Food Industry Consolidation to Rise in 2011

By Rick Shea
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MINNEAPOLIS (SeekingAlpha.com) – Competitive activity remains intense, interest rates are ridiculously low and shoppers are more price sensitive than ever before. These factors will lead to further food industry consolidation in 2011. This is the first of a series of articles on potential merger or acquisition candidates for the supermarket industry. Think of it as fantasy football for the food industry. Some players go for a high value others are acquired on the cheap.

In this part we will tackle the food retailers. Folks like Walmart, Target and Kroger get the most news but many smaller retailers will need to continue to drive cost savings through mergers. The food retailing industry remains driven by actions of the consumer and the consumer is telling them they want better costs with great quality. This has led to food products being sold in all channels of trade. The food industry major retailers are classified into eight major types:

- Traditional Supermarkets: Kroger, Safeway, Super Valu
- Mass Merchandisers, Walmart, Target, Meijer
- Club Stores: Costco, Sam's, BJ's
- Dollar : Dollar General, Dollar Tree, Family Dollar
- Drug : CVS, Walgreens
- Convenience : 7-11,Wawa
- Natural and Organic : Whole Foods, Trader Joes
- Extreme Value : Aldi, Save A-Lot

One of the leaders in growth has been the dollar store industry with its ever expanding selection of food and consumer packaged goods. This has put pressure on traditional supermarkets like Kroger along with discounters like Walmart. Expect further consolidation in both traditional supermarkets and dollar stores.

With that.... here are the most likely acquisition candidates in food retailing in the next few years.

- Super Valu: Results continue to be poor despite new management. SVU has current market cap of $2.24 Billion with a PE of less than 7. Look for Kroger and Safeway as potential acquirers but maybe not as whole company. A 3 way split of East vs West banner stores and the wholesale division also being spun off would drive the most value.
- Family Dollar or Dollar Tree: Both these players are fighting for number two in the dollar store segment. Dollar General is the clear number one with a market cap of $9.6 B. Both FDO and DLTR sit at just under $6.0 Billion. A combination might give Dollar General a ride for their money.
- BJ's Wholesale Club :Strong niche in the North East would make them attractive to Costco or Walmart (Sam's division)
- Meijer : Privately owned mass merchandiser that would make a lot of sense for Target to acquire. Unfortunately for Target it is well run and has a strong position in the Midwest, so it will not go for cheap like Super Valu.
- Regional Privately Owned Supermarket Chains : Look for further consolidation with folks like Winn Dixie, HEB, Publix and other regional grocery companies looking for good strategic combinations.

All of this comes with the caveat that I of course have no inside information on any of these possibilities. I am merely looking at the competitive landscape and analyzing what makes sense from 20+ years of executive food industry experience. (Again kind of like looking at a fantasy football team) Companies often don't do what is best for shareholders. Sometimes market dynamics force them to consider mergers. The intense competition in the food industry will force these companies and others to look for strategic value in 2011 and the end result.

Disclosure: No Positions in Stocks Mentioned

Tags: DG, SVU, DLTR, FDO, WMT, TGT, COST, BJ, KR, SWY, Supermarket industry