Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Voluntary Report - public distribution

Date: 1/9/2003

GAIN Report #UK3001

United Kingdom

Market Development Reports

Further Consolidation of UK Retail Grocery Market

2003

Approved by:
Deanna M.J. Ayala
U.S. Embassy, London
Prepared by:
Jennifer Jones

Report Highlights:
The reported take-over of UK grocery store chain Safeway Supermarkets by rival Morrisons Supermarkets is set to further consolidate the UK grocery retail scene and create the third largest supermarket in the UK.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report

London [UK1], UK

Morrisons Supermarkets set to take over Safeway UK

The reported take-over of UK grocery store chain Safeway Supermarkets by rival Morrisons Supermarkets is set to further consolidate the UK grocery retail scene and create the third largest supermarket in the UK.

According to BBC News, Morrisons, a medium-sized, but fast-growing British supermarket chain, is to take-over UK rival Safeway, in a deal worth £2.9bn. The deal has been agreed upon by both firms, but still requires formal acceptance by shareholders.

The combined firm, with 598 stores, a turnover of £12.6bn ($20.5bn) and a market share of 16%, aims to compete with Tesco, Sainsbury and Asda/Walmart -- the giants of the UK supermarket sector. Both Morrisons and Safeway have been relatively successful in recent years, but the UK supermarket sector is suffering from low margins and fears that spending growth is slowing down.

With Morrisons' strength in northern England, and Safeway's focus on Scotland and the South of England, the two firms say their operations will be complementary. Nonetheless, some 1,200 non-store jobs will be cut, as the merged group seeks to eliminate overlaps.

In taking over Safeway, Morrisons will be swallowing a chain almost four times its size. However, its 119 stores are almost all extremely large, while more than half of Safeway outlets are modest-sized town-center shops.

Morrisons has earned respect in the industry for the quality of its management, which has driven through an extremely rapid program of expansion - chalking up some of the fastest profits growth in the sector. Over the past couple of years, Safeway has revived its fortunes by a program of investment in its retail network, culminating in a recent re-branding exercise. The scheme has increased profits at the once-struggling retailer by 50% since 1999.

Although neither retailer is struggling currently, both see a need to merge. Morrisons is looking for a way to grow far more quickly, and can afford to fund an acquisition to achieve that goal as soon as possible. However, there is some concern by investors that this may be too much for Morrisons as the announcement has put pressure on its shares, which were down 8% after the deal was made known.

Safeway, meanwhile, is still seen as vulnerable if trading conditions in the supermarket sector deteriorate. Although it has smartened up its image since 1999, its larger rivals are better placed to weather any downturn. In a sign of how much investors feel the deal means to Safeway, its shares were quoted up 27% within minutes of the deal being announced.