OnLine Case 2.2

Bidding for Safeway

Safeway, which began in California, entered the UK in 1962. Some forty years later it was the fourth largest supermarket chain in the UK. The company had grown steadily during its first 25 years before it was sold as a chain of 133 shops to rival group Argyll in 1987. The Safeway name, however, was retained. Later the business adopted a strategy of selected low price loss leaders with reasonable margins on everything else, but its stores were relatively small for the industry. Critics argued that it never had the right critical mass for the strategy it followed. In January 2003 William Morrison made an agreed £2.9 billion equity-based takeover bid.

Morrison was smaller and particularly strong in its home region of Yorkshire, where it was the largest supermarket chain. The company was controlled by 73 year old Sir Ken Morrison who had taken over the business his father had started as a market stall in1899. The company had a distinctive business model (see Chapter 2) which yielded high sales per square foot and very competitive prices. With the takeover Morrison would become Number 4 in the industry with a stronger geographic coverage.

It soon became apparent that the leading supermarkets – Tesco, Asda and Sainsbury – would stand idly by and let this happen unchallenged. Entrepreneur Philip Green – who had acquired and turned round both Arcadia and BhS – also lurked in the wings and he might make an all-cash bid. It seemed inevitable that at least some of these bids would have to be subject to scrutiny. No large supermarket would be allowed to buy Safeway without at least some store disposals. In the end every supermarket bid – including Morrisons – was referred to the Competition Commission. Philip Green waited for the outcome.

Grocery sales and market shares were as follows in 2002:

	Market Share %	**Stores**	**Sales** £ bn
Tesco	19.3	759	26.3
Sainsbury	12.7	485	18.2
Asda (WalMart)	10.8	263	16.0
Safeway	7.9	479	8.6
Somerfield	*4.2*		
Morrison	3.9	119	4.3

When non-grocery sales are also factored in Sainsbury is Number 3 behind Asda. Of the leading groups Sainsbury is the only one that doesn't compete aggressively on price (See MiniCase 4.8).

The criteria that informed the evaluation were:

- Whether to focus on groceries or look at all items sold through supermarkets
- National market share
- Local store overlaps
- The impact on suppliers and the supply chain
- Company pricing strategies

A leading retail analyst speculated that Morrison would be required to divest 41 of the 479 Safeway stores because of local duplication if its bid was approved. The figures for Asda, Sainsbury and Tesco were 100, 208 and 233 stores respectively. The companies themselves maintained these were over-estimates.

The Competition Commission approved the Morrison bid in September 2003 – as long as arrangements were first put in hand to dispose of 53 stores. The others were all blocked but they might be able to buy selected Safeway stores.

The original Morrison bid had been valued Safeway at £2.9 billion. Assuming Morrison bid again, what would the price be this time? After all the group would be 53 stores smaller. Moreover, the share price had increased during the year. In December 2003 Safeway shares traded at 225 pence each. Having reached 320p by February 2003 they were 290p in October 2003. And, of course, Philip Green continued to wait – but he also had a problem. If he wanted to buy Safeway and break it up there would be restrictions on which groups he could sell stores to.

Question: If you were Sir Ken Morrison, what would your reaction to the ruling have been?

Use the Internet to ascertain what did happen .. .. do you support the actions of Morrison and Green? In the end, who has been best served by the outcome – shareholders, employees, customers?