We continued to grow sales through improvements to our food-focused offering, the expansion and modernization of our store and distribution networks and improved cost management and productivity.

Sobeys’ food-focused strategy is designed to deliver the best food shopping experience in Canada through ongoing improvement in our product, service and merchandising offerings. We deploy five distinct food retail formats to satisfy our customers’ requirements – full-service, fresh service, community service, price service and convenience service – which operate under a number of banners.

Capital investment in Sobeys’ property and equipment totalled $519.4 million in fiscal 2011. A total of 44 corporate and franchise stores were opened, acquired or relocated, 12 stores were expanded and 68 stores were re-bannered as we continued to strengthen Sobeys’ presence across the country and improve the quality of our retail space. Over the past five years, we have invested more than $2.1 billion in our store network and supporting infrastructure and today a significant majority of our stores are at a standard that we consider current, and we are not finished yet.

During fiscal 2011, we opened next-generation Sobeys, IGA extra and Thrifty Foods stores, which are taking the quality of our full-service offerings to a higher level. They feature major advancements in all fresh departments, a significantly expanded health and wellness offering, more detailed nutritional information and improved in-store food preparation.
Sobeys’ new stores raise the bar on full-service food retailing with major advances in fresh department merchandising, in-store food preparation and nutritional information.

Always Fresh
Chantal Roy exemplifies our commitment to fresh service excellence in the expanded deli department of the new IGA extra in Valleyfield, Québec.

Sobeys’ 286-store network in Atlantic Canada, Ontario and Western Canada includes its newest full-service prototype in Bedford, Nova Scotia.

IGA extra’s reputation for leadership in fresh service has been enhanced by the opening of the banner’s next-generation store in Valleyfield, Québec.

Next-generation Thrifty Foods stores incorporate design and construction improvements that will reduce their operating costs and environmental impact.
FreshCo’s winning approach to discount grocery retailing includes an expansive ethnic food offering that is popular with shoppers in Ontario’s growing multicultural communities.

These full-service stores also incorporate innovative design and construction processes along with higher-efficiency equipment and fixtures to help deliver greater service at the lowest possible cost. As the prototypes evolve, we will continue to migrate our most successful innovations throughout the rest of our network to create an even more differentiated shopping experience for our customers.

The modernization of our store network includes our investment in the FreshCo discount banner in Ontario, which has revitalized our presence in Ontario’s fast-growing discount segment by delivering on its customer promise of a “Fresher. Cheaper.” shopping experience. At FreshCo, the emphasis is on having the lowest prices and a fast-turning assortment of the freshest produce available with an impressive selection of high-quality, case-ready meats and cheeses and an abundance of locally grown fruits and vegetables. It’s an approach that relies on operating efficiencies more than the sourcing of low-cost product and one that has struck a chord with value-conscious shoppers who want everyday low prices without the compromises associated with ordinary discount stores. FreshCo stores feature extensive ethnic food sections aimed to satisfy rapidly growing demand in our multicultural communities. We simply say that FreshCo is “discount done right”. During the fiscal year, we opened a total of 57 stores under the FreshCo banner with more stores to come in fiscal 2012. The response from consumers has been very positive.

We have also been pleased with the performance of Sobeys’ other retail banners. After years of careful repositioning and sustained investment, Lawtons Drugs, Foodland, Needs and Sobeys Urban Fresh have developed into distinct and successful brand offerings that continue to serve the unique shopping requirements of our customers in a wide variety of markets.

Equally important are the benefits we continue to harness from investment in our customer insight capabilities. While our Club Sobeys, Club Thrifty Foods and AIR MILES® rewards programs are immensely...

Sustained capital investment in the modernization of the Foodland, Lawtons Drugs and Needs Convenience retail networks contributed to a higher level of performance across all banners.

Foodland is a full-service grocer developed for smaller communities with 196 stores in Atlantic Canada and Ontario.

Lawtons Drugs is one of the largest drugstore chains in Atlantic Canada with 79 locations.

Needs Convenience is Sobeys’ convenience format network of 134 late night and 24-hour stores in Atlantic Canada.
Healthy Living
Increasing nutritional awareness has created significant growth opportunities for Sobeys.

popular, their greatest value lies in the rich insight they provide into our customers’ buying habits and preferences. Understanding the unique needs of individual shoppers and households is a powerful advantage that allows us to anticipate interests, increase basket size and most importantly, build long-term customer relationships. It also allows us to more accurately plan and predict the outcome of our marketing and merchandising initiatives.

Such information also helps to guide innovation within the multi-tiered Compliments private label program which has established itself as a leading Canadian food brand. It includes Compliments Balance, a growing line of healthy and delicious products that is part of a larger wellness initiative to be rolled out across our store network in the future. Eating well and feeling good are growing priorities for most Canadians. We intend to be on the forefront of this major trend with an expanding assortment of nutraceutical, specialty diet and organic products and a related program of in-store nutritional information.

FRESHCo.
Fresher. Cheaper.

Sobeys’ newest retail banner represents a distinctly different approach to Ontario’s fastest growing food retailing segment. At FreshCo, customers can expect everyday low prices without the traditional compromises of ordinary discount stores. We call it “discount done right.”

57
FreshCo stores were launched in fiscal 2011 with more to come in 2012.
A sustained focus on important cost reduction and productivity initiatives has allowed Sobeys to continue to grow sales and profitability in what remains an intensely competitive market.

