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SOBEYS—PROJECT SUNRISE: RESPONDING TO DISRUPTION

Professor Andreas Schotter and R. Chandrasekhar wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

In late May 2017, Michael Medline, president and chief executive officer (CEO) of Sobeys Inc. (Sobeys), the second-largest grocer in Canada, was poised to execute the strategic growth plan— labelled "Project Sunrise"—that he had announced on May 4, 2017. When Medline joined Sobeys in January 2017, the company was facing serious financial difficulties. It had posted a loss of CA$2.1 billion[1] for the fiscal year (FY) ending May 2016, compared to a profit of $419 million just a year earlier. One reason was that a high-profile acquisition had gone sour, resulting in goodwill impairment charges of $3 billion for the year (see Exhibit 1). The company also faced some level of leadership vacuum, with the chief financial officer (CFO) serving as interim CEO since July 2016. In addition, a ratings agency had downgraded Sobeys's debt to junk level, citing underperformance and lost market share as the reasons.[2]

Medline was still working on a long-term plan of transforming Sobeys into a grocery powerhouse that could reshape Canadian food retailing. Project Sunrise was meant to be an interim plan, riding on a three-year time frame. It had two limited objectives: quickly relieve Sobeys from financial difficulties and prepare for the long-term industry disruption that was becoming prevalent, both locally and globally. However, Medline had to overcome some challenges to reach those objectives, as he explained:

> I am facing three challenges in executing Project Sunrise. First, how should Sobeys turn its byzantine organizational structure, siloed for decades into four regions, into a functional organization structure facilitating national reach and agility? Second, how should Sobeys generate demonstrable wins and momentum in lowering costs? Third, how should Sobeys get closer to the customer and regain its customer centricity for which it was once well-known?

PROJECT SUNRISE

The immediate triggers for Project Sunrise were twofold: recent negative growth and uncertainty in the industry's future.

Growth in the company's top line was crucial in the grocery retailing business, but Sobeys had seen negative growth for five of six consecutive quarters. Several key financial parameters were also in decline, including

[1] All currency amounts are in CA$ unless otherwise specified.
[2] "DBRS Downgrades Sobeys Inc. to BB (High), Trend Remains Negative," Morningstar, March 15, 2017, accessed July 11, 2019, www.dbrs.com/research/307088/dbrs-downgrades-sobeys-inc-to-bb-high-trend-remains-negative.

EBITDA (earnings before interest, taxes, depreciation, and amortization), operating income, and net income (see Exhibit 2).

The long-term context was even more ominous. While the grocery industry in North America was going through a period of consolidation, another major source of concern was looming. E-commerce giant Amazon Inc. (Amazon) and American organic grocer Whole Foods Market Inc. were in talks about a potential merger, which was likely to disrupt the grocery business. As a leading incumbent in the Canadian grocery industry, Sobeys had to find a strategic option to deal with the potential threat to its business.

Medline’s strategic growth plan, Project Sunrise, was based on three specific phases: resetting the foundation, unlocking scale, and moving from defence to offence.

Resetting the Foundation

Resetting the foundation was about eliminating the complexity that had slowed down the day-to-day business. For decades, Sobeys had operated across four regional business divisions: Atlantic Canada, Quebec, Ontario, and Western Canada (see Exhibit 3). Each had its own operational and marketing teams, independent of the other three regions, leading to overlapping and redundancy of core activities, such as purchasing. The duplication had often been a source of frustration among employees, vendors, and customers. As part of consolidating companywide resources by centralizing core activities, Medline was keen on moving to a functional organization structure.

Unlocking Scale

Unlocking scale was about reducing operational costs. Medline had set a target of $500 million in savings annually by fiscal 2020. The savings would come partly from consolidating the currently independently operating regional businesses into one national organization. The savings were meant to shore up the company’s bottom line and take a step away from bankruptcy.

Moving from Defence to Offence

Moving from defence to offence was about setting the company up for future success in an increasingly competitive environment. The approach consisted of four key steps: (1) acquire a much better understanding of customer needs; (2) launch new brands to meet those needs; (3) build stores under various banners as brands in their own right in the communities they served; and (4) expand digital marketing, an area where the current leader was Loblaw Companies Limited (Loblaw), Canada’s number one grocery chain.

The costs of implementing Project Sunrise, including severances, relocations, consulting fees, and third-party support and system development, were estimated at $240 million. The costs were to be expensed in the fourth quarter (Q4) of FY 2017–18, with most costs absorbed in Q1 and Q2 of FY 2018–19, as Medline explained:

> Project Sunrise is the outcome of companywide interactions that I have had with employees. We have had town hall meetings at various Sobeys locations across Canada to get a consensus on the challenges facing the company and find common ways of addressing them. We also have regular feedback through “The Market,” as our company intranet is called. In addition, I have sought the help from the company’s chief human resources officer, Simon Gagne, a corporate veteran of two

> decades, to "balance the old with the new" in preparing the growth plan. We have also obtained customer feedback. I have myself often been calling up Sobeys customers, on my long drive home during some evenings, for insights into what we should be doing differently at Sobeys.

Medline had set up a fully staffed transformation management office for Project Sunrise. There was also a special committee of members of the board of directors providing oversight to Project Sunrise.

