

SARAH DAVIS
HAS BEEN
PART OF EVERY
BIG MOVE
BY LOBLAW
OVER THE
PAST DECADE.

THE INSIDER

HOW THE
DATA-LOVING
PRESIDENT
PLANS TO
TRANSFORM
A COMPANY
LONG RULED
BY GUT
INSTINCT

BY JOANNA PACHNER

PHOTOGRAPH BY TED BELTON

Sarah Davis makes a good entrance. Delayed a few minutes by an unexpected call—"It's Galen; she had to take it," an assistant apologizes—she saunters in, door swinging wide, and covers the distance to the boardroom table in a few long-legged strides, hand extended in greeting almost from the first step. It's impossible not to return her sunny smile or be disarmed by her loud, easily summoned laugh.

All that changes the moment a recording device is stuck in her face. The smile tightens. She arranges herself stiffly. The first question gets a terse answer followed by a flat stare. Have you sat down for a magazine interview before? "No." Silence.

Fair enough. Many seasoned executives tense up under media interrogation and, save for periodic investor calls and female leadership events, Davis has kept a low profile in her three years as president of Loblaw Cos. Ltd. That's understandable. Her boss is a charismatic billionaire who became a national celebrity thanks to commercials in which he touted frozen



party nibbles and organic baby food with surprising plausibility. It took Galen G. Weston nearly a decade to emerge from the shadow of W. Galen Weston, his father. But at this point, no one doubts he's in charge as executive chair of Loblaw, and chair and CEO of George Weston Ltd. He now focuses on running the parent company, which owns a controlling interest (along with Weston Foods and Choice Properties REIT) in Loblaw. The retailer's day-to-day and ins and outs—that's all Davis. A year ago, her role expanded to include responsibility for the company's 13-member management board, as well as the finance and HR functions. "As Galen increasingly steps away, now every part of Loblaw reports to me," she says, hands folded primly in her lap. Sarah Davis is ready for her close-up but, boy, the spotlight sure isn't her natural habitat.

What is? Spreadsheets, processes and store layout planograms. "I'm a very mathy person," she says. Davis rose through the ranks of Loblaw's back-office functions for 10 years before landing the corner office, next to Weston's, with a panoramic view of Highway 407 in Toronto's suburbs. Even as her role changed, she held on to the responsibility for strategy, which made her Weston's close collaborator. "If you have a constant working relationship with the family—and, in this case, with me in particular—you need to be someone in whom I have absolute trust," Weston says of Davis. "The way to prosper here is to make your ambition a consequence of your ambition for the company."

Davis has certainly done her share of heavy lifting. She was a leading force behind the scenes in all the recent major corporate initiatives, from creating an industry-leading loyalty program to acquiring Shoppers Drug Mart. But probably her most important contribution was steering the gargantuan overhaul of Loblaw's technology and logistics infrastructure. Now that nearly decade-long investment is serving as the foundation for the company's transformation into a high-tech grocer. Loblaw, more than any other national supermarket operator, has embraced data and digital processes both to boost efficiency and to arm itself for the e-commerce age. It already has a comfortable lead on its industry rivals; it accounts for about a third of the Canadian grocery market—almost twice the share of its nearest competitor, Empire Co., whose banners include Sobeys and Safeway. Loblaw also owns the country's top three food brands: PC, No Name and Farmer's Market.

And yet, true greatness in retail has always required something beyond numbers smarts. It requires an innovative flair that strikes an emotional nerve, defines a zeitgeist moment. Loblaw had it once, back when President's Choice drove the private-label revolution and Memories Of sauces were the talk of cocktail parties. Davis knows the importance of understanding the

consumer. As proof, she shows off a complex framework of concentric circles that's supposed to explain the company's strategy—and, indeed, right there at the centre are the words "a passion for customers." Below, she has scribbled in blue ink: "She who knows her customer best is the one who will win." But there are different ways of knowing. The traditional method relies on the seasoned merchandiser's intuition of what consumers want before they know it themselves. Davis's way employs algorithms to sift through the company's one billion yearly customer transactions for revelations.

