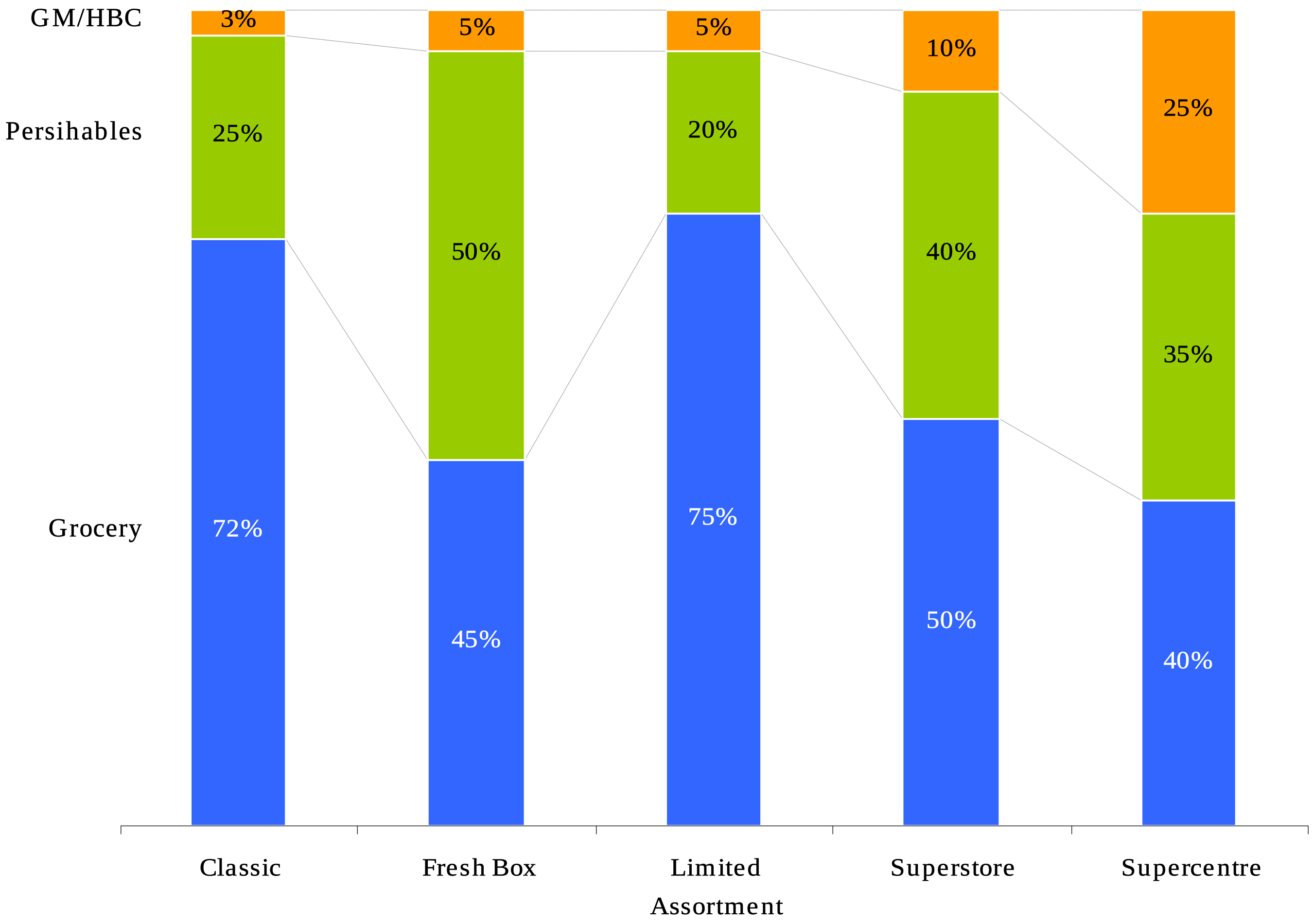
Loblaw’s six key store formats
(various)

Format	Fascia(s)	Price Index	Ownership	Store Size	# of SKU	Objective
Conventional Supermarkets	Loblaws Zehrs Lucky Dollar Provigo +others	100	Corporate, Franchised & Independent	18,000-45,000sqft	10,000-15,000sku	Urban locations where space is expensive and competition limited; store layouts vary based on site constraints and local demographics
Fresh Box	Loblaws Provigo	100	Corporate	25,000-45,000sqft		Conversion of conventional supermarket to a strong perishables offer to attract regular daily/weekly shopping trip
Limited Assortment	No Frills	80	Franchised	Under 20,000sqft	4,000+sku	Located in older locations that could no longer support a conventional supermarket; adding dollar store sections
Superstores/Box Warehouse	Loblaws Extra Foods Maxi	85	Corporate	60,000-80,000sqft	20,000-30,000sku	Value through lower prices; Grocery warehouse surrounded by strong perishables; warehouse racking; bag your own groceries; pallet shelving
Supercentres	RCSS Maxi&Co	85	Corporate	85,000-150,000sqft	50,000-70,000sku	Superstore offer plus extensive general merchandise
Wholesale Club	RCWC	80	Corporate	60,000+sqft	3,500sku	Offer club store shopping to businesses and households

Source: company reports; Canadian Grocer; NBF; CIBC; various published sources; Coriolis analysis

SALES MIX BY FORMAT
There is significant variation in sales mix by store format

Sales mix by category by store format
(% of sales, 2004)