CANADIAN GROCERY LANDSCAPE

The retail sector in Canada earned revenues of $529.5 billion in 2016, of which combined food and beverage sales amounted to $115 billion,[3] or 21 per cent of total retail sales. Within the food sector, grocery sales amounted to $94.5 billion for 2016. Although the term "groceries" referred to staple items used in the preparation of home-cooked meals, the offerings of a typical grocery store included perishables, such as bakery products, dairy products, farm produce, fish, fruits, meat products, poultry products, and vegetables. Grocery stores also sold non-food items such as cleaning and personal hygiene products. Grocery stores were distinct from convenience stores, warehouse clubs, supercentres, and discount stores, which sold groceries only as add-ons to other offerings. However, product lines were often blurred.

The Canadian grocery industry was concentrated, with the three largest competitors having a combined market share of nearly 70 per cent (see Exhibit 4). Profit margins averaged 3 to 4 per cent. The grocery business in Canada was not growing; therefore, increases in sales for one retailer was possible only with a decrease in sales for the other. Due to the relatively high density of stores, the role of promotions was crucial. Industry analysts often stated that a company's weekly business depended entirely on the strength of its latest flyer.[4]

Several emerging trends were affecting grocery sales in Canada. The number of single-parent families was on the rise. In 2016, the number of Canadians who lived alone was nearly 4 million, which more than doubled the number in 1981.[5] This trend reduced per-household expenditure on groceries by shifting food consumption to restaurants, fast-food outlets, and convenience stores.

Canadian shoppers were "cautious and cherry-picking"[6] in their grocery purchases because of rising consumer debt levels and increasing housing costs, particularly in urban centres. In seeking value for money, Canadian consumers were being drawn increasingly toward the discount grocery format.

The shift toward discount was a worldwide trend. It was part of a disruptive phenomenon that was beginning to have a negative effect on the $5.7 trillion annual revenue of the global grocery industry. A McKinsey & Company study suggested that the industry would witness a revenue shift of $200 to $700 billion toward

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[3] USDA Foreign Agricultural Service, *Retail Foods: The Retail Landscape of Canada*, GAIN report number CA17002, February 21, 2017, accessed December 21, 2019, https://apps.fas.usda.gov/newgainapi/api/report/downloadreportbyfilename?file name=Retail%20Foods_Ottawa_Canada_2-15-2017.pdf.
[4] Quentin Casey, "Can Sobeys Change Leaders and Conquer Western Canada at the Same Time?", *Canadian Business*, March 14, 2014, accessed April 7, 2019, www.canadianbusiness.com/companies-and-industries/can-sobeys-change-leaders-and-conquer-western-canada-at-the-same-time/.
[5] Terry Haig, "Number of Canadian Single-Person Households Skyrocketing," Radio Canada International, March 7, 2019, accessed July 10, 2019, www.rcinet.ca/en/2019/03/07/number-of-canadian-single-person-households-skyrocketing.
[6] Casey, op. cit.

discount, online, and non-grocery channels by 2026. The study also predicted that "when the dust clears, half of traditional grocery retailers may not be around."[7]

Consequently, Canadian grocers had begun reinventing themselves. Many were developing new store formats and designs to provide a better, more intimate customer experience. They were enhancing the focus on fresh foods and incorporating service elements like ready-to-eat meals for in-store consumption. Some were also promoting health and wellness experiences. Most tried to engage with shoppers in new ways, including having in-store dieticians or holding educational classes on nutrition, while adding organic products to their offerings.

There was also a rise in new niche segments, including various ethnic foods, targeted at the growing and diverse immigrant population. In 2016, the number of ethnic consumers across Canada had reached 7.7 million, or 20 per cent of the population, with a forecast to double to 15 million by 2036.[8] South Asian and Chinese consumers were known to be the two largest ethnic groups. Many small and medium-size grocers specialized in serving them by sourcing supplies directly from their home countries to ensure authenticity. Leading grocers were adding designated ethnic aisles in their stores.

A rising trend was the popularity of store brands, known more generally as private labels. Consumers were drawn to them—in both food and non-food categories—because they were priced lower than national and international brands. An independent study in 2011 estimated that private label food products were priced 23 per cent below branded food products on average.[9] Private labels also promoted customer loyalty and were a means for a grocery chain to build its own brand equity.

Medline noted that the numbers of interactions between a grocery store and its customers were higher and more frequent than any other type of retail:

> You might shop at a hardware store, for example, four to six times a year, whereas at a grocery store, you could be shopping 50 to 100 times a year. Grocery shoppers are also prone to form habits in the way they navigate through the aisles. As a result, grocery customers are quick to notice changes in a store, however subtle. The grocery store can use it to its advantage.

Grocers were also increasingly deploying tools like big data to identify in-store customer movement on an individualized basis. These tools enabled them to position products and promotions more effectively for triggering purchases.

In addition to facing competition from within, the industry was facing disruption from the outside. The largest disruptor was Amazon, the global e-commerce giant that had invaded many areas of brick-and-mortar retailing. Full-line grocery stores were in a rush to take on their new role as fulfillment stores for online purchases. This made traditional grocery store metrics, such as sales per square foot (or square metre), less relevant. The new focus was on monetizing customer experience and creating customer loyalty.

