

Reinventing Loblaws

Out of Ideas



Loblaws storefront, ca. 1970.

By the early 1970s, Loblaws was struggling to stay alive. Price wars among the major supermarkets had taken their toll and Loblaws had long since lost its position as the market leader. The other chains seemed to sense an opportunity to knock out a competitor, once and for all.

With smaller, aging outlets, Loblaws was rapidly losing out to Dominion and its “deep discount” policy. No longer a price leader, its share of the crucial Ontario market had been cut in half, to just 15%, in less than a year. Meanwhile, the company’s financial position looked increasingly precarious with too much debt on its books. Losses mounted and a retail chain founded on innovation was running out of ideas. Bankruptcy appeared to be only a matter of time.

W. Garfield Weston, Chairman of George Weston Limited, who had taken his father’s Toronto bakery and turned it into an international food processing and distribution concern, had acquired control of Loblaws by the early 1950s. With the company now in trouble he looked to his son, W. Galen Weston, for help. Galen Weston was a successful entrepreneur in his own right, with a chain of grocery stores and retail operations in Ireland built with his own money. Now his father asked him to take a look at Loblaws to see if it could be saved.

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Finest Company



W. Galen Weston and W. Garfield Weston at a supermarket opening, Bonn, West Germany, ca. 1970.

What Galen Weston found was a grocery chain crumbling under the weight of too many unprofitable stores, along with \$80 million in debt coming due. Growth for growth's sake, at the expense of profitability, was no longer an option with rationalization the only choice left. If Loblaws was to be saved, drastic action had to be taken.

In spite of the gathering storm, W. Galen Weston could still see the makings of a silver lining. "As a 200-store chain, we didn't look very good. As a 100-store chain, we looked very good indeed," he told a reporter. "I felt that from a retailing standpoint Loblaws was the nucleus of potentially the finest company in Canada." What followed was the transformation of Loblaw Companies Limited and, in the process, George Weston Limited — what one press report would describe as a "classic turnaround saga."

An agreement was reached that freed Loblaws from long-term leases on its stores, with most of the financial risk assumed by the Weston family holding company. Management could now begin closing stores that were no longer viable. In February 1972, Galen Weston, age 31, was appointed the company's new Chief Executive Officer.

Rationalization aside, Weston needed new talent. He hired former university schoolmate Dave Nichol as Director of Corporate Development. Nichol, a young consultant with a Harvard law degree, would be appointed President of Loblaw Supermarkets and then Loblaw International Merchants, and become closely associated with *no name* and *President's Choice* products. Richard Currie, a bright Harvard MBA, became Director of Profit Development. Currie's logistical abilities would see him appointed President of Loblaw Companies Limited and eventually George Weston Limited.

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If It Works



One of the first redesigned Loblaws stores, ca. 1972.

Next was reinventing Loblaws. The outlet at Bayview and Moore avenues in Toronto was chosen as the location for the first redesigned store. The renovations would take place over a ten-week period at night so the location could remain open, and would cost only \$30,000. Galen Weston felt he had nothing to lose. "If it works, good. But if it doesn't, Loblaws is in such trouble that it doesn't matter."

Don Watt, a talented young designer, worked his magic inside and out. The fact that Watt had little previous experience designing grocery stores turned out to be an asset. With few preconceived ideas on how a store should look, Watt undertook a radical redesign of the retail environment.

The exterior of the store was painted dark brown and the old multi-coloured block letters that spelled out the Loblaws name were taken down. In their place, a new, modern-looking Loblaws logo, featuring a big repeating "L" in red and orange, went up. Even the cramped parking lot was repaved and the lines repainted.

Inside the transformation was even more dramatic. Old store fixtures were torn out and cracked surfaces paneled over. Antiquated metal display cases were replaced and big, moveable display bins installed, along with modern lighting. Huge, close-up photographs of fresh fruits, vegetables, meats and baked goods were hung overhead to emphasize quality and freshness. The produce section was doubled in size and moved to the front of the store. Within a month, sales increased 60% and then 100%. As other stores were renovated, sales doubled and in some cases tripled.

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More than the Price is Right



Loblaws spokesman William Shatner, ca. 1973.

On the promotional side, the company rolled out a new advertising campaign featuring Canadian actor William Shatner of *Star Trek* fame. The television commercials highlighted weekly specials, with Shatner telling audiences to “come on over to Loblaws.” When a new, catchier slogan was tried, Shatner stumbled through the first few takes, but then improvised by adding a line of his own. TV audiences were told that “More than the price is right ... *but by gosh, the price is right!*”

Some changes were easier than others, though, with almost half of all Loblaws stores in Ontario closed in an effort to stop losses. Things were beginning to turn around, with the chain regaining much of its lost market share in Ontario. But just as Loblaws was showing signs of recovery, the company’s Chicago-based subsidiary, National Tea, began bleeding red ink.

