

Morrison takeover safeway plc



This part of the proposal provides the overview of the study relating to merges and acquisition in UK grocery retailers giants. One of the most maligned antitrust decisions in the history in UK involves acquisition of grocery retailer giant, the fourth largest supermarket Safeway takeover by Morrison in 2004. In 1990s, retail markets throughout the world began to be transformed by acquisition and merges. Many of the world's largest retailers, particularly in the food and grocery sectors involves and this is to reduce the struggling competition between the leading competitor and positioned themselves to dominate or becomes holders of major market share (Wrightley, 2000a, Lowe, 2002). However such an event still remain a non-routine and challenging occurrence within the life time of the individual organisation and its members merges and acquisition is still one of the areas of finance which attracted interest from the general public as well as the finance analyst and the managers

According to (Glen 2008) said that expanding the activities of the firms through acquisition involves significant uncertainties (Schweiger and Ivancevich, 1985)

Rappaport (1998) stated that, the basic objectives of making acquisition is identical to any other investment associated with a company's overall strategy, i. e. to add value. In practise, the motivation for expansion through merges, and the diverse range of issue such as action rises by using discounted cash flow technique.

First of I would like to define merges and acquisition:-

MERGERS- Is used to mean the combining of two business entities which result in common ownership. Merges could be either horizontal integration, vertical integration and conglomerate integration.

Horizontal integration, where two companies in the same industry, whose operation are very closely related is combined, that of the case of Morrison and Safeway. One of the motives advanced for horizontal merges is that economic of scale can be achieved, but not all merges achieve such gains or enhancement of market power resulting from the reduction in competition

Merges and acquisition can have a profound impact on an organisational member and their family (Hayes, 1981) indeed, merges and acquisition can sufficiently transform the organisational structure , system , processes and culture of one or both of the firm that people often feel stressed, frustrated and even frightened {Schweiger and ivancevich 1985}

Although, the recent retailing revolution in the early 1990s resulted in a number of very significant developments. The grow in size of retailers not only replaced the manufacturers dominance in the supply chain but also eliminated many wholesaler and started the trend towards backward integration of the retailer. in 1990s, there is continued concentration and consolidation in all areas of supermarket sector (Davies and Ward, 2000).

The industry structure is characterised by a number of common attributes including greater store size increase in retailer concentration and adoption of a range of formats by retailers to reach as wider as their customer catchment areas.

Back in January 2003 Morrison, the mostly north of England based supermarket chain, announced that it had been in discussion with Safeway over a proposed takeover.

The takeover would give Morrison access to the market in the south which has been difficult to break into. Morrison's bid to buy 480 stores of Safeway that will put it major competitors for the other big supermarket chains, Tesco, Sainsbury and Asda. The current market share of Morrison as at January 2008 is at 11.4% and make it the smallest of the big four supermarket and behind Tesco (31.5), Asda (16.8) Sainsbury (15.9), but far head off the fifth place Co-operative Group (4.4%). The merges could put Morrison on a par with Sainsbury.

After the takeover of Safeway, the Morrison family currently owns around 15.5% of the company. According to Hayes 1981, stated that indeed, merges and acquisition often feel stressed and frustration because of the fear of losing their job, their family life and the culture that they must have to changes.

In light of this economic approach to defining markets and approaches that turn entirely on how customers respond to prices changes.

In the u k, following the Wal-mart's market entry in 1999, popular perception has focused on Alhold's acquisition with Sainsbury.

Indeed, Alhold has regularly been obliged to damp down market speculation on the issue . However, given such a merges, not only would it then faced competing head to head in the UK market with the other supermarkets.

Although the competition commission found that little evidence of monopolistic behaviour, the findings indicated both the significance of buyer concentration and the need for voluntary regulation (Cooper, 2003 Dobson et al, 2003)

The takeover has not yet gone through smoothly due to the involvement of other potential buyer, including the other main supermarket entering the “race”. As a result of this, the Competition Commission investigated the issue. The commission found that, of the major supermarkets, only Morrison should be allowed to proceed with a potential takeover of Safeway.

However this does not rule out another potential buyer. Phillip Green, billionaire owner of Top Shop and British Home Stores (BHS) has also expressed an interest in Safeway. The commission has recommended that if Morrison is successful in their bid that they will have to sell off some of the stores to ensure that competition is not compromised.

Here in UK regulation which is the issue both the land-use planning regulation which restricts the other supermarket Wal-Mart's ability to develop ASDA stores at a sufficiently rapid pace to challenge for market leadership and the threats of regulatory action to safeguard competition .