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[7] Dymfke Kuijpers, Virginia Simmons, and Jasper van Wamelen, "Reviving Grocery Retail: Six Imperatives," McKinsey & Company, December 2018, accessed December 21, 2019, www.mckinsey.com/industries/retail/our-insights/reviving-grocery-retail-six-imperatives, 2.

[8] "Understanding the Power of Ethnic Consumers in Canada," *Insights*, February 16, 2018, accessed April 4, 2019, www.nielsen.com/ca/en/insights/news/2018/understanding-the-power-of-ethnic-consumers-in-canada.html.

[9] Richard Volpe, *The Relationship Between National Brand and Private Label Food Products: Prices, Promotions, Recessions, and Recoveries*, Economic Research Report no. 129, U.S. Department of Agriculture, Economic Research Service, December 2011, accessed May 25, 2019, https://pdfs.semanticscholar.org/986a/993df7bdf0aa5504241c66accdb63e6ebfa0.pdf.

For example, having launched the Canadian food industry's first personalized digital ecosystem in 2013, the Canadian grocery store chain Metro Inc. (Metro) was consolidating its initial digital leadership position by introducing new features in its Just for Me mobile application (app).[10] The app was used to deliver personalized digital flyers with customized coupons, recipes, and grocery lists to each of the six million members of its loyalty program. In 2017, Loblaw launched the Click-and-Collect service under its PC Express banner, wherein customers could order groceries online and pick them up at designated retail locations within one hour.[11] Loblaw banked on the fact that 75 per cent of Canadians were within 10 minutes of being able pick up their groceries from a Click-and-Collect location.[12] Walmart Inc. (Walmart) was focused on melding its online-to-offline strategy, offering an omnichannel experience to its customers. Apart from renovating its Canadian stores to make them online compliant, Walmart was adding dedicated parking spots for online grocery pickups.[13]

SOBEYS COMPANY BACKGROUND

Sobeys was a subsidiary of Empire Company Limited (Empire), headquartered in the rural town of Stellarton, Nova Scotia. Empire had two core activities—food retailing and related real estate. For the year ending May 2017, Empire's revenues stood at $24 billion and net earnings at $159 million. It had seven retail banners: Sobeys, Safeway, IGA, Foodland, FreshCo, Thrifty Foods, and Lawton's Drug Stores. Empire operated a total of 1,500 stores and employed 123,000 people across Canada.

The company was founded as a meat delivery business by John William Sobey in 1907. The town of Stellarton itself had only been established a short time earlier, in 1889, with 1,500 residents involved in coal mining. Sobey was using horse-drawn carts for distribution. His goal at the time was to bring quality food to the neighbourhood, which became the company's enduring hallmark. There were strategic elements built into the company's business model: offer fresh stocks, provide good service, stay in touch with customers, and build the business one community at a time. These elements remained part of the company's philosophy over time.

The second generation, led by Sobey's son Frank, expanded the family business to cover the full complement of groceries by 1924 and to a province-wide franchise chain by 1939. Franchisees consisted mainly of people with large families who put their family members to work at the stores. The company's own employees usually remained with the company for a long term or for life. A unique service culture began to form at Sobeys stores. The emerging motto at the time was, "You run the business for today, you build the business for tomorrow." Sobeys was expanding rapidly, while the founding family remained grounded.

In 1947, Sobeys opened its first full-service grocery store, the first of its kind in Atlantic Canada. In 1987, after company sales crossed the $1 billion mark, Sobeys went beyond its home province to open a store in Guelph, Ontario. Loblaw had a foothold in Ontario, and the American store chain Independent Grocers Alliance (IGA) had a strong presence in Quebec. Sobeys was the market leader in Atlantic Canada, with 40 per cent market share in the region throughout the 1990s.

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[10] "A First in North America–Metro Continues Its Personalization Strategy and Launches 'Just for Me,'" Metro, press release, March 26, 2015, accessed July 11, 2019, https://corpo.metro.ca/en/media/newsroom/2015/just-for-me.html.
[11] Kristin Laird, "Digital Strategy Paying Off for Loblaw," *Canadian Grocer*, February 22, 2019, accessed July 11, 2019, www.canadiangrocer.com/top-stories/headlines/digital-strategy-paying-off-for-loblaw-85814.
[12] Ibid.
[13] Brad Bennett, "Walmart Canada Modernizing Its Stores to Appeal to Online Shoppers," *MobileSyrup*, October 11, 2018, accessed July 11, 2019, https://mobilesyrup.com/2018/10/11/walmart-canada-175-million-update-stores-online-shoppers.

In 1998, signs of complexity in managing the business began to surface at Sobeys with the acquisition of the Ontario-based Oshawa Group for $1.5 billion. The Oshawa Group was three times the size of Sobeys. It was Canada's largest food retail franchisor and also owned the Quebec franchise of IGA. The acquisition of IGA led to Sobeys becoming a publicly traded company, with annual revenues of $10 billion and over 30,000 employees.[14] The company grappled with the dilemma of renaming all its newly acquired IGA stores under the Sobeys trade name. However, the company decided that because Quebec consumers already had a strong affinity for the local brand, it would maintain two separate brands. Marketing activities were split between chains, and decision-making was decentralized. On one level, the acquisition was transformational. It delivered scale, growth, and talent. However, it also marked the loss of simplicity in operations that had for decades been a strength of Sobeys.

