Following a decade of focused investment in our product, service and merchandising offerings, in our store and distribution assets, in our business processes and in our people, Sobeys has established itself as a leading national food retailer. Intense competition is a fact of life in our industry, with new competitors and additional retail space being added to the marketplace every year. To keep growing in this environment, we are working together more closely than ever before, as one team, guided by a shared sense of purpose in pursuit of one goal: to be widely recognized as the best food retailer and workplace environment in Canada. This year’s report looks at some of the important initiatives helping unlock Sobeys’ power as one national organization.
When J.W. Sobey began selling groceries in Stellarton, Nova Scotia 105 years ago, food merchants knew most of their customers by name. Keeping shelves filled with products that appealed to them was a matter of personal experience.

Today, much has changed in the food retailing business, but success still depends on building strong and enduring relationships, one customer at a time. That requires a keen awareness of what customers are looking for and providing the right combination of service, selection and value.

Over the past 10 years, we’ve worked hard to create five distinctive retail formats – full-service, fresh service, community service, discount service and convenience service – that deliver consistently superior shopping experiences in their respective markets. Each format has resonated with the customers it serves, as reflected in our industry-leading same-store sales growth over much of this time. In our full-service format, which includes the Sobey’s, IGA extra and Thrifty Foods banners and represents our primary engine for growth, we continue to roll out product and service offerings that are aimed at fostering a more intimate and enduring relationship with customers.
Success in our business will always depend on building strong and enduring relationships with individual customers. We continue to deliver what our shoppers are looking for with fresh ideas in each of our distinctive retail formats.

Each of these banners is being supported by exciting enhancements to the design of our stores and a relationship-building culture that is aimed at sharing more of our knowledge, enthusiasm and passion for food with our customers.

The next stage of evolution in our full-service offering draws upon best practices from each of our banners and also reflects what we have learned from our customers over the past few years through the Club Sobeys, Club Thrifty Foods and AIR MILES® rewards programs. These programs have proved to be enormously popular with our regular shoppers. Their greatest value lies in the anonymous transactional data they provide to help us better understand and predict customer preferences and behaviour.

During the past year, we have begun to realize the full potential of our customer insight capabilities with the development of best-in-class data analytics tools that are starting to provide unparalleled insights into our customers’ shopping habits. As a result, we are making better-informed decisions that are helping us to deliver more value to our customers and improving the efficiency of our marketing, merchandising and other business processes. We are also working collaboratively with our vendor community to harvest the full potential of customer insight data and create better shopping experiences.
Sobeys’ food-focused strategy is designed to deliver the best food shopping experience in Canada through ongoing improvements to our product, service and merchandising offerings. Our ability to do that requires the kind of innovative thinking that comes from viewing our business through the eyes of our customers.

Last year, we began to provide Canadian consumers with unprecedented visibility into the quality and sustainability of the seafood sold in our stores. Through a unique partnership with Ecotrust Canada’s Thisfish™ traceability program, some of our most popular fresh seafood and frozen Sensations by Compliments products can now be traced precisely to where, when and how they were caught. From the ocean to the kitchen table, Sobeys’ traceable seafood products are coded to give our customers assurance of sustainable harvest practices by providing behind-the-scenes access to information on the fishing vessel, crew and even the captain’s logbook. Sobeys was recently recognized by the Retail Council of Canada with a 2012 Excellence in Retailing Award for Energy and Environmental Sustainability for this innovative new program.

A similar spirit of innovation can be found in several strategic partnerships that are outside, but complementary to, conventional channels of growth within the four walls of our retail assets. In fiscal 2012, we announced a long-term
“I like the idea that people who buy our fish can see exactly where it came from. They know that my crew and I are working hard to fish sustainably and deliver a high-quality product to their kitchen tables.”

SKIPPER AMOUS CHALIEL
Steveston, British Columbia

wholesale distribution arrangement to supply Target Canada with select food and grocery products, including private label brands. This supply arrangement will benefit Sobeys in many ways – from increased wholesale sales to improved purchasing power and supply chain efficiencies – that will lower our costs.

In March 2012, we acquired 236 retail gas locations and related convenience store operations in Québec and Atlantic Canada from Shell Canada. This will allow us to grow our complementary convenience and retail gas operations while significantly expanding the scale of our wholesale business. In addition, the participation of Shell and IGA in the AIR MILES® rewards program generates new opportunities to cross-promote products and services to our customers, which will ultimately lead to more shopping trips and larger average basket sizes in our stores.