UK food retailers makes clear Competition Commission , 2000 Vol. 1 Morrison could safely add significant market share in the southern England, Northern Ireland , Scotland and Wales without triggering regulatory action. As a result, although Safeway as an operational entity would be unattractive to Wal-Mart, and some of the assets of Safeway certainly would be (Poole et al., 2002) stated that for an attempt to address this issue, similar scenario can

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be considered in the case of Safeway and Morrison ' s which has stores with a price-positioning and format ideal for Wal-Mart.

Unfortunately Morrison's regional market strength mirror those of ASDA and acquisition of Morrison's operations in west-midlands and Southern would inevitably trigger regulatory action.

Morrison with the family-owned regional chain, is likely to want to see that independent maintained or, at least its essence continued, in any link up with larger retailer

Morrison has slashed prices on over 800 Safeway products to bring them in line with its prices strategy. After the takeover of Safeway in march 2004, of the leading supermarket chain which owned 479 stores, mainly in Scotland and South of England.

The acquisition ran into difficulties caused by the outgoing management of Safeway changing their accounting system just six weeks before the transaction was completed. This results of series of profit warning being issue by Morrison that leads to poor financial results and a need to revert to manual system.

Morrison currently has 375 superstores in the UK, this including new store opening by the end of 2007. Until 2004, Morrison superstores were largely concentrated in the English midland and the north of England, but expanded southward, Most of its stores operates home wares with fewer electronic, clothing than the main supermarket rivals.

Morrison's strategy is based on doing the basic efficiently, selling predominantly food at lower prices and doing so only from large stores. This is the different approach from the other three big chain, which have moved into service such as banking and insurances, place greater emphasis on non-food

In March 2009, after completed takeover of the Somerfield, Morrison purchases 30 stores from the combined group with the commend of the competition commission. This marks the move away from the post-Safeway strategy of concentrating on superstores, to adopt the work in a smaller space of a new smaller store as its aims to have a store within 15 minutes every UK homes

According to Thomas (2008) in some circumstances, acquiring management seriously underestimate the complexities involved in merges and post-acquisition integration (Robino and Demeuse 1985)

The history of Wm Morrison

First of all let me give the history back ground of Wm Morrison. Morrison was founded in 1899 by William Morrison, an egg and butter merchant. In 1958, the company opened its first counter service store in a small town of Bradford, UK. Morrison opened its first supermarket in Victoria, in 1961 and stated trading on London stock exchanges in 1967.

The lack of opportunities for the leading UK grocery retailers to increase market share through large-scale organic store development and has made merges and acquisition strategies particular important (Poole et al., 2002)

Wm Morrison carryout the expansion programmes and in 1978, the company acquired Whelan Stores and began operating in Lancashire in UK, and opened the distribution centre Wakefield and expanded its operation to include chilled stores and an ambient storages area for produce

In 2004 march Morrison takeover Safeway supermarket at £3bn, this enables them to become the fourth largest retailers and more than double its store presence. In 2007 January, the company gave access to two new in-store recycling services in over 345 store spread across England, Scotland and Wales

The media have highlighted the fact that Morrison and Safeway are an “ideal geographical fit” in that there are no areas of overlap. It was clear from the findings of the Competition Commission that these two companies would not imposed local monopoly and the customers interest would served. The debated concerning each of these bids by different companies, have not simply been financial.

The distinctly geographical issues have been very much to the force. First the commentators have talked about geographical fit, not a subject always prominent where, merges and acquisition are debated (Bikini et al 2002). The ASDA and Morrison bids look more promising in term of “geographical fit” although Sainsbury’s fit in northern England and Scotland is also good, but the objective was to creates more level-playing field and although of course this bid may not be acceptable to the shareholders of Safeway, especially taking account of the ASDA /Wal-Mart financial packages said to be on offer

Safeway stores and therefore present fewer problem of high local market share, and their acquisition of Safeway would leap-frog them above Sainsbury and leave three major players well ahead of the chasing pack (Poole, Clerk and Clerk 2002)

4. 1 Empirical reviews

In the real world the takeover and merges have several motives behind (Glen Arnold 2008. Buono and Bowditch 2003), among which the following could be associated with the Wm Morrison's takeover

4. 1. 1 Synergy== which mean the combine entity will have a value greater than the sum of its part. This increases in value comes about because of boost to revenue and the cost base when two firms A&B are to be combined or gain may result from synergistic benefit to provide a value above that of the present value of the two independent cash flow :-

PVAB= pva+ pvb+ gain

PVA= discounted cash flow of company A

PVB= discounted cash flow of company B

PV AB= discounted cash flow of the merged firm

Therefore synergy is often expressed in the form $2+2= 5$

4. 1. 2 Market share/power== One of the most important forces driving merges is the attempt to increase market power {Alderson 2002} This is the ability to exercise some control over the prices of the products, and this can be achieved through either monopoly, oligopoly or dominant producers

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position. However, Wm Morrison, this is one of the objectives to gain the market share in the South where it was very difficult to break into and the shareholders value would be maximised. It's the fourth largest company by sales and the second by market capitalisation, The strong market presence enhances the brand images of the company and provides economic of scale

4. 1. 3 Economic of scale—Another important contributor to synergy is the ability to exploit the economic of scale. The larger size often leads to lower cost per unit of out put. In the case of Wm Morrison, this is not the main motive of takeover

4. 1. 5 Financial Performance for six years

February 2009 turnover £14528m compare to two year after the takeover January 2006 £12115m.