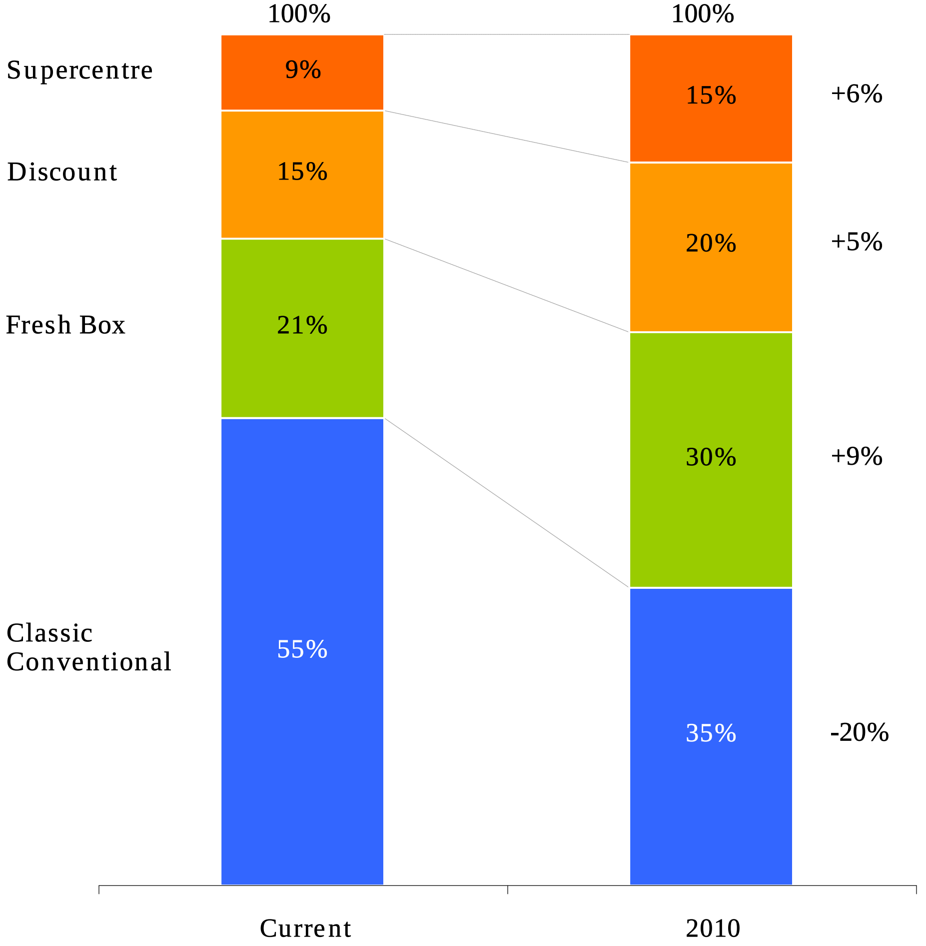


Source: company reports; Canadian Grocer; NBF; CIBC; various published sources; Coriolis analysis

DECLINE OF THE CLASSIC

Analysts are projecting the decline of the classic conventional supermarket in Canada as a result of the growth of fresh box, discount and supercentre formats

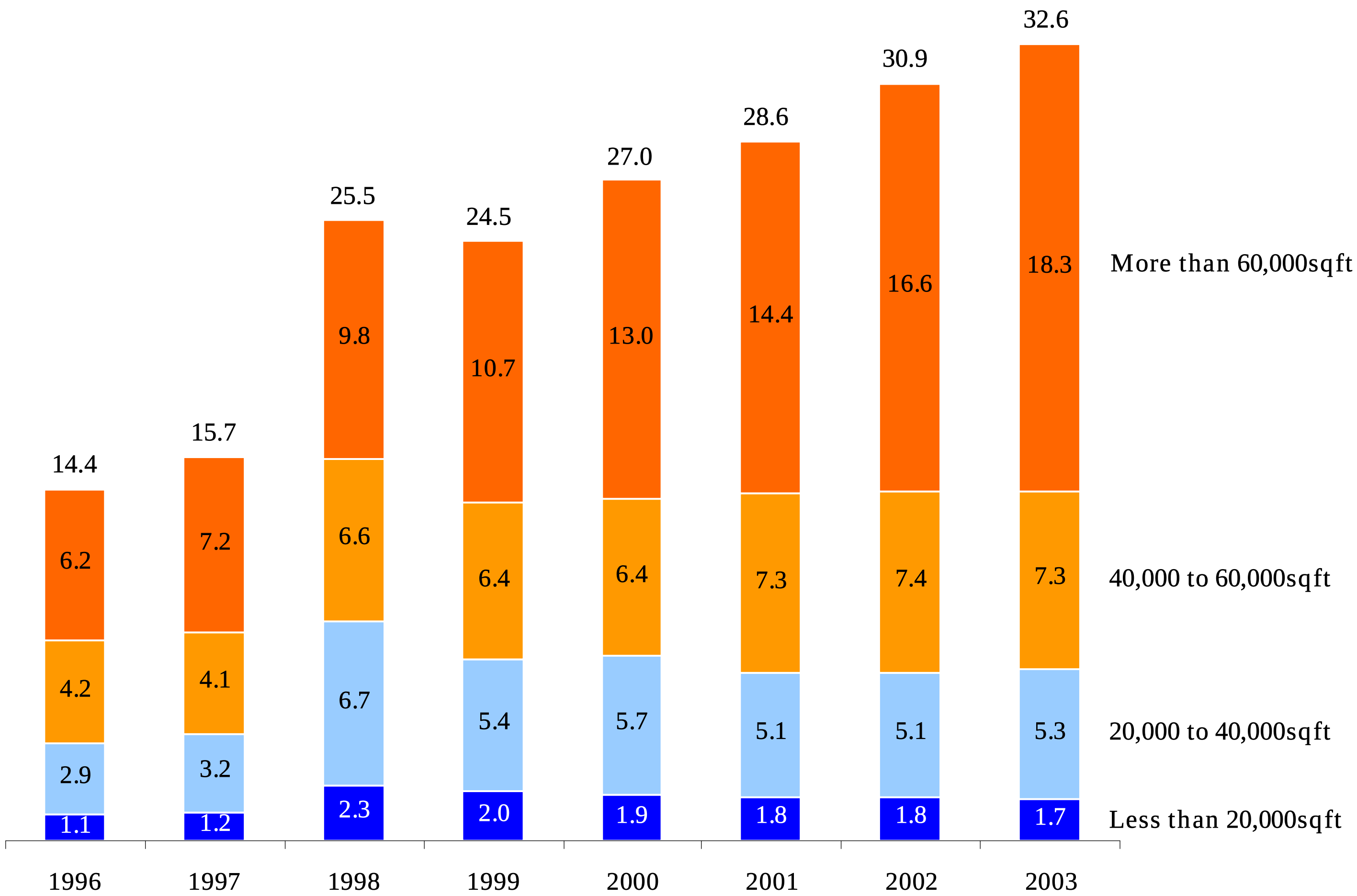
Canadian supermarket sales by store format: current and projected
(% of sales, 2004vs.2010)



Source: company reports; Canadian Grocer; NBF; CIBC; various published sources; Coriolis analysis

FOCUS ON LARGE STORES
Loblaws has focused its corporate store growth on stores larger than 60,000 square feet

Loblaw's total square footage of corporate stores by store size
(sqft, millions, 1996-2003)