Sobeys's business in Quebec was different from the rest of Canada. While Sobeys owned the wholesale business in Quebec, the dealers owned the retail business. The Quebec stores, which also had a successful online Click-and-Collect business model, had become known for their home delivery for over two decades. Although the Quebec IGA e-commerce business represented a small percentage of the overall Sobeys business, it was growing at a double-digit rate annually and was profitable. Quebec was also a different market at the consumer level. It had 34 per cent single households, compared to the rest of Canada at 26.5 per cent.

The group was unrelenting in building unique competencies. In 2005, for example, its team of product developers launched private label products under the Compliments brand. The new line of nearly 3,000 products ranged from chicken parmesan dinners to cola products. The initiative was customer driven. Its Compliments Consumer Taste Panel comprised a rotating group of customer panellists, who assessed how every new Compliments product met the brand quality criteria.

In 2007, coinciding with its centenary, Empire took the company private and sold all non-grocery assets, apparently to generate cash for future acquisitions. In 2012, Sobeys moved into retail gas operations. Sobeys also automated its logistics, including some of its distribution centres, to provide a common distribution platform for the company's different store sizes. The stores went from independent outlets of under 200 square metres (approximately 2,000 square feet) to full-line supermarkets of 4,600 square metres (approximately 50,000 square feet). A newly deployed automated case order machine (COM) could pick up cases of merchandise automatically, irrespective of their size, shape, volume, or package type. A conventional distribution centre used workers to pick up an average of 160 to 180 cases of goods per hour, whereas the automated COM picked up 500 cases per hour and could also handle an unlimited number of individual products, or stock-keeping units.

In 2010, the company launched the discount banner FreshCo Ltd. (FreshCo) in Ontario by converting its previous Price Chopper stores. In 2013, Sobeys acquired the Canadian subsidiary of Safeway to become the leading grocer in Western Canada. At $5.8 billion, it was the largest acquisition in company history. The acquisition complemented the company's geographical footprint. Sobeys also acquired strong real estate assets as part of the deal. The "strategic coup of the year," as the acquisition was termed by an analyst,[15] overturned the national pecking order. Sobeys took over the second position, with 18 per cent market share (up from 13 per cent), and overtook Walmart Canada (12 per cent), Metro (11 per cent), and Costco Wholesale Canada (10 per cent). Loblaw led the market with 27 per cent share of the Canadian grocery market.

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[14] "Empire to Acquire Oshawa Group for $1.5 Billion; Empire Offer Supported by Oshawa and Wolfe Family," Empire Company Limited, press release, November 2, 1998, accessed April 7, 2019, www.empireco.ca/wp-content/uploads/2017/03/24_11-2-1998.pdf.

[15] Casey, op. cit. [FOR REF: Quentin Casey, "Can Sobeys Change Leaders and Conquer Western Canada at the Same Time?", *Canadian Business*, March 14, 2014, accessed April 7, 2019, www.canadianbusiness.com/companies-and-industries/can-sobeys-change-leaders-and-conquer-western-canada-at-the-same-time.]

The acquisition of Safeway brought a host of issues related to execution. The integration of operations was not running smoothly. Customers were upset that Safeway replaced its store brands with Sobeys's line of private labels. The process of undoing the damage, known internally as "fixing the West [of Canada]," was soon to become a new priority under Medline's leadership.

In September 2013, the company launched a new brand positioning for its stores under the Sobeys banner with the tagline "Better Food for All." The positioning was based on the recognition that grocery consumers were not just looking for price and convenience. They were also increasingly looking for a better food experience. In a survey conducted by Sobeys, 73 per cent of Canadian consumers reported that they wanted to eat better than they currently did.[16]

The company's new brand positioning had four pillars. The first pillar, named "WOW fresh," consisted of changing the merchandizing at all Sobeys stores to provide enjoyment of fresh and tasty food. The objective was to help shoppers make better choices. The second pillar, called "Speed scratch," was intended to provide consumers with an eat-at-home alternative to eating out. The third pillar, named "Healthy wholesome," was based on helping consumers buy food products that were free of artificial flavours and preservatives and were available in dedicated natural product aisles. The fourth pillar, called "Sustainable," was intended to provide responsibly sourced products, in consideration of animals and the environment. Sobeys was the first major retailer in North America to offer poultry, pork, and beef that met Certified Humane standards. The third pillar also aimed to save customers time in food preparation. Trained Sobeys staff offered recipes, both in-store and online, to prepare healthy and affordable meals quickly and more easily.

In December 2013, the company unveiled IGA Express, a new convenience store format, in the city of Quebec. Sobeys was therefore operating all five core formats of food retailing—full service, fresh, community, discount, and convenience—in store sizes that ranged from 200 square metres (approximately 2,000 square feet) to over 4,000 square metres (approximately 45,000 square feet).

