

The merge between safeway and morrison's



I am investigating the merging of the two companies Safeway PLC and Wm Morrison Supermarkets PLC, and looking at the problems and successes that have arisen from it. From this, a balance of situations can be clearly seen and concluded whether the take over of Safeway's by Morrisons was overall a success. Merging is a form of in-organic growth and integration of two companies into one larger company. This action is often voluntary and involves either stock swap or cash payment.

Usually mergers occur in a friendly setting where executives from the respective companies participate in a due diligence process (where one company wants harm to be avoided to another) to ensure a successful combination of all parts. This is the common factor of difference between merging and acquisitions: acquisitions happen through a hostile takeover by the majority of outstanding shares of the company being bought on the stock market and therefore are involuntary.

Safeway was founded in 1962 and owned by Kohlberg Kravis Roberts Company, later sold to Argyll Stores in 1986. It specialized in Fresh readily available food and boasted its high quality of customer service with the slogan "the friendliest store in town". After it managed to recover from its unprofitable years in the early 1990's it became the fourth largest retail supermarket. However in 2000 it was not growing as fast as its competitors and had a 91.4 million profit less down from 1999.

Morrisons was founded in 1899 by William Morrison and has always stayed in his family. It has a total of 355 stores in the U. K. (including those of Safeway). It is the fourth supermarket retailer in the U. K. , behind Asda,

Tesco and Sainsbury's. Morrison's main strategies are based on doing the basics efficiently, selling predominantly food at low prices, putting all their concentration into the food sector and not expanding into non-food services like Tesco and Sainsbury's have (e. g. loans, insurance, clothes etc).

Secondly unlike any other supermarket they do not contract out any of their work: they are completely dependent upon themselves and all their packaging and producing is entirely in house. Thirdly they are environmentally and socially conscious: they strongly support all recycling, making it their objective to increase the amount of recycled products collected by 7% each year. Additionally, they adopt a charity every year and help them raisemoney. In January 2003, Safeway made its concerns public and announced that it needed a buyer.

Only a few bidders seemed appropriate including Tesco, Asda, Sainsbury, Philip Green (owner of Trackdean Investments Limited) and Morrisons. Tesco, Asda and Sainsbury's bids were refused by the competition commission as to prevent a strong monopoly position happening. This is where a company owns 25% or more of the market share which can be very domineering and cause damage to other competitors and prevent a healthy economy of that industry. Philip Green backed out which left Morrisons to lead the bidding. On the 15th of December, Morrisons bid of 3bn was considered and accepted 4 months later.

However, on order of the Competition Commission, Morrisons had to sell off (originally 52) 50 Safeway stores. These were bought by John Lewis, Sainsbury's and Tesco. This increased Morrison's market share to 13. 4% and

stores to 355 (with Safeway Compact disposal). Out of these options, I think the main reason Morrisons decided to merge was to gain new geographical markets. Morrisons was largely concentrated in the English Midlands and the north of England with no stores being much further south than this.

Safeway stores were largely based south of this extending from Cornwall to Kent so seemed like a perfect match to widen Morrisons target market. (See below) Secondly, buying Safeway's will have protected Morrisons against competition. Safeway's were a much bigger company than Morrisons and always prevented them from taking fourth place in the market share of supermarket retail. Not only this, but increasing their size so much has made a larger size gap between them and Waitrose (fifth), Iceland (sixth) reducing chances that they can overtake them.