The profit and loss before tax in 2009 February £655m compare to January 2006 of (£312. 9)

The profit after tax in 2009 January £460m compare to January 2006 (£250. 3)

In 2005 immediately after the takeover, Wm Morrison give the profit warning and the share price drop drastically and the turnover was down to £12116m compare to February 2004 and the profit before tax in 2005 was £193m to (£ 312. 9) loss in 2006.

These are due to the pos-acquisition syndromes and the management's reaction to the takeover of Safeway. The accounting system were changes few weeks before the completion of the acquisition

4. 1. 6 The market share

As of August 2008, according to TNS World panel, Morrison is the smallest of the Big Four supermarkets with a market share of 11. 1%. Whilst Tesco, Asda and Sainsbury's saw increases in market share from July 2008 of 31. 6%, 17. 0% and 15. 9% respectively. Morrison's saw a smallest sized decrease of 0. 2% in the same period

There has been a significant amount of empirical research into merges and acquisition and the impact

4. 2 The strength and weakness of Wm Morrison

4. 2. 1 Strength

Strong market presence

In examining the strength and the weakness of Wm Morrison in its operation as the fourth largest supermarket in the UK , this is to discover that competition in grocery industry in the southern market is intensified , but Morrison is able to gain the market shares of strong presence in those areas. It serves over nine millions shoppers every week. Strong market presence enhances the brand images of the company

Strong geographical presence

Poole et al 2002 stated that Wm Morrison has strong geographical presence across the UK, both in superstores and petrol filling station . The company spread across Scotland with 50 stores , Northern UK55 stores , 20 stores in Wales , 62 and 42 stores in midlands East and midland West respectively . Therefore, because of it geographical presence enhances the company's sale penetration opportunities and gives it a competitive advantages

Extensive ranges of food and services

The company's fresh food counters offer value added services including personal advice, cleaning and preparation of fresh meat and fish according to customer's requirements {Troy 2003}. Morrison's extensive list of specialized food products and services helps the supermarket chain to differentiate itself with competitors and thereby provides it with an exclusive brand identity.

Vertical integrated operations

A study has been performed by Balto (2001) to examine the uniqueness of the services provided by the supermarket chain. Morrison is the only major food retailer to own and operate fresh food manufacturing and processing facilities. The company's operations are vertically integrated in its food category, which allows it to manufacture, distribute and retail the vast majority of its fresh meat and dairy requirements.

4. 2. 2 Weakness

Lack of presence in the online channel

Online shopping has steadily grown in popularity in the UK. The amount of money spent online by consumers in the UK increased to £14.7 billion in 2007. Over the next five years, online sales are expected to more than triple to £44.5 billion by 2012 (Datamonitor-Uk Retail issues 2008: Time to re-evaluate propositions, BFVT0041, May 2008).

With internet shopping rising at a rapid pace, supermarkets are establishing their online sales channel to increase revenues. Asda, Tesco and Sainsbury in the UK have established the presence in the internet online shopping, in

order to capitalize on this rapidly growing trend towards convenience. However Morrison is yet to capitalize on this trend which limited the company's potential growth opportunities

4. 2. 3 Opportunities

Increasing demand for organic products

Looking in the real world of the grocery industry, wm Morrison have the opportunities to increase the demand for the organic produces, where the Big Four supermarket chain are real competition , The increasing consumer awareness of health and environmental issue along an increasing resistance towards genetically modified (gm) food products and GM farming. Has led to rapid increase in the demand for organic food (Andrew 2004)

Growth in private label market

The private label market in the UK is witnessing a strong growth in sales. The UK private label sector is one of the most developed in the world. The value of the sector is at £45billion and forecast suggests that this will increase to £ 52billion by 2011. Morrison has increase its private brand product portfolio over the years (DTI, 2008)

5. Research Methodology

The way in which research is conducted is not the easy process of transforming the information into reality, but it need cautious planning exercise which follow the procedures and stages

Before commencing the study, appropriate selection of the vital research methodology is essential to ensure that the proposal is in the correct steps.