Source: company reports; Coriolis analysis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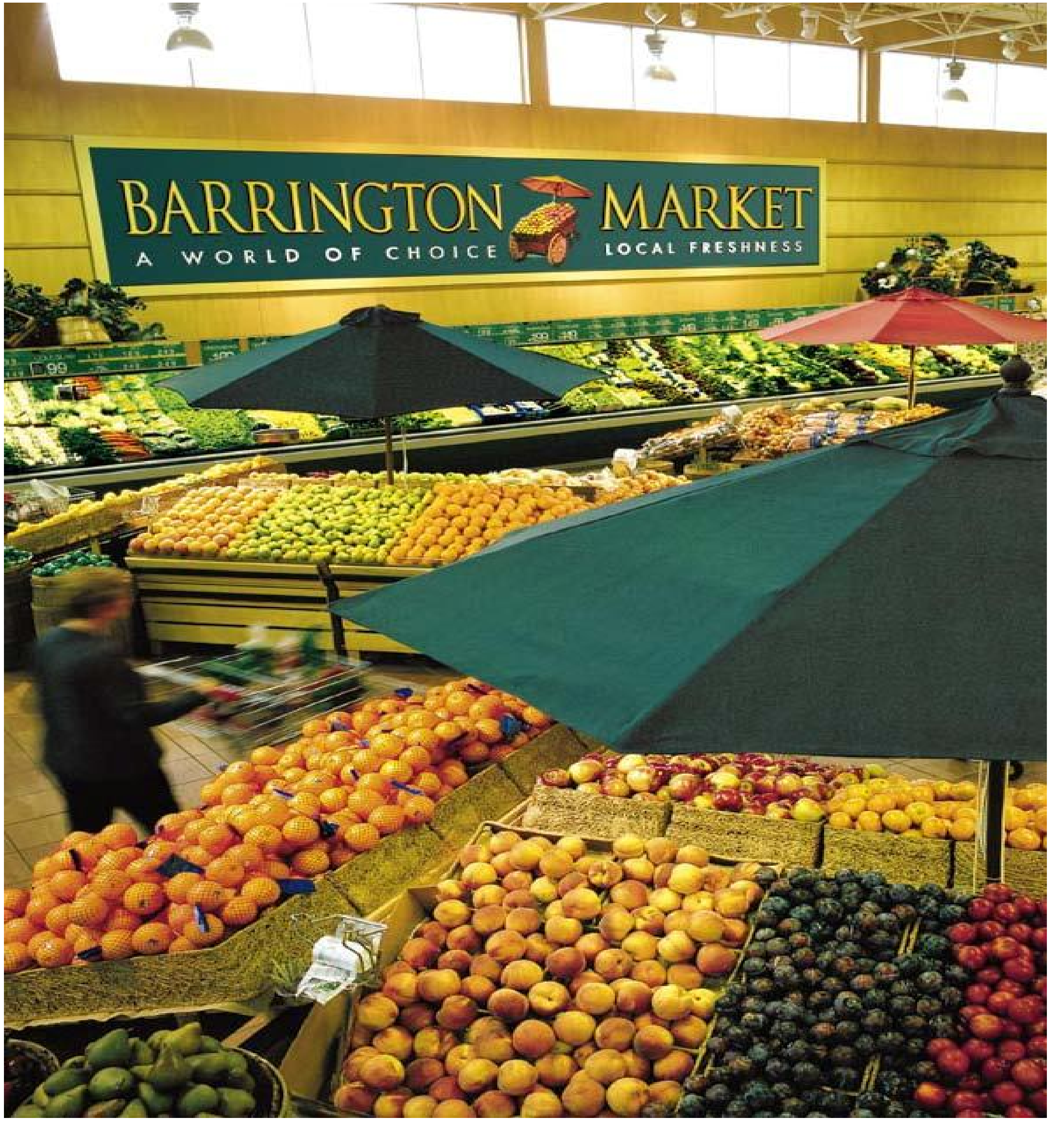
FOOD FOCUSED ONE-STOP SHOP
4. Focus on food but serve the customer's everyday needs…

- "Although the Company was still focused on being a food distributor, it saw itself as a "one-stop shop for everyday household needs." To varying degrees, depending on size, location and opportunity, all Loblaw stores met these needs by offering pharmacies, flower shops, health and beauty care items, cosmetics, greeting cards, music, books, videos, casual apparel. gas bars, photo finishing and dry cleaning in addition to food products and perishable foods. The Company felt that each service provided the customer with another reason to visit a location. Each visit served to further develop the relationship between Loblaw and the consumer and provided another opportunity for an additional food or non-food purchase. For example, if a customer visited a location to pick up dry cleaning or drop off film, he or she was more likely to pick up a some milk or bread that may otherwise have been purchased at a convenience store. Loblaw looked at "departments" as another opportunity to provide significant value to the customer. The items sold through the "departments" such as CDs, books, flowers, pharmaceuticals etc., traditionally had a higher margin structure than food. Thus, Loblaw could sell these products at substantially lower prices and yet make acceptable profits. For instance, Loblaw might make $1.00 profit on a CD. For a music store this margin might have been unacceptable but for a food retailer, there were few single items on the shelf that could provide that kind of return." ***HBR, Oct 1995***

- "Loblaw considers the supermarket the base from which "everyday household needs" businesses develop. As such there is no shortage of potential. Depending on size, location, and opportunity, all Loblaw stores offer pharmacies, flower shops, health and beauty care departments, cosmetics, greeting cards, music, books, casual apparel, gas bars, photo-finishing and dry cleaning. The oft-quoted view of the company's President is that "Loblaw is in the business of owning and building boxes". The underlying notion is that this is a dynamic, evolving industry and, over time the layout and the products will change. Ownership of the "box" permits maximum flexibility. This orientation removes traditional constraints from the determination of which "everyday household needs" this retailer can provide to the consumer." ***Patricia Baker, analyst, Merrill Lynch, Jun 2000***


LOWER PRICES
REAL SAVINGS
the real Canadian
Superstore


BARRINGTON MARKET
A WORLD OF CHOICE
LOCAL FRESHNESS


President's Choice
ENTERTAINING MADE EASY
Just Heat and Serve!
LOWER PRICES
REAL SAVINGS
Superstore


LOWER PRICES
REAL SAVINGS


MEAT SHOP
MEALS IN MINUTES
PREPARED
CKENWINGS
CHICKEN NUGGETSAN

FOOD FOCUSED ONE-STOP SHOP
4. Focus on food but serve the customer's everyday needs… continued