MICHAEL MEDLINE, CEO

Before joining Sobeys, Medline had held an array of executive positions, including CEO, in his 15-year tenure at Canadian Tire Corporation, Limited. He did not have food retailing experience, but he had been tracking Sobeys both as a consumer in the province of Ontario and as a retail professional. Weeks before joining Sobeys, Medline had been visiting Sobeys stores across the country incognito, while the Sobeys board of directors had set in motion an elaborate process to interview him, as Medline explained:

> I was doing due diligence. I remember visiting the stores in the province of Nova Scotia. I was impressed by the attitude of service that prevailed in the frontlines. It is the nature of the Atlantic Canadian people to be genuine and friendly. It is a big part of their lives. I think the founding family has set a blueprint regarding customer centricity. I was also beginning to see, from casual interactions at different stores, the byzantine nature of the organization structure. I got to know, for example, that Sobeys had 12 people across the country purchasing pet food. It is a category I was familiar with at Canadian Tire, and I knew you would not need more than three people.

In trying to lift the company from financial distress, Medline had to make more difficult decisions than ever before at Sobeys. Changes such as flattening the organization's structure and reducing operational costs were bound to generate discomfort. In executing Project Sunrise, which was not intended to extend beyond

[16] Empire Company Limited, *A Stronger Platform for Growth: 2014 Annual Report*, accessed April 10, 2019, www.empireco.ca/wp-content/uploads/2017/03/EmpireAR14_SEDAR-secured.pdf, 13–15.

three years, it was important to keep in mind the long-term goal of elevating Sobeys to a leadership status, from where it could deal with the ongoing disruption in the grocery industry. Medline would also have to address the effects from various individuals leaving the company due to reorganization. To help retain the current workforce's energy, he could share with them his growth plans for Sobeys, recognizing that growth was the ultimate motivator for employees. Medline was initiating talks for partnership with a leading e-commerce company, which would position Sobeys at the centre of the Canadian online grocery market.

CHANGING THE ORGANIZATION STRUCTURE

The regional structure of the past (see Exhibit 5) had led to negative outcomes. Over time, the four regions had become organizational silos that fragmented internal structure, systems, processes, and supplier relations. For example, dealers across the country had to deal with four different purchasing teams from Sobeys and from Empire.

A preliminary study had identified 800 jobs as being redundant because of changes to the organization's structure. By May 2017, some of the identified positions had already been eliminated. Medline insisted that reorganization would be limited to back-office positions, with no changes expected at distribution centres or individual stores. He also wanted to ensure that store employees with strong local roots were not uprooted for promotion or advancement purposes. Local connections were crucial to ensure store consistency.

Medline had set the ball rolling with a first-stage change in organizational structure to provide much-needed momentum in executing Project Sunrise (see Exhibit 6). Accordingly, the five major corporate support functions of finance, information technology, human resources, strategy, and legal remained centralized and reported to the CEO. The heads of five new business functions would also be reporting to the CEO. The first new function, operations, was responsible for driving in-store execution and efficiency across grocery banners and regions. The second, merchandising, was responsible for determining the suite of products and programs that would drive gross margin across banners and regions. The third, related businesses, was responsible for facilitating a sharp focus on the pharmacy, wholesale, fuel, convenience, and liquor businesses. The fourth, discount format, reported directly to the CEO. The last of the five new functions, marketing, was elevated to report to the CEO, with national responsibility for customer focus, brand management, and digital innovation. Medline was interviewing potential candidates from internal and external sources for some of these new executive jobs. The change in organizational structure at all levels was expected to be completed by the end of 2017.

Some prerequisites also had to be in place. For example, for a centralized merchandising organization to be effective, the company had to have a cost accounting structure that was uniform both internally and among its vendors. Data transparency and alignment on accounting was crucial for reducing the company's cost of goods sold (COGS). Sobeys had a standard SAP platform deployed across the company, but it was in four different systems. Their integration was crucial to countrywide vendor negotiation. It required process and system changes. Employees also needed time to adapt to the new processes.

There were also minor details to consider. The company had to float a common format of requests for proposal for all store supplies. Its procurement of goods not for resale also had to be centralized. Members of the national merchandising team had to be trained in leveraging scale in their negotiations. Achieving alignment across the organization, however, could take two years, as Medline explained:

> One of the critical elements that should guide our reorganization initiative is balance. We need to strike a balance, for example, between keeping the Quebec business distinct and harmonizing the

> way Sobeys operates nationally; between ensuring focus on the core grocery business, which is competitive, and giving due attention to related businesses like pharmacy and fuel, which are profitable; between centralizing purchases of goods, particularly those not for resale, and decentralizing purchases of assortments like fresh produce; and, generally, between procuring goods nationally and procuring goods locally.

For example, Big 8 was a special producer of water based in Nova Scotia. Consumers in the Atlantic region loved the brand, but Big 8 was not available anywhere else in the country. Therefore, Sobeys had to procure the product locally and stock shelves across the country. A national merchandizing team had to take such nuances into consideration.