That's where her true passion lies, but it's hard to explain. So how about a trip to a store? Does president Sarah Davis still do her own shopping? "Oh, are you kidding me? Of course I do," she exclaims, her booming laugh blowing away all stiffness and artifice. "Sure you can come to a store with me—when do you want to go?!"

Before we get shopping, some background is needed to set the scene. Davis was recruited to work for Loblaw in 2007 from a controller job at Rogers Communications. Initially, she was lukewarm: Her entire career had been in finance at telcos, and she had no interest in a retailer. But a couple of things intrigued her, she says. Davis was a regular Loblaw customer and, as a mom of three daughters, she liked that her lengthy commute from the western Toronto suburbs into downtown would be eliminated by Loblaw's recent move into new headquarters in nearby Brampton.

She must have been up for a challenge, too, because she was entering a company grappling with chaos. Under W. Galen Weston and his band of retail masterminds, Loblaw had enjoyed a lengthy run of success, particularly in the 1980s and '90s, opening ever-larger stores that never failed to fill with customers. "Things were going so well that the finance department didn't provide much oversight or control," says a veteran retail analyst who was not authorized to speak on the record. "The operators had been right so often." Meanwhile, Loblaw's state-of-the-art, custom-built logistics technology was proving increasingly difficult to upgrade. As rivals moved to third-party systems, the company's patchwork of IT stagnated. Things came to a head in 2005, when a diversification into general merchandise, compounded by an effort to hone operating efficiency in preparation for direct competition with Walmart, caused operations to tangle and seize up (the initiative's name, "Project Simplify," proved ironic). Inventory crammed warehouses, crews waited to unpack goods that never arrived, and seasonal products missed demand windows and had to be liquidated.

The stock went into freefall. A corporate bloodletting resulted in the departure of Weston Sr.'s team and his 33-year-old son

moving in, backed by old-time family consigliere Allan Leighton and Canadian Tire veteran Mark Foote. First order of business: reduce regional silos, and modernize technology and distribution systems. It was a massive undertaking, backed by teams of consultants toiling in the basement of the Brampton office. A company whose flashy store operators had made it soar and then crash now needed people who knew how to rein in the cost structure.

Davis, an analytically minded finance whiz, fit that bill. She remembers meeting with the jeans-clad Weston and avuncular, larger-than-life Leighton. "I liked their dynamic," she says. "Allan joked that the CFO had told them it was their job to convince me to join, so both were very...selling." As controller, she could avoid the political infighting that ensued among the leadership triumvirate. "She was coming into a very unsettled environment that would have benefited from a clear head," says Foote, who worked with Davis for just over a year and remembers her as a calming presence "not so fussed by all the commotion." For Weston, Davis brought another crucial asset: experience at a family-controlled company. "She enjoyed [CEO Ted Rogers's] relationship with Rogers management, and it wasn't something that intimidated her," Weston says.

The reorganization would last well into the next decade. Davis continued to oversee it after becoming CFO in 2010. The subsequent four years were transformational, both for Loblaw and for her career. She led the implementation of the SAP enterprise system that finally gave the company a sound technological infrastructure. She assisted the spinoff of the real estate portfolio into the Choice Properties REIT. The move resulted in a share price hike, enabling Loblaw to finally pull the trigger on a target it had been circling for years: Shoppers Drug Mart. After meeting with the George Weston corporate development group every Monday for months, Davis says the \$12.4-billion transaction finally came together over a weekend. "What we loved about that deal is that when we looked at the demographics of Canadians getting older, the shift to smaller stores, people moving into cities, Shoppers ticked all those boxes."

