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Sobeys hits $3 billion in write-downs on Safeway debacle

CEO Poulin denies suppliers will be squeezed in new cost reductions

In a conference call with analysts this morning, **Marc Poulin**, CEO of **Empire Company**, parent of **Sobeys** grocery stores, strived to put a positive spin on disastrous 2016 results.

These included $1.3 billion in new impairment charges related to its acquisition of Safeway Stores. That brings total write-downs for the year to $3 billion, or more than half the $5.8 billion that Sobeys shelled out for 213 Safeway outlets, in 2013.

Poulin, who spearheaded the Safeway deal, characterized the results as “disappointing.”

However Poulin pointed to Sobeys’ $6.3 billion in overall sales, and continued consolidations in its western Canadian stores with legacy Safeway assets, as signaling a brighter path going forward. “We are all on the same team now,” said the veteran CEO.

Sluggish performance in western Canada

Poulin quantified the scale of Sobeys’ unravelling western Canadian operations, as encompassing a stunning 3.6% drop in regional same store sales during the quarter. That plunge is even worse in volume terms, as food inflation at Sobeys, which came in at 2.2%, drove price increases, without which the drop would have been far worse.

In a tense one hour and 40-minute grilling by analysts Poulin delivered what amounted to a *mea culpa*. He attributed the poor western Canadian results to a combination of integration challenges, value losses when phasing out the surprisingly popular Safeway brand, shifting consumer attitudes and weak national and regional economies.

Poulin also attempted to chart Sobeys’ future progress by laying out several elements in a multi-prong strategy going forward. These include an enhanced store network, better distribution and merchandizing infrastructure, and its new Simplified Buy & Sell strategy.

High hopes for a new pricing strategy
As its name suggests, the new program, which is known internally as "SBS," is aimed at "simplifying, standardizing and harmonizing," sales and procurement throughout the organization. At the retail level that will amount to a new policy, currently being tested at the company's Quebec IGA stores, of substituting promotional budgets with lower prices across the board.

Initial results are positive, said Poulin, who denied that Sobeys' projected cost cutting moves will be directed at suppliers, with whom the company will work "differently," though he did not specify how. Customers' mindsets are changing said Poulin, who noted that today's shoppers want low prices that they can count on, as opposed to having to look for them.

Calling in help from the girls
Poulin also reiterated the importance of new blood in Sobeys' plans going forward, particularly that of two new executives, both of whom are women. In April, the company announced that **Beth Newlands Campbell**, would take over as head of the company's Atlantic Canada/Ontario business unit. She'll be helped out by **Lynn Castonguay**, who was appointed the company's chief merchandizing officer earlier this week.

These managerial appointments, were announced amidst considerable pressure on all grocers to increase female board participation, which at Empire Company includes just four women out of 15 members.

However given women's dominant influence in grocery consumption patterns, their presence will be just as welcome, if not more, in Sobeys' operations.

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