GENERATING QUICK STRATEGIC WINS

To generate early successes for Project Sunrise, the company used a three-pronged strategy, or three "buckets," as Medline called them. The first bucket consisted of obvious ideas such as employee reduction, although any savings would have to be offset by expenses related to severance pay and asset write-offs. Employee reduction would be a result of switching from a regional strategy to a functional national structure. This first bucket also included closing underperforming stores, including 10 stores in British Columbia, and would be the first of the three parts to deliver results. However, it would have the smallest impact on overall cost reductions.

The second bucket would relate to operational efficiencies, including labour standards, store processes, and stock replenishment improvements. It was possible to standardize specifications and pricing nationwide on the purchase of goods not-for-resale items, after Sobeys secured companywide information transparency and alignment. There were also cost reduction opportunities in re-engineering basic retail processes.

The third part of the three-pronged strategy would consist of a category reset. Designed to reduce the company's COGS, this bucket was a large-scale rearrangement of products stocked in-store and an optimal placement of transaction packs on the shelves. Category reset would take the longest to be recognized and would show results only in the final year of Project Sunrise. Sobeys had benchmarked against competitors and found its COGS to be higher, mainly because it did not have the best systems in place to track vendor cost and performance.

Medline had quantified the savings target in precise dollar terms to focus on the cost reduction initiatives that Sobeys managers had to pursue. He had also made it clear that the annual savings would go straight toward strengthening the bottom line. Company managers could break free from existing modes of operation to think smartly about where they could target achievable and tangible cost reductions, as Medline explained:

> There are two areas where we should be careful. The first is in selecting the cost levers that need to be pressed. The choice of levers will determine both the level of savings in the interim and the way we position Sobeys for long term. The second is in identifying competencies that define Sobeys, the ones that enable us to outperform in the market. The identification will ensure that those competencies will not be compromised in our pursuit of cost savings. Managers need to be clear about where we could save and where, even while cutting costs, we should invest further.

GETTING CLOSER TO THE CUSTOMER

Sobeys first established a connection with customers through its annual "Star of Christmas" television commercial, which debuted in 1987. The commercial captured the goodwill and spirit of Atlantic Canada. Over the years, the campaign had become so iconic that many consumers saw the airing of the commercial on television as the official arrival of Christmas. The company's customer research showed that the Sobeys brand was connected to the community. There was recognition of its Canadian heritage and Canadian identity. Canadians seemed to like shopping at Sobeys.

Recently, however, a disconnect with customers was emerging nationwide, largely due to a growing perception that Sobeys offerings were expensive. Sobeys was the only one, among leading Canadian grocery companies, not to have a discount chain in Western Canada. Its discount chain in Ontario was FreshCo (the former Price Choppers), a legacy discount store gained from the takeover of Oshawa Group. Discount grocery was the fastest-growing segment in brick-and-mortar food retailing. Low-cost formats comprised 44 per cent of the Canadian food retail market, but 87 per cent of Empire stores belonged to the conventional sector.

The botched integration with Safeway had also isolated a large swath of customers in Western Canada. The disconnect with customers had not reduced the number of transactions, but it had reduced the basket size. Customers were still shopping at Safeway stores, but they were not giving as big a piece of their wallet, according to Medline:

> Empire has been under-indexed in the discount format, which is a high-growth segment of Canadian grocery. Discount is an attractive, strategic, and financial opportunity for Sobeys. It will help us grow our market share in a profitable way. The dilemma is about whether to convert existing stores into discount or set up greenfield discount. We have already identified up to one-quarter of our 255 western province Safeway and Sobeys stores in this regard. I think we also need to develop a compelling value proposition. "Better Food for All" was fine for its time, but we need to revisit it. We also need to go local in our sourcing because fresh produce is another way of connecting with customers. It is also a growth opportunity. We need to establish an emotional connection with customers.

Medline believed that revitalizing stores was necessary to create an exceptional shopping ambience. It would be supplemented by renewed efforts to maximize operational efficiencies at the store level. However, some questions still remained: Was Project Sunrise strong enough to fight both current and potentially upcoming disruptions? Was the company a more agile and humble competitor, with a new focus on exceptional customer experiences, while at the same time generating quick and material financial success?

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EXHIBIT 1: EMPIRE COMPANY LIMITED CONSOLIDATED INCOME STATEMENT (IN CA$ MILLION)

Fiscal Year Ending May 30	**2015–16**	**2014–15**	**2013–14**	**2012–13**
Revenue	24,619	23,929	20,993	17,401
Add: Other Income	75	184	64	98
Less: Cost of Goods Sold	18,661	17,967	15,941	13,326
Less: Selling, General, and Administration	5,424	5,404	4,787	3,600
Less: Impairment of Goodwill	3,027	—	—	—
Operating Income	(2,418)	742	328	573
Less: Finance Costs	137	155	133	55
Earnings before Income Tax	(2,556)	587	195	517
Less: Income Tax	(441)	150	36	136
Net Earnings	(2,114)	437	159	381

Sources: Empire Company Limited, *Our Recipe for Success: 2013 Annual Report*, accessed April 10, 2019, www.empireco.ca/wp-content/uploads/img/Empire%20AR13_eng_SEDAR_secure.pdf; Empire Company Limited, *A Stronger Platform for Growth: 2014 Annual Report*, accessed April 10, 2019, www.empireco.ca/wp-content/uploads/2017/03/EmpireAR14_SEDAR-secured.pdf; Empire Company Limited, *Building a Stronger Platform for Growth: 2015 Annual Report*, accessed April 10, 2019, www.empireco.ca/wp-content/uploads/2017/03/Empire-AR15_final.pdf; Empire Company Limited, *Better Foods for All: 2016 Annual Report*, accessed April 10, 2019, www.empireco.ca/wp-content/uploads/2017/03/Empire-AR-2016_ENG-FINAL-SEDAR.pdf.