Soon after the merger closed, Davis was named chief administrative officer. "It wasn't necessarily my choice," she admits. "I loved being CFO—it was my training." But Weston wanted her exposed to the operating parts of the business. Colleagues told her, "Oh, you're getting groomed," but the picture was more complex. Her move coincided with another C-suite shakeup, including Weston taking the role of president and Richard Dufresne becoming Loblaw CFO. Dufresne had been hired away from Metro to head up finance at George Weston. As a close family adviser, he was already seen as a shadow CFO to its operating companies. Observers didn't fail to notice that, in less than a decade, the power had shifted from store operators to cost controllers: Two of the top three positions at Loblaw were now occupied by finance people.

The CAO job wasn't glamorous. It put Davis in charge of the

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back office, which essentially meant continuing work on the seemingly endless organizational and logistic re-engineering. Jeff Leger, president of Shoppers, remembers being impressed with her decision to retain the pharmacy chain's distinct processes and systems. "That's not an easy thing when you're trying to find synergies," he says. "It was one of the big contributors to making the merger successful." Davis gained colleagues' respect with her focus and willingness to ask hard questions. "She's someone who listens more than she speaks," says Leger.

As CAO, Davis also ran the supply chain, which entailed a big learning curve. But she embraced it because it tapped into her analytical side. "Supply chain is all logistics, all math, so I loved that," she says. "Like, I really, really loved that." She travelled to every distribution centre and asked impolite questions: "Why do you do it that way? Wouldn't this way be better?" She huddled with the tech nerds around screens running algorithms showing how product "pickers" move through stores to fill carts most efficiently. She drove forklifts and electric trucks. "She really got on the floor," says Sharla Paraskevopoulos, senior vice-president in charge of Loblaw's conventional grocery banners, who has developed an informal co-mentoring relationship with Davis.

Davis took it upon herself to drive cultural changes as the company strove to break down regional and operational silos. Since becoming president, there's another shift she is trying to institute: an embrace of data analytics in business decisions over simple experience and gut feel. At a meeting of the company's 150 top executives last fall, she talked about business sometimes being perceived as tough and money-focused, and asked, "How do we make our customers feel like we really understand them and the issues in their lives? ...How do we develop products and services that are grounded in the reality of our customers' everyday lives?" Says Paraskevopoulos: "It was very personal. You could hear a pin drop."

It's a week before Christmas, and Davis has some last-minute holiday shopping to do. Her entrance on this occasion is even better: She descends the angled staircase from the store's mezzanine level like a diva greeting autograph seekers. Tall

and slender, and dressed in a sleek white coat, she is the most elegant presence at this suburban Real Canadian Superstore, which she nipped into before dashing off to the office up the road.

Her real aim is to show off the efficiency and merchandising experiments at this location, which serves as something of a corporate testing lab. She strides around cheerfully and purposefully, trailed at a respectful distance by the store manager. First stop: electronic shelf labels, whose prices are changed dynamically from a central office. A big win, Davis says. "You can never have the wrong price, where the cashier has to do a price check." The manager approaches to explain that on Wednesday nights, staff previously had to make 70,000 price changes manually and many more during holidays. All that work—gone.

Much of the freed-up employee time has been reallocated to running PC Express, the "click-and-collect" e-commerce service that lets customers order groceries online and then pick them up during pre-set time windows. At 8:45 a.m., pickers are already roaming the aisles to fill order lists. "In some stores, pickers get used to what regular shoppers like," says Davis. "People specify qualities of their produce, like really yellow bananas." She wants to show off the pilot system that tracks the wait time between a customer's arrival and the order being loaded into the car, but consternation ensues when no one seems to know the system password. The target is no more than five minutes and, once it's finally logged on, the tracker shows a wait of two minutes. Snags can happen when customers request last-minute additions or people miss their pickup time slots, jamming up the parking lot.

