



INDUSTRY OVERVIEW

Mergers, Acquisitions Alter Mass Retail Landscape

NEW YORK — Consolidation recast mass retailing over the past year, as major players merged in the supermarket, drug and dollar store channels.

Shaking up the food channel was Safeway's \$9.4 billion purchase by private equity investors led by Cerberus Capital Management LP, the parent of Albertsons. Cerberus is expected to use the combined scale of Albertsons and Safeway to compete with Walmart — which sells the most groceries in the country — and No. 1 supermarket Kroger Co. The merged chains have about 2,200 stores, second only to Kroger. With \$61 billion in sales, they command about 5.4% of the U.S. grocery market.

The Cerberus-led group now has control of a company roughly the size of Kroger's grocery assets. Kroger has 2,631 stores in 34 states, although not all sell groceries.

In the drug trade class, the creation of Walgreens Boots Alliance Inc. (WBA) recast the nation's top

chain into part of an international pharmacy-led health and well-being enterprise.

Formed by the merger of Walgreen Co. and Alliance Boots, WBA has already made headway with the integration of its businesses, says executive vice chairman and acting chief executive officer Stefano Pessina. "We have achieved a lot in a short period of time," Pessina said at the company's inaugural Analyst Day this spring. "And everything we have seen convinces us that there is, as we expected, a huge potential for this business. It may take different forms in different markets. There may be many components to it, and there is absolutely no doubt that it will take time to deliver. But the potential is huge."

The primary elements of WBA's business model are distribution, brands and pharmacy-led retailing. The company will consider entering a market where there's an opportunity to operate any one of these components well and at scale within a reasonable time,

said Pessina. In the past this was often through merger or acquisition. And it also often happened in the wholesale division as this is typically the easiest way to get to scale rapidly, he said.

Consolidation also came to dollar stores with Dollar Tree Inc.'s acquisition of Family Dollar Stores Inc. In approving the

deal, Family Dollar shareholders turned down a richer offer from Dollar General Corp. that raised antitrust concerns.

The merger will put Dollar Tree ahead of Dollar General, with some 13,000 stores generating almost \$19 billion annually. Dollar Tree has nearly 5,100 stores in the United States and five Canadian provinces, while Family Dollar's

stores are spread among 46 states in urban and rural markets. A heftier Dollar Tree may be more competitive with Walmart, although the discounter has been moving to withstand the challenge from dollar chains by adding hundreds of Neighborhood Market stores, which are about a third the size of its Supercenters.

The past year also brought notable executive changes. There was Target Corp.'s appointment of Brian Cornell as chairman and CEO, making him the discounter's first leader from outside the company. A three-decade career had seen Cornell hold progressively more responsible positions at arts and crafts retailer Michaels Cos., Safeway and Sam's Club. Most recently, he had run PepsiCo's Americas Foods division, the operating unit that includes the company's snack business.

At Target, he succeeded Gregg Steinhafel, a 35-year company veteran who struggled through a horrific 2013 in which the discounter's entry into Canada foundered

and hackers stole financial and personal information from tens of millions of shoppers.

At Walmart, Greg Foran was named president and CEO of Walmart U.S. less than 90 days after being promoted to head of Walmart Asia. Foran, a New Zealander, replaced Bill Simon.

Prior to taking the helm of Walmart Asia, Foran was chief of Walmart China, a position he assumed in early 2012. He was tapped for the Asia CEO job after overhauling operations, pricing and product assortment in the company's stores in China.

Judith McKenna, another executive who had worked in Walmart's international arena, was promoted in late fall to chief operating officer of Walmart U.S. She succeeded Gisel Ruiz, who was transferred to Walmart International as executive vice president of the people division.

McKenna had come to Arkansas last spring to become chief development officer of Walmart U.S., where she was responsible for leading the development of new store formats.

Other management changes came in conjunction with mergers. At the newly expanded Albertsons, the executive leadership team now features an office of the CEO led by former company chief Bob Miller and comprising three other former Albertsons executives. Wayne Denningham is COO for all divisions, Justin Dye is chief administrative officer, and Shane Sampson is chief marketing and merchandising officer.

At Walgreens, Greg Wasson stepped down as president and CEO. He said his goals had been to transform the front end of Walgreens drug stores, to advance the role that community pharmacy plays in health care and to find the right partner to take Walgreens global. "With the creation of Walgreens Boots Alliance, it is now time for new leadership to move that vision forward," Wasson said.

In the dollar store channel, Howard Levine, who had been chairman and CEO of Family Dollar, will now serve on Dollar Tree's board.

'There is huge potential for this business'

TOP 30 MASS MARKET RETAILERS

COMPANY	DOLLAR VOLUME	STORE COUNT	COMPANY	DOLLAR VOLUME	STORE COUNT
1. WALMART Bentonville, Ark.	\$485.65 bil	11,453	17. SUPERVALU* Minneapolis	\$17.82 bil	1,528
2. COSTCO Issaquah, Wash.	\$112.64 bil	663	18. DELHAIZE AMERICA Salisbury, N.C.	\$17.75 bil	1,361
3. KROGER Cincinnati	\$108.47 bil	2,625	19. MEIJER*** Grand Rapids, Mich.	\$16.3 bil	213
4. AMAZON Seattle	\$88.99 bil	—	20. WHOLE FOODS MARKET Austin, Texas	\$14.19 bil	398
5. WALGREENS Deerfield, Ill.	\$76.39 bil	8,207	21. BJ'S*** Westborough, Mass.	\$12.7 bil	207
6. TARGET Minneapolis	\$72.62 bil	1,790	22. BI-LO*** Jacksonville, Fla.	\$11.3 bil	827
7. CVS HEALTH* Woonsocket, R.I.	\$67.8 bil	7,822	23. FAMILY DOLLAR Matthews, N.C.	\$10.49 bil	8,042
8. ALBERTSONS-SAFEWAY Boise, Idaho	\$61.0 bil	2,230	24. SHOPPERS DRUG MART** North York, Ontario	\$9.59 bil	1,370
9. LOBLAW** Brampton, Ontario	\$35.32 bil	2,444	25. GIANT EAGLE*** Pittsburgh	\$9.3 bil	231
10. SEARS HOLDINGS Hoffman Estates, Ill.	\$31.2 bil	1,725	26. ALDI*** Batavia, Ill.	\$8.7 bil	1,375
11. PUBLIX Lakeland, Fla.	\$30.56 bil	1,095	27. HY-VEE West Des Moines, Iowa	\$8.7 bil	235
12. RITE AID Camp Hill, Pa.	\$26.53 bil	4,570	28. DOLLAR TREE Chesapeake, Va.	\$8.6 bil	5,367
13. AHOLD USA Carlisle, Pa.	\$25.98 bil	768	29. WEGMANS*** Rochester, N.Y.	\$6.7 bil	85
14. H-E-B*** San Antonio	\$20.2 bil	358	30. A&P*** Montvale, N.J.	\$5.9 bil	300
15. SOBEYS** Stellarton, Nova Scotia	\$19.98 bil	1,500			
16. DOLLAR GENERAL Goodlettsville, Tenn.	\$18.91 bil	11,789			

* Dollar volume represents retail sales only. Store count includes mass market retail formats only.

**Canadian results converted at an exchange rate of 0.829.

***Dollar volume results are an MMR estimate.

We're much more than just a dollar store

DOLLAR GENERAL