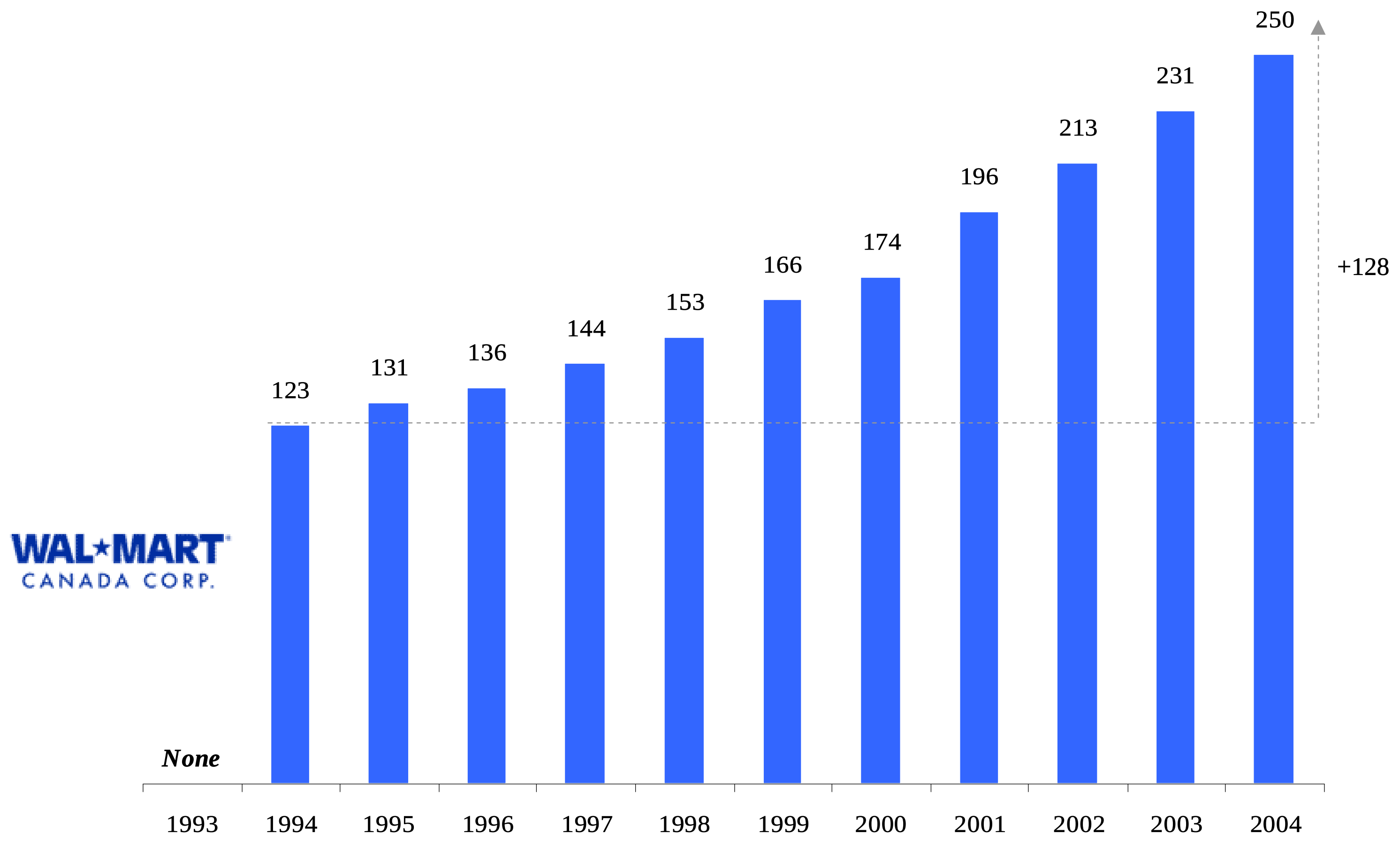
- "General merchandise growth continues to outstrip overall sales growth (which means that overall food comp's are likely negative). Nevertheless, the push on general merchandise continues to be core to the Loblaw growth plans, and the category should produce almost $5 billion in sales for Loblaw this year – a 15% growth rate. In eastern Canada, this has put stress on logistics operations that are largely not configured to handle this business. The company is intending to add a dedicated distribution center in Ontario in 2005, which should dramatically reduce the costs – and improve the service levels – for the general merchandise business in Ontario." ***Perry Caicco, CIBC, Jul 2004***

- "This is a reaffirmation by Loblaw that a superior food offering will be a key differentiator versus Wal-Mart's Supercenter format if/when it is introduced in Canada. This change has been most noticeable in the Western Canada's Real Canadian Superstores where a fresh produce upgrade and enhanced store design was implemented in 2002. This imperative also highlights Loblaw's aggressive pursuit of new revenue streams amongst the customers "everyday needs" such as general merchandise, pharmacy, dry cleaning, and photo labs." ***James Durren, analyst, NBF, Oct 2003***

WAL-MART INVASION

Wal-Mart entered the Canadian market in 1994 with the acquisition of 122 Woolco stores and has opened another 128 stores in the decade since then, triggering a renewed GM push by Loblaw

Wal-Mart store numbers in Canada
(units, 1993- 2004)