As we stroll around to the jing-a-ling of Christmas tunes, Davis points out other changes. This is also the first location with a party section, an attempt to take some business away from the dollar stores. Finally, we reach Flashfood: Download the app and get an average of 50% off produce, meats and other groceries approaching their expiry dates or that have been overstocked. Davis whips open the door on one of the fridges. "Let's see, what's going bad? Tourtière, cottage cheese..." She's proud of this innovation. As she likes to say, "It's best before—but it's still good after!"

In all, there are some 400 process, product and technology experiments underway across the company, estimates Michael Van Aelst, a TD Securities analyst. These range from an app that lets customers skip the checkout lines by scanning items on their phones as they shop to a new Meal Solutions division that will go head-to-head with meal-ingredient delivery services such as Chefs Plate and Goodfood. Many innovations focus on what Davis calls "solving meals." There is a stat she likes to trot out: At 4 p.m., 80% of Canadians don't know what they will have for dinner. "That was my life for many years," she says, citing research that shows consumers are shopping more for meals than ingredients and not eating out as often. Loblaw does its homework, analyzing demographics and ethnic distribution to guide decisions about product assortments and the development of new

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President's Choice offerings (expect more Philippine dishes as Canada has seen waves of immigration from that country in recent years).

E-commerce, of course, is a huge focus for most big grocers. Empire is making an ambitious investment in delivering fresh groceries through Voilà by Sobey's, a partnership with U.K.-based online supermarket Ocado. Loblaw is primarily leveraging its store network—although PC Express is testing an expansion beyond store pickups to subway and commuter train stations. Home delivery has been trickier. "For a while Loblaw was holding back, which I thought was a big mistake," says Bruce Winder, a retail consultant. "It's probably because it's hard to make money on it. That's what all retailers are grappling with right now—none are really built for home delivery, which requires new relationships, warehouses, infrastructure." In late 2017, Loblaw launched a partnership with Instacart to deliver groceries in as little as an hour at a cost of six to 10 bucks. The company is currently building an automated mini fulfillment centre for home delivery and the click-and-collect service that aims to speed up orders by relying on robots to pick and pack staples.

All these efforts may look scattershot, but Winder credits management for its willingness to experiment. "For a company like Loblaw, it's really, really, really, really difficult to increase sales more than inflation," he says. "They may look a little confused and unfocused, but that's a big company trying to innovate. And they're not afraid to try stuff. That's unusual."

Underlying the myriad initiatives is a broader effort to capitalize on the company's vast consumer relationships: The more than 18 million PC Optimum members represent a huge national, multicategory sample to mine for insights. "But to use the data in a way that's beneficial to the business, you need to build a culture that wants to use it and a team that knows how to use it," says Mark Petrie, merchandising and consumer products analyst at CIBC Capital Markets. Loblaw has hired hundreds of experts in artificial intelligence and machine learning, development operations and data science to fine-tune its promotional effectiveness. It is making strides in using its PC Optimum database to tailor promotions, essentially creating digital flyers personalized to every customer based on past purchases.

How fundamentally data should drive strategy is a topic on which Davis and Weston have sparred. "We have had intense conversations about the science versus the art of retailing," Weston says. "She occasionally refers to the art side as 'tummy-rub comfort being stupid,' which I think is a great provocation. But the reality is that she fundamen-

tally believes in both. You need to create inspiration, and that's not based just on what people have done historically." Loblaw's commitment to analytics was tested in the second quarter of last year, when a two-year-old program that uses algorithms to calibrate promotions to maintain margins backfired, cutting into food sales. Davis conceded that the team was "overzealous," but there has been no attempt to back off, only to tweak the formula, and analysts gave Loblaw credit for sticking with the program. "Management knows exactly where it went too far and has been dialling it back gradually to avoid triggering a price war," wrote TD's Van Aelst.

