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EMR-NAMNEWS Risk/Opportunity Analysis Tool

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News Headline (insert important news item and expand where necessary):

Morrisons Takeover of Safeway, from perspective of other Multiples' NAMs/KAMs (I.e. Tesco, JS, Asda, Boots) and the impact upon the NAM/KAMs business. By
 Brian Moore, EMR-NAMNEWS 12/01/2003

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Potential Risk/Opportunity	Impact	Chance	Contingency/Action
Change/effect on: Channel 3 strong players, all gaining share at JS, Boots expense.	Medium	High	Re-assess Company 'limits' for customer concentration. Fundamental decision on role of JS/Boots in customer portfolio. Develop 'counter-balance' strategies for rest of trade? Ditto other channels?
Prices/terms/revenue Morrisons gain access to Safeway prices/terms info.	High	High	'What-if' to quantify amount, when Morrisons demand retrospective harmonisation. Find the money...Prepare 'defensibilities'.
Prices/terms/revenue Aggressive price war driven by others to frustrate Morrisons growth, Morrisons cuts all frills, continues to match Asda on price.	High	High	Assume all initiatives transferred into price. Assess damage to business with JS, Boots, Big Food, Co-op. Calculate loss of sales and cost of share transfer to Big3. Explore/develop alternative channels and/or regional variation.
Customer rationalisation Solus counter-bids by Asda & JS to drive up price of acquisition, Morrisons backs off...with £29m and cheap access to 'tail' of sell-off stores.	Medium	High	'What-if' on Asda success, increased penetration of Scotland, shedding of approx 30% of rest of UK Safeway stores, effect on sales to Asda, and increased buying power. Factor in serious damage to JS.
Prices/terms/revenue Morrisons pays higher price, reducing his war-chest funds, distracted by integration process, pressured to avoid dilution of overall sales/sq.ft. and shopping basket.	Medium	Medium	Factor in slow/negative growth by Morrisons, difficult access to buyers, cultural confusion. Focus new product introductions/innovation on others, develop initiatives for basket-size & sales intensity improvement for Morrisons.
Consumer Southerners respond well to Morrisons prices and 'no-nonsense' approach, impacts JS, Tesco sales, pressure on supply costs/margins.	Medium	High	Re-assess balance of customer portfolio, with Morrisons share of 18%... and re-label invest/maintain/divest customers. Accelerate development of regional/store cluster initiatives.
Category Safeway own-label replaced by Morrisons, low sales at first, increase in branded sales, at expense of other mults?	Medium	High	Anticipate cost-price pressure from other mults, seek further supply-chain efficiencies, increase stock rotation via smaller, more frequent deliveries...
Category Morrisons move bigtime into non-foods, to match other mults, competing heavily on price, Asda retaliates.	Medium	Low	Prepare in-store initiatives to prevent drift of existing customer business to Morrisons. Anticipate margin pressures. Focus on differentiation by customer for incremental growth of category.
Additional Variables:			
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ASSUMPTIONS:

- * Bid goes thru, but 'spoiler-bids' drive up price.
- * Strong Government/political support for Morrisons win...
- * Morrisons struggle with integration but persevere.

OPTIONAL ITEMS:

Integration:

- 'Drop-dead' test: Ken Morrison: on being too old to manage merger, said "Not in this era when you're supposed to work until you're 90."
- Distraction from trading issues?
- Six months to complete acquisition, barring counter-bid. Then 6 to 18 months to integrate, and have significant trade impact.
- Huge executional risks, will take a few years to get this right.
- Morrisons difficulties in making model work in 'smaller' stores.
- Morrisons average weekly sales per square foot £20 versus Safeway's £17, while average basket is £22 versus Safeway's £14.
- Morrisons had £3.9bn sales last year against Safeway's £8.7bn.
- Morrisons promises £150m cost savings within three years to cover the £800m acquisition premium. Additional £100m by boosting revenue.
- De-motivating effect of 1,200 job-cuts at Hayes, needed for implementing transition (financial incentives?)