This relationship complements our convenience and retail gas business in Atlantic Canada which has been supported by our longstanding and very important relationship with Irving Oil. Sobeys also entered into a rewards program with Imperial Oil in Ontario and Western Canada to create a new exchange program, allowing Club Sobeys/Club Thrifty Foods and Esso Extra members to convert their rewards points between programs.

We have also continued to expand our relationship with Bank of Montreal, launching co-branded No-Fee Chequing and High-Interest Savings accounts that come with a debit card and several new ways to accumulate Club Sobeys points or AIR MILES® rewards miles throughout the year.
THE POWER OF ONE TEAM

Our stores are now managed by format, and supported by more standardized functions focused on eliminating complexities and fully capitalizing on our scale as a national organization.

Our ability to grow sales and profitability over the past few years has been a direct result of the work we have done to improve the quality and consistency of our offering, modernize our store and distribution networks, and provide our people, franchisees and affiliates with the tools and training they need to get the job done well.

While proud of our accomplishments, we also know that continuous improvement is required in our highly competitive industry. Building a winning business for the long term requires the kind of productivity that enables our Sobeys, IGA extra and Thrifty Foods banners to enhance their competitive position in the marketplace. Moreover, we must do this without sacrificing the quality of our customers’ shopping experience or the success of our local market approach.

In October 2011, we announced an important organizational realignment that is an expression of our growth, productivity and people strategies going forward. Over the next year, we will complete the transition from our former regional management structure to two newly created business units comprised of Sobeys Multi-Format Operations, which will encompass all banners outside of Québec, and Sobeys IGA Operations, which will continue to be managed in Québec. Both business units will
be supported by more standardized functions focused on eliminating complexities and fully capitalizing on our scale as a national organization. These changes, which have been enabled by the ongoing integration of our business infrastructure and systems, are designed to accelerate the pace, positioning and performance of our core food-focused strategy and local market approach.

Meanwhile, we have continued to advance major productivity initiatives such as our enterprise-wide SAP implementation. Scheduled for completion in Québec later this year, this platform will allow us to enhance the standardization and benefits of a full suite of SAP-enabled productivity tools right across the country. These include: Workforce Management, which analyzes historical shopping patterns to optimize labour deployment; Fresh Item Management, which enhances the outstanding quality and consistency of our fresh offerings; and Computer Assisted Ordering, which improves the critical in-stock performance of our stores.

The extension of the SAP platform into Québec provides the important foundation for our automated distribution centre under development north of Montréal that is scheduled to open in November 2012. It will employ the latest generation of the WITRON Integrated Logistics warehousing and picking technology that has significantly reduced per-case distribution costs and improved the accuracy, timing and quality of deliveries in our Ontario operations.
We share a customer-focused performance culture in which each of us takes responsibility for personal and team development. Our goal is a more collaborative work environment and a superior shopping experience for our customers.

The passion and dedication of our people are vital to the success of Sobeys’ distinctive food-focused strategy. As we enter the next phase in our journey to be widely recognized as the best food retailer and workplace environment in Canada, we will be even more diligent, deliberate and disciplined in how we approach the attraction, engagement, development and professional growth of our people.

Our success requires that each employee – whether in our stores, distribution centres or offices – takes part in creating a better workplace environment and a more compelling shopping experience for the customer.

Creating a customer-focused performance culture takes more than an appeal to teamwork – it requires an environment that encourages each person to take charge of their careers, to become fully engaged with our vision and to make a positive and measurable impact on the success of the organization. We are empowering our people to make a difference in each local market they serve, one customer at a time, by giving them the tools and knowledge to better serve the needs of each customer.
We are fostering an environment where each person:

- Knows what’s expected and understands how individual contributions make a difference to the overall success of Sobeys;
- Receives validated feedback on their performance;
- Is recognized for their contributions;
- Has access to the information, support and training to be successful in individual roles; and
- Takes ownership of their career and development.

We have also taken steps to better understand the individual attributes that truly drive performance in our business from coast to coast. Our aim is to create a work environment that fosters participation and encourages diversity of perspectives, approaches and thinking. By doing so, we set the stage for true innovation. And for us, innovation is about much more than technology. It means keeping each person engaged, with an open mind to continually look for new ways to solve problems, overcome challenges and make continuous improvements. Each person has the power to make a difference.