Dawn Chafe

Sobey it

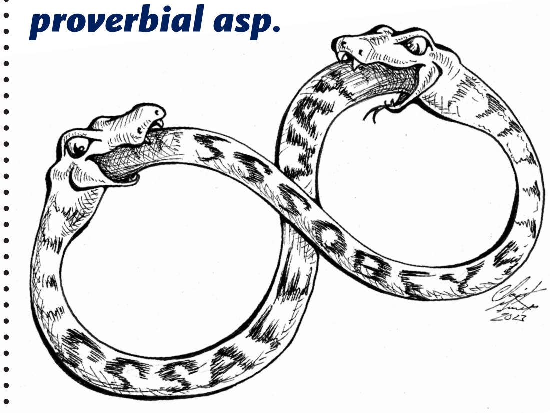
Pity the poor, maligned snake. It can't help the fact that it slithers and hisses, that its kiss is often lethal or that it periodically sheds a disturbingly intact, hollow epidermis. The asp didn't ask to be Cleopatra's suicidal means. Nor did it volunteer to be villainously typecast in biblical lore. To paraphrase illustrated Disney character, Jessica Rabbit: snakes aren't bad, they're just drawn that way.

Look deeper into serpens mythology and you'll find that the creepy-crawlies haven't always had an image problem. Throughout history, many cultures have identified them as a creative life force—symbols of rebirth, transformation and immortality.

It's in that sense that you should consider the recent merger of locally-produced supermarket star, Sobeys Inc., with former rival Safeway Canada.

On June 12, Paul Sobey, president, CEO and chief charmer of Stellarton, N.S.-based Empire Company Ltd., announced the 100 per cent acquisition of Safeway Canada. Safeway Canada is the Canuck cousin of California-based Safeway, a major North American food and drug retailer.

Poulin should be more wary: Safeway could come back to bite him in the proverbial asp.



The deal includes 213 full-service grocery stores (most of which are in Calgary, Vancouver, Edmonton and Winnipeg), 199 in-store pharmacies, 62 fuel stations, 10 liquor stores, four distribution centres and 12 manufacturing facilities. All for the low, low price of $5.8 billion.

Safeway had been a coveted target for ambitious Canadian grocery retailers for over a decade. Loblaw and Quebec-based Metro had reportedly been eying the firm for a number of years, while patient Paul has admitted to having been following it since 2000—proof, if any is needed, that slow and persistent wins the race.

Attractive as Safeway Canada is in its own right (note the attributes listed above as well as the $6.7 billion in sales it delivered in its most recent fiscal year), the real value lies in what it represents.

The acquisition is as literally transformative as the figurative tree of knowledge, creating a new growth platform for Empire's wholly-owned subsidiary, Sobeys. With the Safeway addition, Sobeys and its associated brands (IGA, Price Chopper, FreshCo and Foodland) will represent 1,538 stores across Canada and $24 billion in annual revenue. It also positions Sobeys as the leading grocer in Western Canada, number one in Alberta, and number two in the country (top-seeded Loblaw has 1,058 stores and $32 billion of annual revenue).

Sobeys' resident King Cobra (a.k.a. president and CEO), Marc Poulin, could barely contain his enthusiasm in a published statement. "This is a win-win for both companies, as well as for our customers and our employees. ...Our offering will only get stronger as we share and build upon the best practices of two great businesses."

I'm surprised Poulin isn't more wary: Safeway could come back to bite him in the proverbial asp. After all, Safeway Canada has had a higher average revenue per store than Sobeys ($31.5 million a year versus $13 million). And, Poulin is well aware that his bosses (i.e. Paul Sobey and the Empire board of directors) are expecting the merged entity to achieve $200 million in cost synergies over three years. While some of that will come from the integration of distribution, information technology and procurement divisions, as well as the highly anticipated economy of scale (more stores equals more purchasing power), head office reductions are a no-brainer.

And while Poulin et al have been doing an admirable job of growing profitability—forgoing the industry's broad temptation to nibble at retail elements outside the food spectrum—space will undoubtedly be found for members of a team which has been achieving almost double the revenue per store. (Safeway Canada's revenue per store has been even higher than Loblaw's, which averages $30.2 million.)

So, who will keep (or lose) their jobs? Will the Safeway brand live on? Can deal-conscious consumers expect a dramatic change in food prices?

These are important questions, to be sure. But we won't have any answers for them until later this year, following a federal competition review.

The main point of the acquisition, however, has already been achieved. Both Sobeys and Safeway have been highly aware that a pair of weasels, in the form of Walmart and Target, is moving into their territory. This deal has always been primarily about self-preservation: creating and sustaining life in an increasingly competitive retail landscape.

It's only natural for them to shed some excess baggage along the way. | ABM

The views expressed in this column are those of the author and not necessarily those of Atlantic Business Magazine. Feedback: dchafe@atlanticbusinessmagazine.com