Ten years ago we set out on a journey to become widely recognized as the best food retailer in Canada. Since then, we have made great strides in improving the quality and consistency of our offering, modernizing our store network and providing a superior level of service while lowering our costs. These efforts have enabled us to increase both sales and earnings despite the emergence of new competitors.

Promotional activity in the grocery industry was intense in the past year, which meant that despite rising input costs, Canadian consumers continued to enjoy lower food prices. As we have said consistently over the past number of years, we will continue to do whatever it takes to maintain our competitive price position in each market we serve. Our ability to do so profitably has been enabled by our continued focus on the successful implementation of a number of cost and productivity initiatives.

The most central of these is our investment in Sobeys’ enterprise-wide, integrated SAP platform. Our implementation plan remained firmly on track in fiscal 2011 with the roll out of SAP into our Québec operations.

Working Smarter
New company-wide systems are enabling vital productivity tools such as Fresh Item Management and Computer Assisted Ordering.
Upon projected completion of this initiative in fiscal 2013, virtually all aspects of our business across all regions of the country will be running on the same advanced SAP platform.

The replacement of legacy information systems in our other regions has already allowed us to reap the benefits of several SAP-enabled productivity tools. These include Workforce Management, which allows us to draw upon the past shopping patterns of our customers to optimize service and control labour costs more precisely, and Fresh Item Management, which has yielded similar benefits by enabling us to reduce shrink and further enhance a well-earned reputation for the consistency and quality of our fresh offering.

During the past year, we completed the implementation of Computer Assisted Ordering in our stores in our Atlantic, Ontario and West Regions. This forecasting system is enabling our people to manage inventory more precisely and improve the critical in-stock performance in our stores.

Our advanced system-wide business platform has also been the key to improving productivity in our supply chain. In January 2011 we announced plans to construct our second automated distribution centre in Terrebonne, Québec. It will employ the latest generation of the WITRON Integrated Logistics warehousing and picking technology that has allowed us to significantly reduce per-case distribution costs and improve the accuracy and timing of deliveries in our Ontario operations.

While there are early indications of inflation as retail prices reflect manufacturers’ cost increases, we expect competition to continue to be strong. We intend to seek further margin improvement through cost and productivity initiatives and will continue to focus on operational efficiencies and product innovation to meet the needs of our local markets and customers.

Sustainable Benefits

Sobeys’ commitment to sustainability is reducing both the environmental impact and cost of our operations. At the end of last year, we were on track to exceed our targets of a 15 percent reduction in greenhouse gas emissions and a 30 percent reduction in waste production by 2013. We have implemented numerous energy conservation and environmental design initiatives throughout our store and distribution networks to reach these targets including energy-efficient lighting, light-dimming and motion-sensor technologies and higher-efficiency HVAC and refrigeration heat-recovery systems.

The IGA extra store in Valleyfield, Québec offers an impressive selection of fresh seafood.
We continue to invest in our greatest competitive strength – the people who are successfully implementing our plans and capably serving the food shopping needs of our customers.

Meeting our strategic goals over the next five years will require a greater level of clarity and alignment with our purpose, and a level of discipline in our day-to-day execution. A key foundational element in Sobeys’ ongoing journey to be widely recognized as the best food retailer in Canada has been the focus on, and investment in, our people.

Our approach to talent management has played a critical role in supporting the various stages of development of our Company over the past 10 years and will play an even greater role in our ability to succeed in the future. The successful development of a customer-focused performance culture is an ongoing journey that must be reinforced consistently over time in every corner of the organization.

Between 2000 and 2005, Sobeys focused on stabilizing the business and delivering synergies following the acquisition of the Oshawa Group and creating a compelling vision and strategy for the company. During this period, our people focus was on building leadership bench strength, articulating our food-focused strategy and communicating a compelling vision to our employees to ensure organizational alignment.

From 2005 to 2010, our primary focus was on creating the winning conditions in our operations to drive sustainable growth. This meant significant investments...
in expanding, upgrading and enhancing our store and distribution assets as well as developing and implementing leading-edge business processes, systems and tools. From a people perspective, we continued to strengthen leadership at all levels of the organization, while investing in employee engagement, talent management processes, succession planning and total rewards strategies.

And now, as we begin the next five years of our journey, amid what we expect will continue to be an intensely competitive marketplace, we are compelled to be even more deliberate and disciplined in how we approach the attraction, retention, development and professional growth of those that play a critical role in serving our customers day-in and day-out.

Our comprehensive people management strategy will guide the decisions we make and the resources we invest in our employees over the next five years. It will also drive a renewed culture of performance and collaboration to fully leverage the strength of the organization as a whole.

Sobeys’ career website encourages employees to investigate the wide variety of career opportunities available across the organization.

Learn more
www.sobeyscareers.com

Attracting Talent
Sobeys established its Chartered Accountant Training Office in 2008. The program helps Sobeys attract and develop great talent. Michelle Lamont joined Sobeys in June 2009 and on December 3, 2010, Michelle was the first of Sobeys’ CA students to celebrate success on the Uniform Final Exam (UFE). Over the next year, Michelle will continue to build her experience at Sobeys and earn her CA designation. Paul Jewer, CA, Senior Vice President, Finance and Treasurer, oversees Sobeys’ Chartered Accountant Training Office.

At left: Paul Jewer and Michelle Lamont.