EXHIBIT 2: TRIGGERS FOR PROJECT SUNRISE (IN CA$ MILLION)

	2016–17		**2015–16**				**2014–15**			
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Sales	5,931	6,187	6,283	6,027	6,059	6,249	5,770	5,940	5,995	6,223
EBITDA	188	238	(1,047)	(1,468)	256	314	236	322	324	343
Operating Income	76	127	(1,160)	(1,590)	136	195	116	204	204	219
Net Income	33	65	(943)	(1,366)	68	109	55	123	117	123

Note: Q = quarter; EBITDA = earnings before interest, taxes, depreciation, and amortization
Source: Empire Company Limited, *Unlocking Our Scale*, January 2018, accessed December 26, 2019, www.empireco.ca/wp-content/uploads/2018/07/Empire-Investor-Presentation-January-2018-2.pdf.

EXHIBIT 3: REGIONAL BUSINESS SILOS

	Western Canada	Ontario	Quebec	Atlantic Canada	Total
Number of Stores	397	334	701	463	1,895
Franchised	303	94	183	328	908
Owned	94	240	518	135	987
Total Size (in million square feet)	12.5	9.0	11.6	5.5	38.6

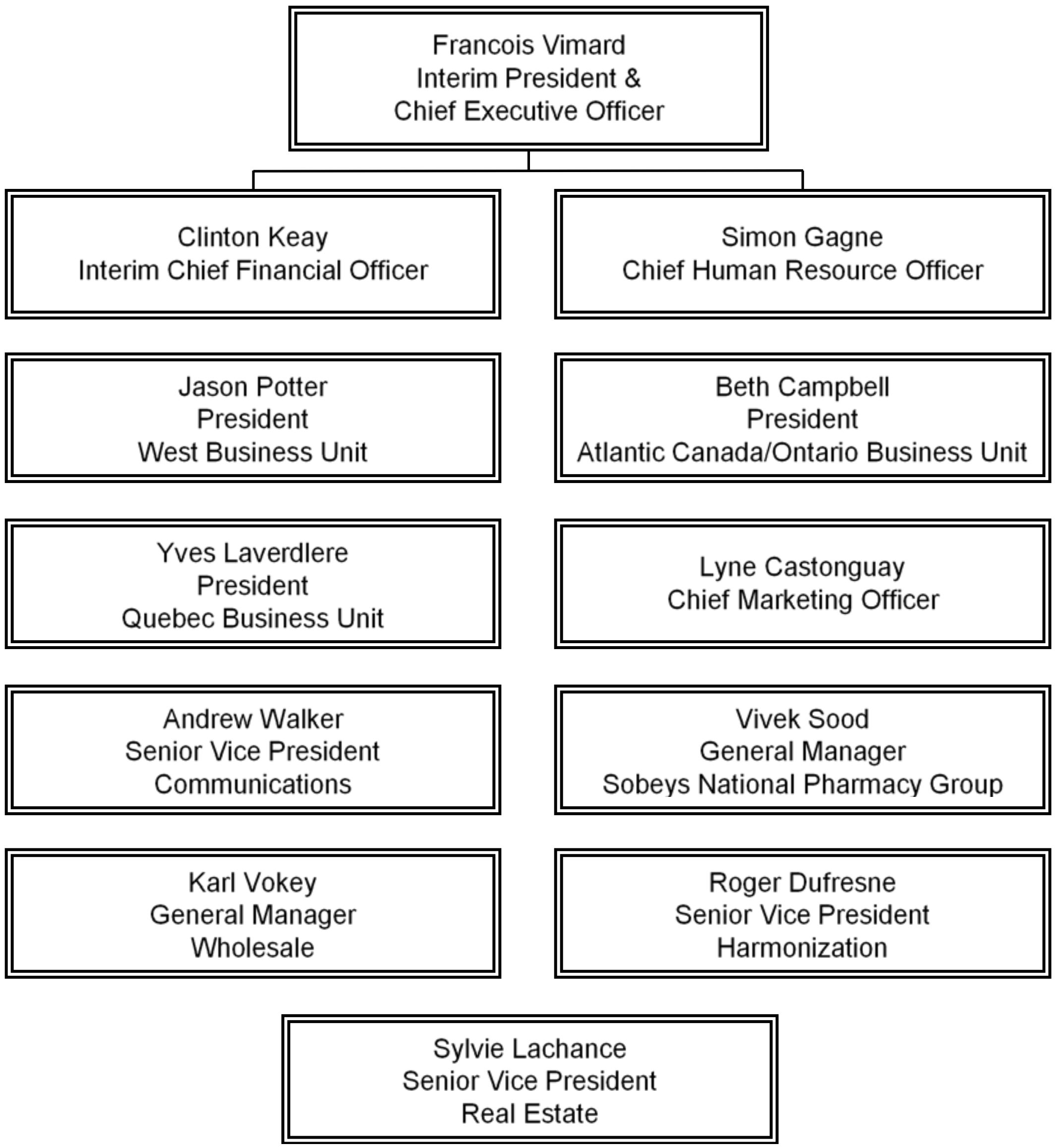
Note: 1 square foot = 0.09 square metre
Source: Company files.