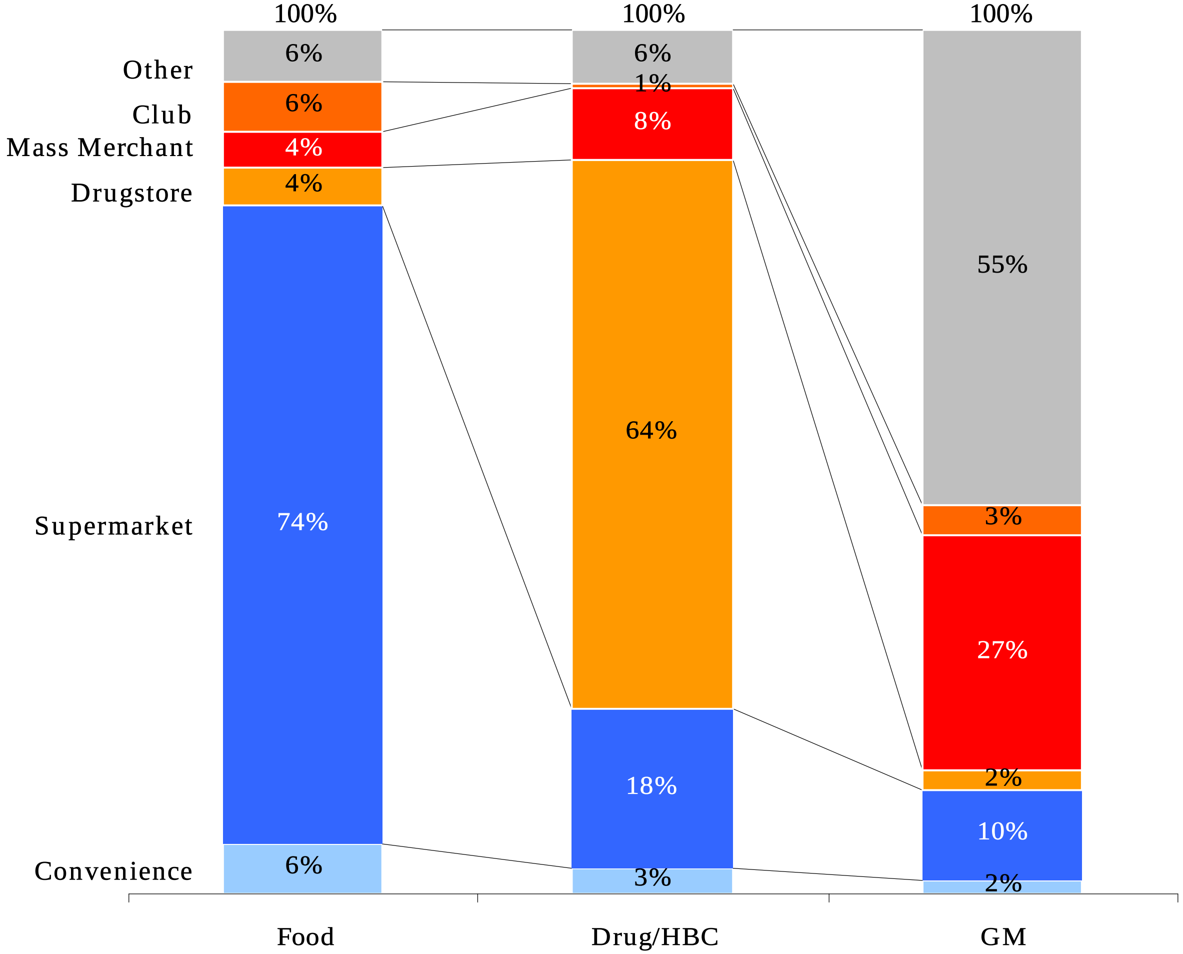


Source: WMT company reports; Coriolis analysis

SUPERMARKETS ONLY LEAD IN FOOD

In Canada, Supermarkets are only leaders in the food category; there is opportunity for growth in Drug/HBC and General Merchandise

Merchandise sales by channel
(% of sales, 2003)



Source: company reports; Canadian Grocer; NBF; CIBC; various published sources; Coriolis analysis

A LONG ROAD
Achieving success in general merchandise has been a long road for Loblaws

– "Loblaw's has built a large, fast-growing general merchandise business but this is no overnight success. The $4 billion dollar general merchandise business is the product of two decades of trial and error. Behind the scenes the company has over the years experienced logistics problems, unsold inventory, return pile-ups, damages, shrink, poor quality and labour issues. As Loblaw's general merchandise strategy evolved to selling "everyday household needs," consumers gradually became accustomed to trolling the company's general merchandise section for gifts, kitchen items, hardware and seasonal needs. And Loblaw gradually became more adept at sourcing, distribution and customer service, although there is still a long way to go. Despite its success in general merchandise, the company still needs an appropriate dedicated distribution centre in Eastern Canada, proper and comprehensive return policies, stronger and sharper markdown procedures, more training and decision making at store level and a better model for handling damaged, returned and malfunctioning products." ***Perry Caicco, CIBC, Jan 2004***

BENEFITS & PITFALLS OF GM

A strong general merchandise program has both positives and negatives for Loblaw's (and any retailer)

Benefits

The benefits to a grocer of a strong, comprehensive general merchandise program for a supermarket are many:

- It levers the strong daily store traffic into incremental sales. Lower price point, "consumable" general merchandise items can be particularly successful.
- It helps maximize seasonal merchandising programs.
- It opens up a wide variety of cross-merchandising opportunities.
- It can enhance a store's reputation as an "expert" in certain categories such as cooking or cleaning.
- Stores can create a "surprise" factor by the use of special buys of general merchandise.
- Gross margins can often be higher than those of food, although those are often offset by costs in other areas (markdowns, shrink, labour).

Pitfalls

On the other hand, there are many pitfalls in the general merchandise business, which most supermarkets tend to learn "the hard way":

- The stuff simply doesn't turn like food and so ties up inventory dollars — GMROI calculations often show that general merchandise is not a good investment.
- There is more art than science in product decisions, and if there is any element of fashion in the product, there is an opportunity to make a huge and costly inventory mistake.
- Markdown management is a foreign language to most grocers. It is difficult to learn that a dog is a dog, and that "the first cut is the deepest".
- Grocers are often shocked by the price cuts needed to move some of this merchandise, especially after the appropriate season.
- Most grocers do not have enough general merchandise volume or experience to perform direct sourcing, and so are reliant on brokers, agents, wholesalers and rack-jobbers. Although these are less risky routes to market, the margins can be awfully thin once everyone gets their cut, which means shelf prices end up too high.
- Most everyday general merchandise puts grocers into direct competition with Wal-Mart. Therefore, prices must be set at a level that leaves at most a "reasonable" gap. As Wal-Mart's prices come down, this gets more difficult.

Source: Perry Caicco, analyst, CIBC, Jan 2004


LOWER
PRICES
REAL
SAVINGS
$9.99


visage
sensation


fresh
the colours of fall
colours of fall
Fresh New Scents


DRUGStore
PHARMACY
DRUGStore PHARMACY
consult your pharmacist 695-


de bonnes affaires, pour moins cher!
de bonnes affaires, pour moins cher!
petits électroménagers
de bonnes affaires, pour moins cher!
21,98


14


Home essentials
Superstore
BAKEWARE
LINENS
69.99
14.99


8
es affaires pour moins cher!
9
De bonnes affaires pour moins cher!
7-14
filles
enfants
De bonnes affaires
pour moins cher!
16,98