Morrisons Trade Offering:

- Good value food to loyal shoppers.
- 1,000 promotions per week.
- Self image: traditional Yorkshire values of honesty, consistency and reliability.
- Intend to take pricing policy to all but smallest Safeway stores.
- Doesn't offer online shopping.
- Clear business model, little compromise, lean operational management structure and no superfluous costs, enables competitive prices.
- Morrisons average weekly sales per sq.ft £20 vs Safeway's £17, average basket £22 versus Safeway's £14.
- Morrisons £3.9bn sales last year vs Safeway's £8.7bn.
- Morrisons targeted at value, with on-shelf prices = Asda.
- Operates with range of multi-buys and fast-changing discount promos.
- Vertical approach to retail, little outsourcing.
- Will now strive to transfer this business model to Safeway.

Morrisons relationship with suppliers:

- "There is never a soft deal with Sir Ken but he is fair, and he is very loyal to his suppliers, particularly his Yorkshire suppliers,"
- Little outsourcing in Morrisons, changes ahead in Safeway?

Trading environment:

- Price war by Tesco, JS, Asda to frustrate Morrisons growth.
- Asda and Morrisons lead on price and Morrisons plan to extend model to most Safeway stores
- Tesco is generally priced just above Asda and Morrisons, but Sainsbury's and Safeway acknowledge they are not as competitive on price. They admit to a 2 percentage point difference, but rivals claim gap is more like eight points.
- Deal will drive other changes "We are a bit contrary in many ways."
- Regional variations: mkt share of combination in NEast & York is 30%.

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Conclusions/Action:

- Fundamental impact upon suppliers in UK.
- Back to basics, in everything.
- Other mults will suffer more than Tesco & Asda.
- Inevitable pressures on supply chain, all categories.
- Innovation demanded, but difficult to fund.
- Excuse/opportunity to re-assess balance of customer-portfolio and channel-mix, degree of tolerable trade concentration/risk, by channel.
- Essential to interpret the branded offer from national to store level, and vary without compromising brand integrity.
- Crucial to conduct 'what-if's' on alternative strategies via a responsive Customer Account Profitability System.
- Anticipate increased supplier concentration to manage the new trade power.
- Place UK initiatives in an EU/Global context.

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Other Retailers affected:

- Morrisons move opens the end game for consolidation in UK food retailing.
- Sainsbury's stands to be the biggest loser, weakest player and only one not competing aggressively on price, have to reduce prices to ensure that it does not lose value-conscious shoppers.
- Big Food Group and Somerfield under pressure in price war.
- JS the biggest loser, weakest player and only one not competing aggressively on price. Needs to reduce prices to hold value-conscious shoppers.
- JS planned boost of operating margins to 5.5% from 4% in 2/3 years from restructuring program: cutting costs, refitting stores and overhauling/replacing the group's distribution and information and info-technology systems, may have to re-invest some of restructuring benefits in prices.

Category impacts:

- 62% of supermarket sales in non-food within five years.
- non-food lines, i.e. electrical goods, clothing, consumer electronics become more important.

City View:

- Suspicious of M conservative and secretive, 'autocracy', lack of obvious succession, age, lack of experience of acquisition integration.

Safeway problems:

- Safeway did not have the speed or buying power of Asda, nor the size or store locations of Tesco.
- Safeway has been focused on a high/low strategy - with a range of selected deep discounts designed to lure shoppers.

Counter-bids:

- Possible bid from a financial buyer, many of which have already looked at Safeway on the basis of a break-up bid, selling to Tesco, Sainsbury's, Asda and Morrisons.
- Others can afford to await offer document, with 60 day after to respond.
- Marks & Spencer for food? (Possibly too early in their recovery process?).
- Bid closes off option of UK entry for Ahold, except via JS acquisition.
- Allan Leighton possible bid via pvt equity groups? (time to set up?)
- Carrefour? (Fingers burnt with Promodes?)
- Joint WM-JS bid: 75/25 split of stores
- Wal-Mart solus bid:
 - Huge economic advantages from increasing UK scale, could afford to overpay.
 - Safeway stores substantially smaller than Asda's, forcing changes to business model.
 - Wal-Mart could afford to buy all three UK competitors.
 - Monopolies: Wal-Mart could argue vast buying power would bring lower prices in Safeway and Asda.