Data has become a vital weapon as the competitive landscape fragments and bleeds across industry boundaries. Loblaw's rivals now include not only other grocers and big-box giants like Walmart but also less obvious attackers such as Wayfair, with its expanding housewares offerings. And the shadow of the world's scariest retailer is never far away. While Amazon and other online retailers represent less than 2% of food sales in Canada, that share is growing at more than 30% a year. "Amazon is here and getting stronger," Winder says. "And when it starts to hit its stride in basic foods and fresh delivery, Loblaw will see pressure, especially on lower-tier banners such as No Frills and Real Canadian Superstore." Those banners already have a decade and a half of Walmart and Costco steadily encroaching on their territory.

Among the biggest potential threats to Loblaw's discount business are the so-called "German twins," Aldi and Lidl. In a 2017 interview, Weston described the "notorious German discounters" in terms that brought to mind the Second World War: "They have been wreaking havoc in Europe for years...to devastating effect." But Petrie, who calls the two companies, with utmost respect, "the Dollaramas of grocery" for their meticulous operational rigour and pricing that's significantly below Walmart, notes that their attempts at U.S. expansion have had mixed success. Despite some feelers in this country—including Lidl quietly setting up an office outside Toronto some years back—there is no sign of an imminent invasion.

Whatever its rivals may throw at it, Loblaw is well positioned to fight back. "They have the best store brands, best locations and best private labels in both pharmacy and grocery, so they're working from a leadership position," says Petrie. He notes that the company seems more focused on shoring up that leadership with a cushion of profits than extending it. Davis concedes as much: "Our goal is to keep our market share flat, not necessarily increase it." The bigger bets will come from using data to enter into new businesses, she says. That includes a debit card-type offering linked to the PC Optimum program, expected this year. Longer term, the "connected health care" initiative

could take the company in a fresh direction. While details remain fuzzy, Loblaw plans to develop a digital infrastructure that connects pharmacies to doctors and payers, freeing up pharmacist time to focus on patients.

This long-horizon approach, with a focus on profitable growth rather than wild leaps to increase market share, is something Davis views as endemic to family-controlled businesses. "There is a certain stability in having a controlling shareholder that's in it for the long term," she says. "I feel I'm building a generational business, not just thinking of the next quarter." There is still a stark contrast to the previous regime. "The father was more of a swashbuckling buccaneer who had turned around a decrepit business" in the 1970s, says the veteran analyst. "They weren't too shy to put big bets on the table. The son is more measured, conservative—he has to be."

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Back in the Brampton boardroom, the microphone clicks off. Instantly, Davis's body language practically screams "phew!" She stands up, rolls her shoulders, sets aside the pages of speaking points, and launches into a friendly gab about kids and favourite recipes (her signature is lasagna). In her office, she shows off her three daughters' graduation pictures (the eldest, "mathy" like her mother, is doing an MA in artificial intelligence). On the way, she gestures at Weston's darkened office, noting he comes in a couple of times a week. "Galen will always be part of the strategy, but he is spending less time here," she observes. It would be easier for Loblaw customers, the vast majority of whom are women, to believe Davis, not Weston, buys frozen meatballs for her family. But she is unlikely to become the face of President's Choice. "The benefit of a family member [playing that role] is there will never be a conflict between the interests of the brand and the family," says Weston—a pointed reference to the acrimonious split with Dave Nichol, the original president in President's Choice.

However, Davis may be closer to the boss than any previous president. By all accounts, Weston, who has collaborated with four presidents, and Davis (five years his senior) work well together and enjoy each other's company. Asked if they often disagree, Weston chuckles. "Oh, yeah. We're fond of saying to each other, 'See, I told you.' We have about a 50-50 record, though we tend to interpret it in our favour." Davis has earned his respect for what he calls her "inner strength"—a quality he struggles to define but ultimately settles on describing as "doing the right thing when faced with difficult questions or challenges."

Trust, collaboration and putting the company first: Those are the qualities Weston sees as essential in a Loblaw president. He adds, "She is far and away the best Loblaw president I've worked with." ■