$1
the dollar zone
the dollarzone
another reason to smile
hair care


JARDINS


DEAL ZONE


PHOTOLAB
FILM

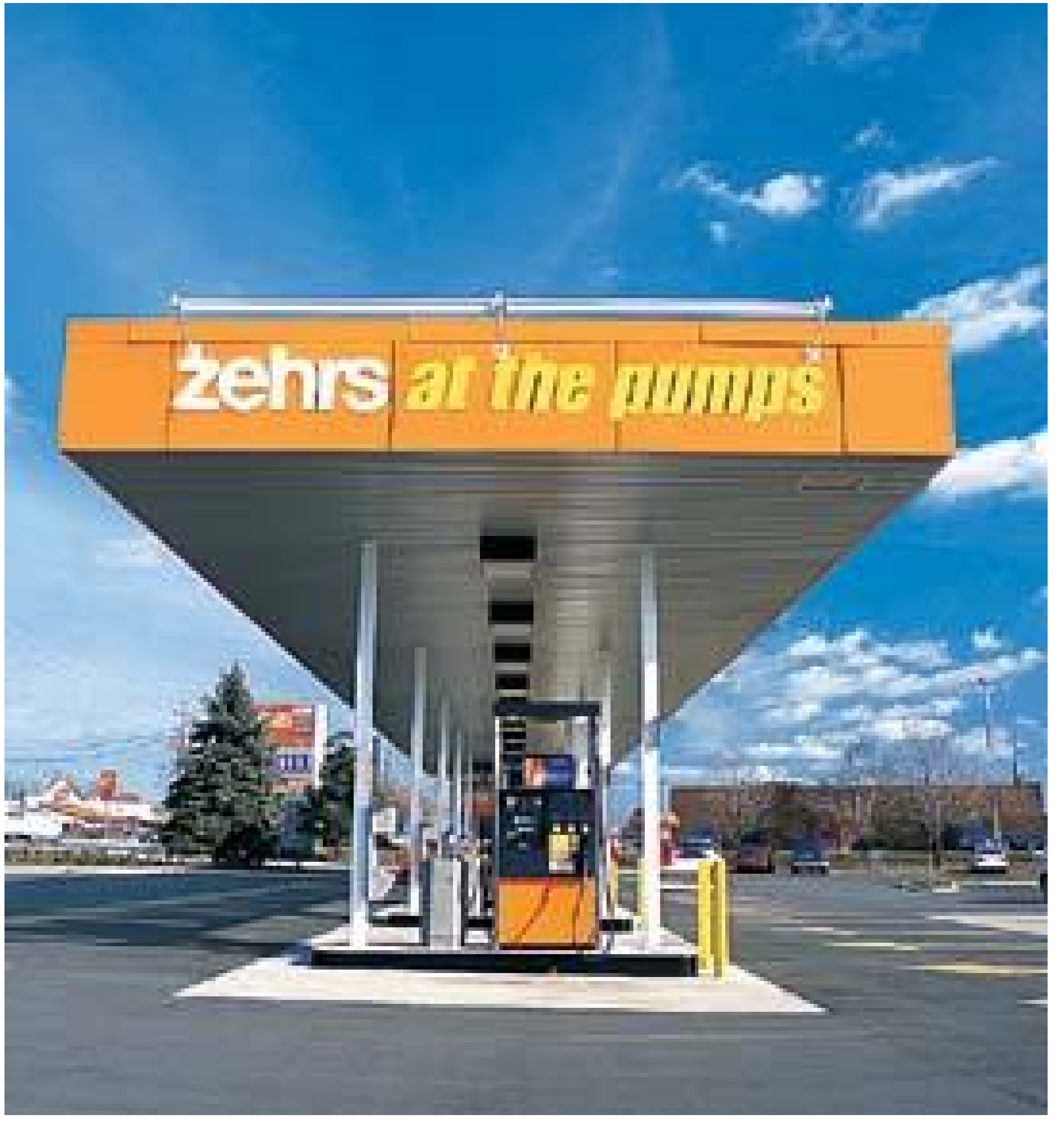

cosmetics


DRUGStore
PHARMACY
PHARMACY


VIDEO


meals to go


BATH TOWELS


zehrs at the pumps

SUPERIOR PRIVATE LABEL

5. Create customer loyalty and enhance price competitiveness through a superior control label program

BEST IN NORTH AMERICA
Loblaw has the best and strongest private label program in North America, achieving 24.2% of total group sales

- "Control label retail sales reached $5.6 billion in 2003 while penetration, measured as control label retail sales as a percentage of the Company's retail sales, increased to 24.2% from 23.6% in 2002. The Company introduced approximately 1,500 new control label products in 2003,including 500 new PC general merchandise products. The Company's control label program, which includes President's Choice, PC, no name, Club Pack, GREEN,TOO GOOD TO BE TRUE, EXACT and Life@Home, provides additional sales growth potential." ***Loblaw Annual Report 2003***

- "Loblaw's has the highest penetration of controlled label sales in North America (23.6% of retail sales) with President's Choice (PC) viewed as the industry's premium private label leader in quality and innovation. Loblaw has extended this success into general merchandise products starting in western Canada with the "Life at Home" brand and is now developing a premium general merchandise line under the PC label." ***James Durren, analyst, NBF, Oct 2003***

TWO TIRE APPROACH
Loblaw uses a two-tiered approach to private label

Loblaw private label brands (various)

	Year launched	# of lines	Sales (C$B;03)	% of PL Sales	Strategy
no name®	1978	2,500	C$1.8b	32%	– Launched as inflation fighter – Modeled on Carrefour range – Cheap and basic
President's Choice	1983	2,500	C$2.2b	40%	– Create a real point of difference – Modeled on Marks&Spencer – Increase margins vs. branded
President's Choice GREEN TGTBT Club Pack ***Others***	1989 1991 1988	2,000	C$1.3b	23%	– Address specific consumer needs – Capture margin in new categories – Segment market
EXACT THIS IS A NO NAME PRODUCT	1996	200	C$0.3b	5%	– OTC Pharmaceuticals – Sell through in-store pharmacies – Increase margins vs. branded

Source: Various Loblaw annual reports; Toronto Star; Private Label Buyer magazine; Canadian Grocer; Coriolis analysis and estimates

SIGNIFICANT INVESTMENT
Loblaw invests significant time and resources into its ongoing private label development program and is constantly launching new products and upgrading packaging

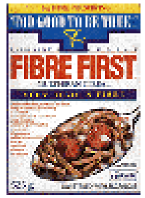
Loblaw private label brands (various)

no name®

President's Choice

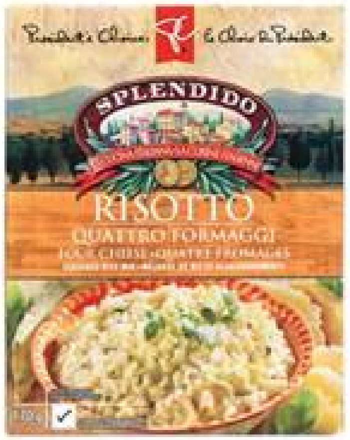

President's Choice
GREEN
TGTBT
Club Pack
Others

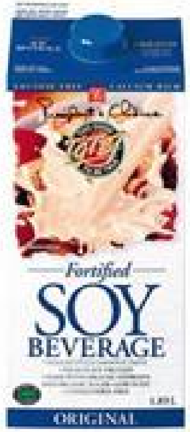


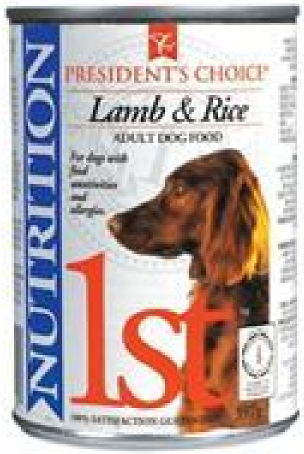



EXACT
THIS IS A NO NAME PRODUCT


PRESIDENTS CHOICE – SUB-BRANDS
Presidents Choice has launched a number of sub-brands







PRESIDENTS CHOICE – BLUE MENU

Presidents Choice has recently launched the Blue Menu range of low/no products

PRESIDENTS CHOICE - GENERAL MERCHANDISE
There are now over 400 Presidents Choice general merchandise items