Research methodology is divided into two methods of qualitative and quantitative methods. In some circumstances the two methods are combining together as well depending the nature of the study i. e. multiple method (Litter, et al 2003), Tashakkori and Teddlie (2003)

Industrial economist argue that market structure is intrinsically linked to firm behaviour and financial performances (Scherer and Ross, 1999; Martin , 1994) , which look at the financial performances of the company wm Morrison and the market share above

In this research proposal, the quantitative method will be use heavily because of the information provided and as the data resources are secondary data which considered the extraction of data manually from the statistical reports available on the website

- Secondary data are used for research projects that were originally collected for some other purposes. It includes both raw data and published summaries.

Most organisations collect and store a variety of data to support their operation. Secondary data could be divided into three parts= 1.

Documentary secondary data, 2. Multiple source of secondary data and third the survey based secondary data.

The reasons for the uses of Quantitative method is that, its objective, systemic and orderly way of gathering and interprets the information for the use of the study

Quantitative approach is predominantly used as a synonym for any data collection technique such as questionnaire and analysis procedures like graphs or statistic, that generate a numerical data Tashakkori and Teddlie (2003)

In contrast, Qualitative is used predominantly as a synonym for any data collection technique such as an interview and analysis procedure like categorising data that generates or use non- numerical data Qualitative therefore can be refer to the data other than words. The qualitative data is very expensive to carryout and costly to undertake. It involve primary data analysis which are gathered from the the interviews, questionnaire, field survey carryout during the research study.

The technique of both quantitative and qualitative methods, as maintain earlier, refer to some authors as multiple method (Tashakkori and Teddlie (2003) Also mixed method is the general term for when both qualitative and quantitative data collection techniques and analysis procedures are used in research design.

It was argue that multiple method are useful if they provide better opportunities for the users to answer the research question and where they allowed the user to better evaluate the extent to which your research finding can be trusted and make better references

5. 1 Empirical question

The centre issue is the effect of the big firm merges on competitive pricing, which we sum up in the following question:

What are price effects for clients of Wm Morrison and Safeway following merges?

Merges can improve consumer or customer welfare by creating efficiencies or decrease consumer welfare by creating conditions conducive to monopoly pricing (Sullivan, 2002: 381-3284).

Simunic (1980) argues that some segments of the market could be more competitive than others; this could have an impact on the effects of the merges. Also test whether the merges have enabled the brand name firms to pass on any cost saving associated with efficiencies to their clients in the form of reduction in competitive price.

Therefore the research question is very important and cannot be overemphasised. It is one the key criteria of the research success will be whether you have a set clear conclusion drawn from the data you have collect the research question is one of key question that the research process will address. These are often the precursor of research objectives.

5, 2 Research Ethics

When doing research proposal the ethic should be bear in mind. This is considering the integrity of work as well as to give utmost respect of people and the organisation. In any research undertaken the ethical behaviours should be put into consideration not to offended any one in any manner

When using other people's works and materials for any research, their permission should be obtained or information should be given to them.

In some research where the individual permissions are required, ethics play a very important part. However, in this study the research ethics is not very much applicable because the information used are secondary data which is already available in the website and internet.

Your research design may need to consider the extent to which you should collect data from a research population that is unaware of the fact that they are the subject of research and so have not consented.

It may be quite a different matter if you are collecting data from individuals, rather than from an organisation. However, there may be a case if you are conducting your research while you are an employee in an organisation and you are collecting data on an individual that was not disclosed, then this would pose a similar ethical dilemma (Gibb, 1995).

Conclusion

The competition in the UK food retail sector has been intensified in the recent years, and the four big supermarkets are competing among themselves.

In these aspects, this study has not concluded that there was little evidence of the retailers having adverse effects on the consumer; nor was there significant evidence of the price changes at the wholesale level not passing effectively to the consumer.

Traditionally, as UK food retailers have become ever more concentrated and consolidated, increasing levels of power have enabled them to exercise substantial control over the supply chain. In this case study analysed the

competition commission's report will do little to stop the trend of expansion, as a means of entry into different market.

Recently, there is another merges and acquisition of Somerfield by Co-operative Group which was completed in March 2009.

From the recent literature on retail competitiveness and observations made regarding current developments within the competitive environment, it is evident that buyer power will definitely concentrate in the hands of the major retail players . The fact that the retailer are expected to grow their market share by acquiring another companies for them to compete with the others

Wm Morrison the fourth big supermarket has this opportunity to expand into the Southern England which was very difficult or not impossible without the takeover of Safeway. During the takeover process many speculators were predicting another foreign takeover and were subsequently surprised by Morrison's unexpected interest