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Don't Sell Your Shares



A Weston-owned National Tea supermarket, Chicago, ca. 1968.

With most National Tea stores located in large urban centres experiencing rapid decline, Galen Weston spoke bluntly about the U.S. operations. “We’re in a downward spiral, both in sales and profits. And there’s no indication that profits will improve.” By the end of fiscal 1973, losses totaled a staggering \$36 million. “It was in the cards that National Tea should be, or could be, disposed of. But I felt we had a tremendous foothold in the U.S. and it must not be lost, almost at any price.”

Weston and Currie came up with a rescue plan that involved closing hundreds of stores and consolidating warehouse operations. Outlets were remodeled and the chain rebranded. Things began to improve, but when it came to the Chicago operations nothing seemed to work. Finally, National Tea President and CEO James A. Watson asked for a meeting with the chairman of A&P. Since they were both losing their shirts, maybe one should buy out the other. “I was betting on his ego but was scared that he would say ‘you buy us’. His ego prevailed and he agreed to buy National Chicago division.”

All of National Tea, along with the rest of the U.S. operations, would be gradually divested as Loblaw Companies Limited refocused its efforts and capital on the development of retail operations in Canada. In the meantime, though, W. Garfield Weston, president of parent company George Weston Limited, did his best to reassure shareholders, telling them not to panic. “Don’t sell your shares! Because if you do, we’ll pick them up.”

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No name



By the late Seventies, Dave Nichol had become, in his own words, “a walking Loblaw logo.”

While Galen Weston and company put Loblaws’ financial house in order, they also looked to the products that stocked its shelves, in particular the company’s own private label brands. Early on, Weston earmarked \$40 million for product development.

In 1978, the first *no name* products hit the aisles of Loblaws stores. They were hard to miss, not only when it came to price, since *no name* represented considerable savings, but also packaging. The bold, black Helvetica lettering on a bright yellow background was designed to catch the eye and convey a simple, straightforward message of ‘value for money’. Generic products were popping up across the major chains but *no name* was different. Instead of being just a cheaper alternative of inferior or inconsistent quality, Loblaw imposed strict quality controls in order to compete with the national brands.

From the original 16 products, *no name* expanded to 500 items in its first four years as consumers proved more than willing to forego fancy packaging and expensive ad campaigns. Meanwhile, Dave Nichol began referring to a “brand tax” by the big name brands as a way of accounting for the price difference between *no name* and the competition.

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Really Excited



Lucky's No Frills store, Toronto, 1987.

The success of *no name* led to the opening of the first *no frills* store in East York, Toronto, in July 1978. The response was enthusiastic, to say the least. “The rush never stopped. We had to close the doors at 10:30 this morning and let people in as other people left,” beamed Loblaws manager Robert St. Jean on opening day. “We’re really excited about it ... really excited!”

Featuring the *no name* line, the original *no frills* was just that — no frills — no product advertising, no store displays, produce left unwashed in cardboard boxes, no meat counter or refrigeration units, no clerks to bag your groceries, and you had to bring your own bags or pay three cents for each. “It doesn’t bother me a bit,” replied first day customer Frank Atlas when asked about bagging his own groceries. “I’ve saved a couple dollars with this order.”

At a time when inflation was again on the rise, shoppers were looking for any way to cut down on their grocery bills. Even with a limited selection of 500 items, the consumer response was so strong that Loblaws began converting a number of its older outlets to *no frills* stores.

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President's Choice



The first of "The Decadent" line of *President's Choice* products.

Loblaws next began experimenting with its product lineup. Items such as *no name escargot* and *no name gourmet barbeque sauce* were designed to appeal to a wider range of consumer tastes. Then *President's Blend Gourmet Coffee* was introduced, around the time some national brands had downgraded the quality of their store coffee. It began outselling every other item on the grocery shelf. The decision was made to develop an entire line of premium, private label products and call it *President's Choice*.

In 1984, *President's Choice* debuted with a handful of items. Instead of relying on focus groups and consumer surveys, each product was personally tested by Dave Nichol, President of Loblaw International Merchants. "Nothing gets called *President's Choice* without my approval. If you dislike any of them, I'm the guy who has to take the blame."

From *PC Cola* to *Memories of Bangkok* sauce, *President's Choice* developed a remarkable following. Not only did shoppers rave about the quality, they could hardly wait for the next issue of *Dave Nichol's Insider's Report*. Inspired by a Los Angeles supermarket flyer, it became famous for its unique selection, great recipes and culinary, tongue-in-cheek anecdotes. A 1990 A.C. Nielsen survey showed that 59% of Ontario households read the *Insider's Report*.

