

## 2.7: Evolving Through Mergers, Diversification, and Downsizing

### Learning Objectives

- Discuss how a retail institution can evolve through mergers, diversification, and downsizing

Throughout the late 1990s, the retail food industry underwent a period of massive consolidation as retailers reacted to the emergence of new distribution channels and the sophisticated supply chain of new competitors. Traditional grocery retailers reasoned that the only way to compete with the encroachment of new formats selling food and the scale of everyday low-pricing retailers like Wal-Mart was to increase their own scale by acquiring competitors. To put this into context, approximately 10% of retail stores were purchased by new owners from 1996–2000, representing over \$67 billion in annual revenue.

This consolidation among retailers and the continued growth of Wal-Mart has led to a long-term trend where sales are concentrated among a fewer number of national and regional retailers. Consider that in 1992, the 20 largest food retailers, including all formats, accounted for 39.2% of US grocery sales. By 2000, that percentage had pushed to 54.7%. As of 2016, the top 20 retailers account for 66.6% of US grocery sales. The trend is similar for the top 4 food retailers, which represented 16.8% of sales in 1992, 28.8% of sales in 2000, 38.1% of sales in 2008, and 42.4% of sales in 2016 (Walmart Stores, Inc., Kroger, Albertson's, and Ahold Delhaize, respectively).

The consolidation of sales and emergence of e-commerce channels, marked by Amazon's acquisition of Whole Foods and Wal-Mart's acquisition of Jet.com has touched off another period of mergers and acquisitions (M&A).

### Mergers and Acquisitions (M&A)

Mergers and acquisitions are transactions in which the ownership of companies, other business organizations, or their operating units are transferred or combined. A merger is a legal consolidation of two entities into one entity. By contrast, an acquisition occurs when one entity takes ownership of another entity's stock, equity interests, or assets. Nevertheless, from a commercial and economic point of view, both types of transactions generally result in the consolidation of assets and liabilities under one entity.

Mergers and acquisitions can help organizations grow, shrink, and change the nature of their business or competitive position. For example, Amazon's acquisition of Whole Foods helped it to diversify by entering the brick and mortar retail space and leveraging Whole Foods's supplier network of fresh and natural/organic foods. Ahold and Delhaize's \$13.6 billion merger brought several leading grocery chains with regional presence (Giant, Shop & Shop, Food Lion, and Hannaford) under the same corporate umbrella, streamlining operations.

Some retailers might pursue efforts to downsize their operations so that they can invest in their core business. Supervalu has divested almost 1,350 stores in the past five years to focus on their wholesaling operations. In 2013, it sold 877 grocery stores under the Albertsons, Acme, Jewel-Osco, Shaw's, and Star Market banners. In 2016, it sold 472 Sav-A-Lot stores. It used the proceeds from the sales to pay down debt and improve its cash position for future investment in the business.

After a flurry of activity in the late 1990s, retail is entering another period of consolidation. Expect to see mergers, acquisition, and strategic downsizing as retailers seek to diversify themselves, streamline operations, or improve their capital positions to make investments in core businesses.

### Practice Questions

<https://assessments.lumenlearning.co...sessments/9149>

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