



USDA Foreign Agricultural Service

# GAIN Report

Global Agriculture Information Network

Template Version 2.09

Voluntary Report - public distribution

Date: 9/26/2003

GAIN Report Number: UK3026

## United Kingdom

### Retail Food Sector

## Safeway Takeover - Morrisons Gets Green Light

### 2003

**Approved by:**

Valerie Brown-Jones  
U.S. Embassy

**Prepared by:**

Phil Bicknell/Jennie Jones/Susan Pinschmidt

---

**Report Highlights:**

Morrisons, the UK's sixth largest grocery retailer, has been cleared to continue its attempted takeover of Safeway. The Department of Trade and Industry has blocked the bids of the UK's three largest retailers, Tesco, Asda and Sainsbury, on competition grounds. Safeway is currently the UK's fourth largest grocery retailer and a takeover by one of the 'Big Three' was considered to be against public interest.

---

Includes PSD Changes: No  
Includes Trade Matrix: No  
Unscheduled Report  
London [UK1]  
[UK]

### **Competition Commission Clears Morrisons for Safeway Takeover**

The UK Government today (Friday, September 26, 2003) announced its decision on the prospective takeover of the Safeway supermarket chain. The announcement effectively clears the way for Morrisons to make a bid for Safeway. Takeover offers from Morrisons' three bigger rivals - Tesco, Asda and Sainsbury - were blocked on competition grounds, following a five-month investigation into the impact of a Safeway takeover on food prices and consumer choice by the Competition Commission.

Fundamental to the decision was the competition watchdog's belief that a takeover of Safeway by any of the 'Big Three' retailers would be against the public interest at both a local and national level. Trade and Industry Secretary Patricia Hewitt echoed this sentiment when announcing the decision earlier today.

The decision had been widely anticipated by the food industry. The Morrisons bid raised fewer competition issues because of the chain's regional concentration in the north of England and its smaller size. However, if Morrisons takeover attempt is successful, the Competition Commission has stipulated that it will still have to sell 53 of the 479 Safeway stores because of an overlap between existing Morrisons stores. This provides Tesco, Asda and Sainsbury opportunity to bid for these surplus stores.

Trading at Safeway through 2003 has been disappointing to date, which may lead to a reduced offer from Morrisons. Morrisons has seen its own performance continue to grow, with half-year profits jumping 10 percent. Although the original bid from Morrisons has now expired, it is expected to come forward with a fresh offer in the coming weeks.

However, Morrisons may yet have to fight off a rival offer from retail entrepreneur Philip Green, who was exempted from the competition inquiry into the takeover because he has no current interests in the grocery sector. In a statement made through his bid vehicle Trackdean Investments, Mr Green said prior to the DTI announcement that he still remained part of the battle for the group.

### **Leading Up to the Bids—Inevitable Race for Greater Market Share**

The UK food retail sector is identified by industry experts as one of the fastest growing sectors in the country ("Food Retailing in Europe – UK," *Retail Intelligence*, June 2002). This trend is particularly visible in the retail owners' ambitious movement to non-food and increasing store developments. However, UK grocery retailers lack expansion opportunities, making merger and acquisition possibilities important to the industry. According to authors of the 2003 article in *International Journal of Retail & Distribution Management*, entitled "The Battle for Safeway," the question has never centered around whether further consolidation would occur, but rather "when and which retailer would be the next victim."

### **Retail Competitors—Battle of the Supermarket Giants**

In January 2003, Morrisons announced its initial bid of \$4.54 billion for the Safeway chain, the UK's fourth largest grocery chain. Soon thereafter, all other top supermarkets quickly entered into the battle with competing bids. Table I over the page lists the retailers involved, along with Safeway and key industry comparative data. Note: there were also rumored bids from non-retail grocers - U.S.-based Kohlberg Kravis Roberts & Co. (KKR) and Philip Green, UK retailing entrepreneur. These bidders raised fewer monopoly concerns because neither own existing grocery stores in the UK.

<b>Size Rank</b>	<b>Interested Retailers (based)</b>	<b>UK Market Share* (%)</b>	<b>Number of UK Stores**</b>
1	Tesco (UK) Plc (Hertfordshire)	26.9	1,982
2	J. Sainsbury's Supermarkets (London)	16.8	498
3	Asda Group Plc (Leeds)	16.3	260
4	Safeway Stores Plc (Middlesex)	9.5	469
6	Wm Morrison Supermarkets Plc (Bradford)	6.1	119

\* As of July 6, 2003 source: Taylor Nelson  
\*\* From 2003 annual reviews and/or websites

### **Managing the Process—Third Party Responsible for Decision**

According to UK anti-trust rules, mergers that result in a monopoly over 25 percent of one market can be sent for review to the Competition Commission - an independent public body that reacts to requests from other authorities to perform inquiries (<http://www.competition-commission.org.uk>). Due to potential problems involved in the bidding process and subsequent merger, the Commission filed the Safeway acquisitions inquiry on March 19, 2003. The Commission handed over its recommendations to Patricia Hewitt, the Secretary of State for Trade and Industry at the Department of Trade and Industry (DTI) in late August and the final decision was announced today (Friday, September 26, 2003).

In making a recommendation and decision, the Commission and DTI had numerous important market and geographic factors to consider. Prime concerns included avoiding a market dominated by the 'Big Three' retailers, maintaining competition on local, regional and national levels, ensuring consumer choice and protecting the food industry.

### **Opinions of Interest Groups & Consumers**

In May 2003, Robin Tapper, head of marketing for the National Farmers' Union (NFU), indicated to the Competition Commission during an open meeting that the NFU would not support a merger that produced a duopoly. He felt that if concentration of the food retail sector continues, "the effect on farmers could be catastrophic." Additionally, three UK advocacy organizations—Friends of the Earth, Small and Family Farms Alliance (SFFA) and Grassroots Action on Food and Farming (GAFF)—have launched a campaign to halt Safeway's sale. The alliance urged the government to block the bids to avoid potential price increases and "unreasonable" trading terms for farmers. Sandra Bell, the Food and Farming Campaigner for Friends of Earth, further commented in the press release: "[i]f the government allows the takeover it will be helping to line the pockets of fat cat supermarket bosses and city bankers at the expense of consumers, farmers and local communities."

By contrast, consumers favored a takeover. According to survey of 1,011 Safeway shoppers by consumer research group Mintel in July, fewer than 15 percent of shoppers wanted it to remain an independent operator. According to a report from the *Press Association*, shoppers reported preferring a replacement by Asda, owned by the U.S.-based Wal-Mart corporation. If not Asda, shoppers would prefer ownership by the following, listed in order of preference: Tesco, Sainsbury's and last Morrisons.