

Kroger-Albertsons Merger Spells Doom, Gloom And Boom

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KrogerKR **-0.4%** and AlbertsonsACI **+0.4%** are planning a merger that would create a superstore second in scale only to WalmartWMT **+0.3%**. The combination of the two U.S. supermarket giants could have a three-pronged effect, resulting in doom for some, gloom for others, and a boom for still others.

It could mean thinner margins for smaller, independent stores and some suppliers; more competition for larger players, and a possible boom for consolidation in the future.

So what does the deal mean for the F&B industry, the two companies, competitors, suppliers, and consumers?

Gloom

Watch out, Walmart? The world's biggest retailer may be looking over its shoulder soon. The Kroger-Albertsons mega-merger would create a company with about 5,000 U.S. stores, a close second to Walmart's 5,335 in the United States. The deal could create "a more formidable competitor to its largest

competitor, Walmart,” according to Arun Sundaram, of CFACFA - **1.3%** Research. How big beyond store count will the new multi-billion-dollar company be in this food fight?

Kroger and Albertsons together in fiscal '21 racked up \$210 billion in revenue and \$3.3 billion in net earnings, according to Supermarket News. Robert Ohmes of Bank of America **BAC -2.2%** Securities said that Kroger and Albertsons combined, before any store closings, would control about 19 percent of U.S. grocery market share. Walmart already controls 25 percent, or 30 percent including Sam's Club. Costco controls another 9 percent. That means the top three grocers would control more than half of the sector. That's a lot of people relying on just a handful of companies, and it would mean a few players as huge forces. It also could mean a stronger second nipping at the heels of Walmart.

While Kroger-Albertsons would be a big deal, it would be very different from either Amazon **AMZN +0.6%** or Walmart, which control only a few brands. Kroger and Albertsons each already control multiple retail brands, creating the illusion of a large number of independent players. This deal would put all these brands in one basket.

In addition to stores with the company name, Kroger controls Ralphs, Dillons, Smith's, King Soopers, Fry's, QFC, City Market, Owen's, Jay C, Pay Less, Baker's, Gerbes, Harris Teeter, Pick N' Save, Metro Market, Mariano's, Fred Meyer, Food 4 Less and Foods Co.

In addition to company stores, Albertsons operates Safeway, Vons, Jewel-Osco, Shaw's, Acme, Tom Thumb, Randalls, United Supermarkets, Pavilions, Star Market, Haggen, Carrs, Kings Food Markets and Balducci's Food Lovers Market.

Doom

Another huge grocery retailer could put more pressure on smaller players and change the balance of power in working with suppliers. The nation's top two retailers would control more than 70% of the grocery market in over 160 cities, according to Stacy Mitchell, of the Institute for Local Self-Reliance. The new entity would mean some competitors' stores might close, "as more local grocers are driven out of business," Mitchell said.

According to Greg Ferrara of the National Grocers Association, the merger could give "a single supermarket giant" additional control over "the nation's food supply chain." This could lead to even tougher competition for smaller stores, although Kroger and Albertsons argue it could lead to better prices for consumers.

"A merger would not only put smaller competitors at an unfair disadvantage, but also increase anticompetitive buyer power over grocery suppliers, which ultimately would harm consumers," Ferrara said. Mitchell said the new entity would have more clout in dealing with farmers, food workers and local grocers.

Boom

Kroger Chairman and CEO Rodney McMullen says the deal "brings together two purpose-driven organizations to deliver superior value to customers, associates, communities and shareholders." It could be part of a consolidation wave as companies continue to grow by merger.

"I believe this merger is the beginning of a trend and that we could see more consolidation," according to Ken Fenyo, of Coresight Research. Coresight's report on regional consolidation of grocery chains showed that from 2015 to

2020 M&A grew national giants' market share as they gobbled up midsize regional competitors and otherwise expanded.

Hy-Vee is a dominant player in the Midwest, while Wakefern is a major player in the Northeast through ShopRite, Price Rite, Fairway, and many others. Publix is a huge player in the South, and Grocery Outlet is big in the West. The Kroger-Albertsons mega-merger could redraw the national map in terms of market share and other ways as consolidation continues.

The “S” in “superstore” could stand for “synergy” as well as “savings” for the new company. The deal would go beyond food to include healthcare. The new entity reportedly would be the fifth-largest retail pharmacy chain in the nation, with nearly 4,000 pharmacies. Watch out Walgreen's?

Zoom to the future

Mergers like this could accelerate the use of technology such as big data and e-commerce in the F&B industry, feeding into an online sales boom. According to Numerator.com, Albertsons has been growing e-commerce sales rapidly with more households shopping online and using its “successful click & collect strategy.”

Numerator.com said Albertsons has been able to “retain and develop habitual shopping” online, with shoppers picking-up in-store through the company's Drive-Up & Go offering. Albertsons' digital sales grew 36 percent in the second quarter of 2022, according to Numerator.com.

“Kroger could leverage Albertsons' successful digital strategy investments to help implement similar initiatives for their own online services,” according to Numerator.com

Adding or increasing robotics like Ocado customer fulfillment centers could help grow margins, not just critical mass, according to Fenyo. Kroger's partnership with the Ocado Group has already led to about 20 automated customer fulfillment centers and other facilities, while Albertsons has focused on Instacart, DoorDash, and Uber Eats, according to Supermarket News.

We could see a big data, high-tech boom fueled by deep pockets.

Numerator.com found that Albertsons' e-commerce share nearly tripled for the 12 months ended September 30.

Room to grow

There could still be some winners among smaller players who find a space to thrive. Kroger-Albertsons likely would close or divest of some of its own overlapping stores, possibly in response to anti-trust regulations. That could occur in California, Texas, Washington, D.C. and/or Phoenix, among others. Arun Sundaram of CFRA Research expects Albertsons to divest 100 to 375 overlapping store locations. Closings can lead to some openings for competitors, giving them room to grow.

A chance to bloom

There could be another bright side for smaller players facing big competitors. Size could lead to efficiency and possibly lower prices due to bargaining power, benefiting consumers. But some believe scale could lead to backlash, as some customers adopt a "small-is-beautiful approach," believing smaller stores are closer to the customer.

Rachel Shemirani of Barons Market believes that customers will "search for that sense of community elsewhere." Shemirani believes customer service will be king, with "flexibility, heart and passion" at independent grocery stores.

We may see mega-mergers create superpowers in the supermarket sector. That could lead to some small store closings and some huge players getting even bigger.

Still, to each their own. Smaller and bigger stores both can have a lot to offer. But the industry's future will depend, as always, on price, selection, convenience, location, service, and of course, customer loyalty.