Product development always came first, though. Nichol wanted the best chocolate chip cookie on the market. Using real chocolate chips, and twice as many as the leading competitor, along with real butter, instead of hydrogenated coconut oil, *The Decadent Chocolate Chip Cookie* was born. "We worked for more than a year getting just the right texture, experimenting with different kinds of butter, and seeing just how many chocolate chips we could cram into them." Not only did *The Decadent* become the best-selling *PC* product, it eventually outsold the national brands. As the popularity of *President's Choice* grew, the *PC* brand found its way onto hundreds of food items, and everything from toasters to train sets. In 1998, that began to include no fee in-store banking with the launch of *President's Choice Financial*.

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G.R.E.E.N



'Going green' with *President's Choice* G.R.E.E.N products, 1989.

In 1989, *President's Choice* introduced a different kind of product line called G.R.E.E.N, based on the idea that what we buy as consumers has a major impact on the environment. "Because something can be done," it offered a selection of 100 environmentally-friendly and body-friendly items. G.R.E.E.N wasn't without controversy, though.

Colin Isaacs, the executive director of Pollution Probe, an influential environmental group, appeared in a television ad for the line's new non-chlorine bleached disposable diapers. Isaacs explained that consumers should buy reusable cloth diapers, but if they had to use disposables, these were less harmful to the environment. The reaction from environmentalists was swift. Many were outraged over any kind of endorsement of a throwaway product and Isaacs eventually resigned. In spite of the controversy, sales grew. Loblaw president Richard Currie later noted that following the introduction of G.R.E.E.N many manufacturers unveiled their own green products.

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Market Leader



W. Galen Weston and Richard J. Currie, *Real Canadian Superstore*, Vancouver, 1989.

By the 1980s, Loblaw had become the largest and most profitable of Canada's food retailers. But there were setbacks. When Loblaws tried large format, one-stop shopping in Ontario, which had worked so well with its *Real Canadian Superstores* in Western Canada, it began losing money.

Forced to scale back on the size of its new SuperCentres, Loblaw President Richard Currie pointed out the company was able to lease out the space — a competitive advantage that came with owning its own stores. “Probably the most disappointing thing for me regarding the big stores we brought into Ontario, and then had to cut back, is that not a single analyst or observer ever gave us any recognition of the fact that we could do that and fix it.”

During the 1990s, Loblaw continued to grow, helped in large part by the popularity of its *no name* and *President's Choice* products, which represented \$1.5 billion in annual retail sales, or almost a third of Loblaw's revenues. Meanwhile, its various store formats, which included Loblaws, nofrills, Zehrs and Fortinos in Ontario, *Real Canadian Superstores* in Western Canada and *Real Atlantic Superstores* in the Maritimes, stretched virtually across the country. In 1998, the company acquired Provigo, a large Quebec-based grocery store chain.

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Restructuring and Renewal



Loblaw Companies Limited headquarters, Brampton, Ontario, 2006.

In December 2000, after 25 years at the Loblaw helm, Richard J. Currie stepped down as President and was succeeded by John Lederer. But as a major corporate restructuring went ahead, that included the centralization of administrative staff and an overhaul of the company's supply chain, things began to go wrong. Food items went out of stock on store shelves while unsold general merchandise piled up in warehouses. Profits slid. In September 2006, Lederer resigned and Galen G. Weston was appointed Executive Chairman of Loblaw. Allan Leighton became Deputy Chairman and then President. W. Galen Weston remained Chairman and President of parent company George Weston Limited.

By early 2007, Loblaw had completed a 100-day review that saw company executives sit down with store managers and employees across the country. A new "simplify, innovate and grow" strategy was introduced to fix the basics, with the goal of "Making Loblaw the Best Again." After its first loss in almost 20 years, Loblaw returned to profitability in 2007.

Integral to Loblaw's renewal strategy is a commitment to corporate social responsibility. The company's PC GREEN Reusable Bag program, along with the decision to charge five cents per plastic bag in most parts of the country, has reduced the number of disposable bags by 1.3 billion annually, exceeding Loblaw's original goal. Loblaw has also removed "at risk" species from its fish counters and announced that it will stop selling all non-sustainable fish products by 2013. Its environmental flagship store in Scarborough, Ontario, significantly reduces the carbon footprint of the traditional supermarket, while the company's Atlantic Superstore, at Porter's Lake, Nova Scotia, generates electricity with its own wind turbine. Other initiatives include low emission transport trucks and the reduction of packaging in PC products. In 2010, Loblaw was recognized as one of Canada's Greenest Employers.

From the brink of bankruptcy in the 1970s, Loblaw is today Canada's largest grocery retailer. As the company completes another historic turnaround in an economic environment as challenging as ever, Loblaw's true competitive advantage remains its employees, who constantly look for new and innovative ways to serve their customers better.