EXHIBIT 4: TOP 10 CANADIAN GROCERS BY REVENUE (IN CA$ MILLION)

Rank	Company	2016
1	Loblaw Companies Limited	28,919
2	Empire Company Limited	20,827
3	Costco Wholesale Canada	19,162
4	Metro Inc.	11,124
5	Walmart Inc. (Canada)	7,004
6	Calgary Co-operative Association Limited	3,574
7	Overwaitea Food Group	2,759
8	The Northwest Company	840
9	Alimentation Couche-Tard	556
10	Longo Brothers Fruit Markets Inc.	400

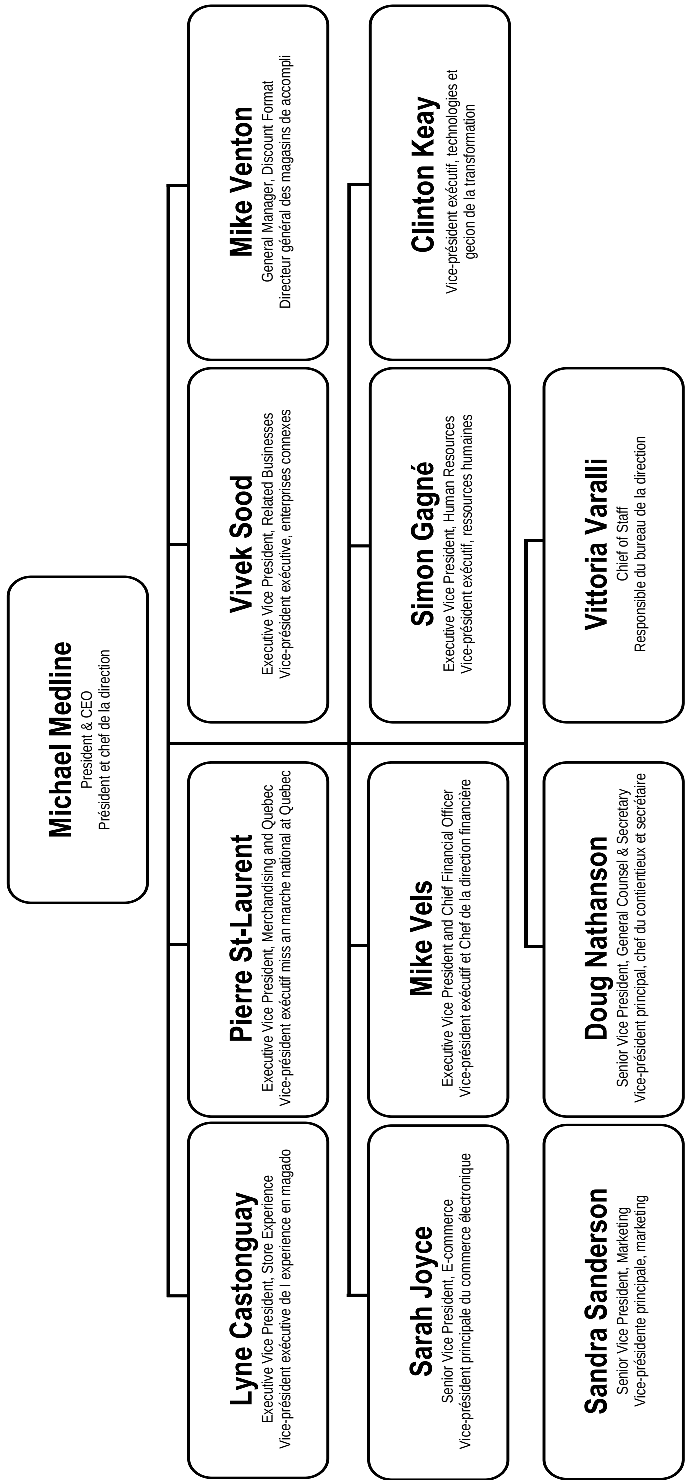
Source: USDA Foreign Agricultural Service, *Retail Foods: The Retail Landscape of Canada*, GAIN report number CA17002, February 21, 2017, accessed December 21, 2019, https://apps.fas.usda.gov/newgainapi/api/report/downloadreportbyfilename?filename=Retail%20Foods_Ottawa_Canada_2-15-2017.pdf, 7.

EXHIBIT 5: SOBEYS ORGANIZATIONAL CHART, DECEMBER 2016



Source: Company files.

EXHIBIT 6: SOBEYS ORGANIZATIONAL CHART MAY 2017 (PHASE ONE OF PROJECT SUNRISE)



Note: CEO = chief executive officer; TMO = transformation management office
Source: Company files.