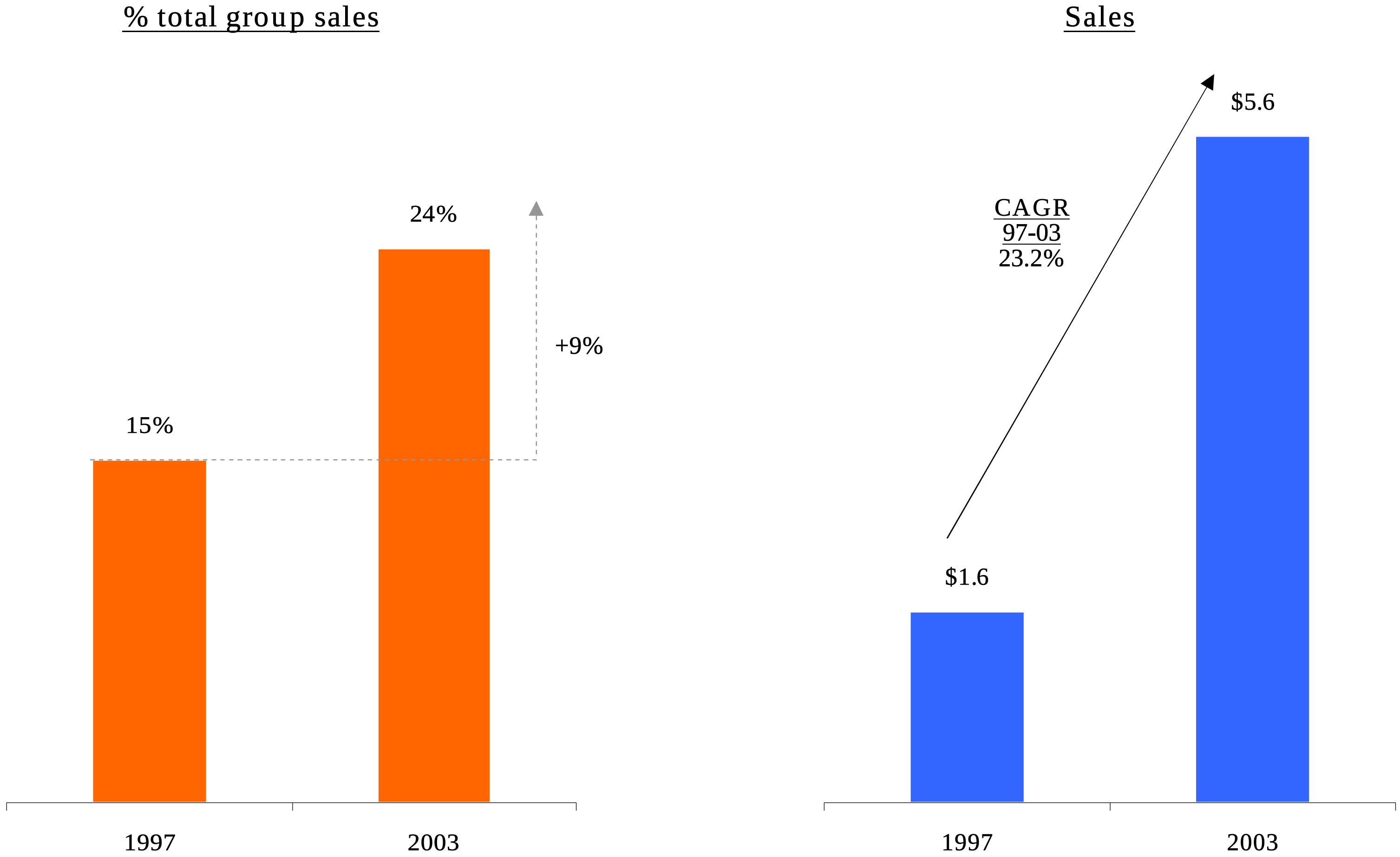





PRESIDENTS CHOICE – FINANCIAL SERVICES
The President's Choice name has also been extended into financial services

STRONG GROWTH
Loblaw has increased its private label share and sales massively in the past decade

Loblaw private label growth
(various)



Source: company reports; Canadian Grocer; NBF; CIBC; various published sources; Coriolis analysis

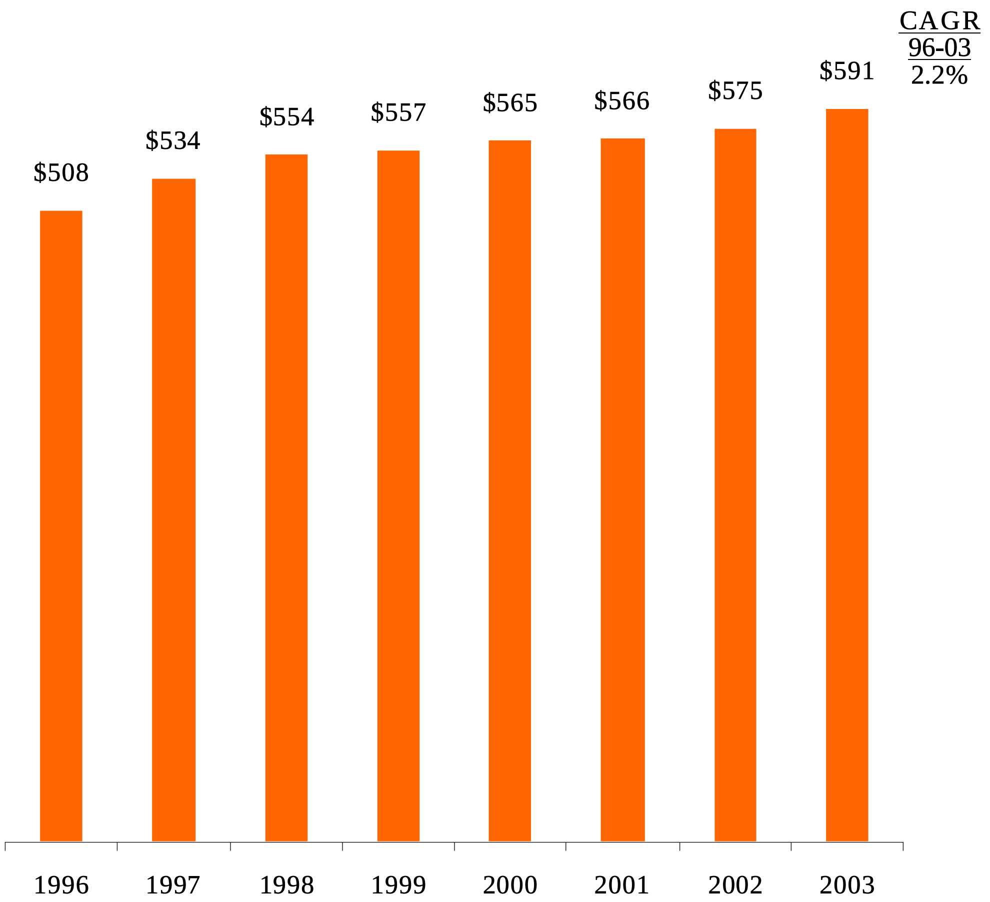
EXECUTE FLAWLESSLY
6. Implement and execute plans and programs flawlessly

– "We believe this imperative is a key ingredient in Loblaw's corporate culture. Loblaw is not afraid to experiment, is not slow to take action, but prides itself on above average execution. Let's face it identifying potential opportunities, or strategies is not that difficult - what typically separates winners from losers is timely excellence in execution. Loblaw has had a long history of successfully applying/adapting industry developments for the Canadian market/consumer. At Loblaw we continue to observe several key behaviours that fuel success i) constant experimentation ii) avoidance of the "not invented here" syndrome iii) excellence of execution – timely and typically very well done. Examples are PC financial, Club Pack, the PC general merchandise program, No Frills- dollar store test." ***James Durren, analyst, NBF, Oct 2003***

CONSISTENT DELIVERY

Loblaw has delivered on consistent sales per square foot growth during a period where it made two large acquisitions and built a large number of large stores

Loblaw corporate stores sales per square foot
(C$/sqft, 1996-2003)



Source: company reports; Coriolis analysis

REINVEST IN PRICING
7. Constantly strive to improve the value proposition

- "Loblaw raised the bar on this commitment over the past year. Loblaw intends to re-invest every additional dollar of cost reduction into lower prices to drive sustainable value and sales growth. Some examples are i) Private label margin re-invested into lower national brand prices ii) matching Wal-Mart on like items iii) Ontario labour cost reductions in the general merchandise category will likely be used to reduce prices." ***James Durren, analyst, NBF, Oct 2003***

LOWER PRICES
REAL SAVINGS
EVERY DAY!
Superstore

LOBLAW'S STRATEGIC ENABLERS
In addition, Loblaw management has two additional strategic enablers supporting its strategy

	Strategy
1	Continued focus on administrative cost controls and operating efficiencies, including a focus on controlling retail shrink and retail labour management
2	Have an efficient supply chain

LOBLAW'S STRATEGIC ENABLER: COST CONTROL
Loblaw management regards strong cost control as the enabler of all other initiatives

- "If you don't have control of your cost structure – especially in a business that employs 35,000 people – in the medium to long term you're going to be dead." ***Galen Weston, Chairman, Loblaws, Dec 2004***

- "The "Centralisation Project" has, we believe, a potential for about $250m of cost savings over four to five years. This involves removing redundant functions, driving best practices across the country and seeking more national purchasing opportunities. Fruits of this project will not be seen until late 2004 or early 2005 and every last penny will be plowed back into pricing." Perry Caicco, CIBC, Feb 2004

- "Making new store layouts more consistent coast-to-coast, using similar principals in every market, reduces costs and increases merchandising effectiveness." Perry Caicco, CIBC, Feb 2004

- "But the good news is significant: the company has been successfully taking costs out of its business as part of an immense project to improve supply chain and store operating efficiency. These savings are real, material and ongoing. They have allowed Loblaw to grow its operating margins while prices fall. In the meantime, investors are considering the merits of a company that no longer grows earnings at 18-20% per year. But the current 15-16% earnings growth rate is, in our opinion, being generated by a healthier model, one that places Loblaw in the forefront of the major worldwide growth trends in grocery: more discount formats, faster private label development, lower prices, sharper logistics, better fresh presentations and intelligent additions of high-turn general merchandise." ***Perry Caicco, CIBC, Jul 2004***

LOBLAW'S STRATEGIC ENABLER: COST CONTROL

Loblaw management regards strong cost control as the enabler of all other initiatives… cont.

- "Seeing the need to drop prices in order to forestall alternative channel growth, Loblaw launched a massive cost-cutting program early in 2003 under the "one company" motto. These efforts, which include benchmarking and collaborating across the company on store operations and procurement efforts, will yield their biggest savings from supply chain initiatives. In Q1, we saw the first fruits of these projects. The larger stores and better labour cost environment allowed Loblaw to drive strong price reductions throughout 2003 and build what we believe was a national market share gain of between 1.0 and 1.5 points. These efforts continued in Q1, although sales growth was tougher to come by as deflation, competitive square footage and more aggressive alternative channel players took their toll. Going forward, pricing action will be re-doubled as the company is emboldened by their ability to get costs out of the business. In the absence of these actions, Loblaw and other Canadian grocery competitors are at the mercy of new players and channels that have sprung up quickly and – at least in the case of the top three - are siphoning off sales largely through pricing." ***Perry Caicco, CIBC, May 2004***

- "Costs are Coming Out: The company is putting immense focus on getting its buying costs down through a series of efforts including better commodity sourcing, more consolidated and streamlined off-shore buying, collaborative planning with selected suppliers, and some experiments in demand forecasting. These efforts are in the very early stages and, among other questions, are probably forcing the company to come to grips with the use of its proprietary scanning data. With Wal-Mart's Customer Link as a precedent, the company has an immense opportunity to shift certain costs to suppliers, reduce head office processing costs and improve in-stock positions and promotional efficiency. The company produced its first $10-15m of cost savings in Q1 from its Supply Chain project, and another $30-35m of savings in Q2. These efforts, plus the continual shift of business to fresh products and general merchandise, are all that is pushing margins up right now. As we mentioned previously, we believe that there are $250m of identifiable costs to come out of the business. Getting them all out won't be easy, and might not be quick, but the journey will likely turn up many other cost-savings opportunities. In many ways, this is the most important project at Loblaw right now." ***Perry Caicco, CIBC, Jul 2004***

SUPPLY CHAIN INITIATIVES

Loblaw has long been a leader in efficient supply chain initiatives

- “Slow-moving warehouse: One initiative was the creation of a slow-moving warehouse. The concept was a simple, yet powerful way to more efficiently use warehouse space. Loblaw in Ontario used 7 warehouse distribution points. Traditionally, each warehouse held a full range of products for the geographic area that it covered. Within any given warehouse there were fast moving items such as Tide and slow moving items such as ant traps. The problem was that slow moving items took up significant amounts of space and the low turnover meant that cash was held in inventory longer. Loblaw’s solution to this problem was to create a "Slow-Moving Warehouse" where thetraditional slow-moving goods would be consolidated. This solution not only freed up space in existing warehouses but because all stores were sourcing the slow moving items from a single point, the inventory turn rate increased and cash tied up in inventory dropped significantly.” ***HBR, Oct 1995***

- “Perpetual inventory: Perpetual inventory meant knowing the exact number of SKUs in a store at any given time. The system entailed using scanning data at both the receiving dock and the checkout counter to track product. Traditionally, checkout scanning data had been used primarily for merchandising decisions. It was seldom used for ordering or inventory management. Perpetual inventory was already in use extensively in the UK. and a U.S. chain, Shaw's, represented the industry standard in North America. The technology allowed The Company to better manage shelves reducing stock-outs and increasing profit. Using existing technology, Loblaw began a pilot project in 1995.” ***HBR, Oct 1995***

IN SUMMARY…

Loblaw's strategy can be summarised as follows…