AN INTRODUCTION TO FOOD CHAIN MERGERS: MERGERS, 1956

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Donald A. Duchesneau

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by

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AN ABSTRACT

Submitted to the College of Business and Public Service
of Michigan State University of Agriculture and
Applied Science in partial fulfillment of
the requirements for the degree of

MASTER OF ARTS

Department of General Business

Curriculum in Food Distribution

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Approved E. A. Brand

Although merger activity is an interesting and important phase of the food chain industry, very little information on this subject is available to students and members of the industry. This thesis is an introductory exploration of this subject.

This study is intended to add slightly to the limited information presently available on food chain mergers. The general nature of the presentation is intended to introduce the subject and encourage further and more detailed studies in this area.

General background material on the subject of corporate mergers is presented with particular attention placed upon the application of this material to food chain mergers. This introductory material should introduce the student to the subject of corporate mergers. The material was gathered primarily from secondary sources, such as basic accounting and corporation finance texts, business services, trade publications and publications of the Federal Government.

This background material is accompanied by data obtained through a questionnaire survey of the firms known to have undertaken food chain mergers during 1956. Data is usually presented on the basis of 60 per cent of the acquiring and 41 per cent of the merged food chains participating in mergers during 1956. Additional information

on these and other food mergers was obtained from public statements of and personal discussions with industry leaders.

The survey material obtained on food chain mergers occurring in 1956 serves the primary purpose of illustrating the basic material presented on the nature of food chain mergers. This data is also of some value in establishing the nature and characteristics of food chain mergers in 1956.

The thesis is concerned with such broad subject areas as: merger terminology and classification; the procedures followed in the negotiation and completion of the food chain merger; the rights of stockholders and creditors of the merging corporation; various methods by which the merger transaction may be consummated; some methods of financing mergers; antitrust laws, proceedings and applications to the retail food industry; the personal and business motivations involved in the decision to merge or be merged; indices to the success of merger activity and aspects of the personnel and operating problems that may be associated with food chain mergers.

As the title implies, this thesis is not intended to give intensive or inclusive coverage to each of these several broad topics, but simply to introduce and provide basic information on these subject areas.

The survey material that accompanies and illustrates this general introduction to food chain mergers should also provide some insight into the characteristics, motivations, results and operating problems involved in the surveyed 1956 food chain mergers.

The Curriculum in Food Distribution at Michigan State University is under the sponsorship of the National Association of Food Chains

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Sincere thanks are due Dr. Edward A. Brand, Director of the Curriculum in Food Distribution at Michigan State University, at whose suggestion this thesis was undertaken. His helpful suggestions and continuous supervision have contributed greatly to the completion of this thesis.

The author is indebted to the several food chains which actively participated in this study; the valuable information contributed by this group made this thesis possible.

To my wife, Dorothy, this thesis is affectionately dedicated. In addition to her many hours of typing and correspondence she has been a source of continual encouragement.

D.A.D.

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CHAPTER I

INTRODUCTION

Definition of the Problem

Aggressive food retailers follow a pattern of continual expansion. The merger has played an important role in the expansion and improvement of many food retailing firms.

During 1955, a record year for food chain expansion, the merger trend broke all-time records in the number and size of mergers that took place in the retail food industry. During 1956, and to the present, the merger trend in food retailing has remained at a high level.

Despite the significance of the merger in food retailing, a paucity of information is available to students and industry members. This lack of information is the major problem with which this thesis is concerned.

The Purpose of the Study

This thesis will seek to add to the limited body of knowledge presently available on the subject of mergers. Particular attention will be placed upon applications of this subject to the retail food industry. The author hopes that the material presented will be of some value to members of the retail food industry and to students of food distribution.

In view of these objectives, general background material on the subject of corporate mergers and consolidations will be presented. This material will serve to introduce the student to the subject, thereby providing him with a more comprehensive understanding of the subject and this study.

This background information will be accompanied by data on grocery chains making multi-unit acquisitions during 1956 and on the firms which they absorbed. Emphasis will be placed upon the characteristics of these mergers. Causes, results and operating problems of these food chain mergers will be considered.

Because of the need for basic research in the area, the thesis should be viewed as a general introduction to the subject of mergers in the retail food industry rather than a specific study of the firms included in the study. No claim is made for the study's all inclusiveness, rather, it is hoped that the general nature of the presentation will encourage further, and more detailed studies.

Procedure Followed in Obtaining Information

The introductory material was largely taken from secondary sources such as basic accounting and corporation finance texts, trade journals and publications of the Federal Government.

The writer's industry survey provided the bulk of the data from which this thesis was developed. According to the Supermarket News, thirty-four multi-unit food retailing firms were absorbed in 1956 by twenty-five acquiring companies.[1] Research of financial chronicles revealed two mergers which had been omitted by this study. After selecting these firms as a sample, a questionnaire was developed through a study of secondary materials, personal contacts with industry leaders and the helpful advice of several faculty members.

This questionnaire[2] and a covering letter[3] were mailed to the presidents of the twenty-five firms acquiring food chains during 1956.

Respondents were requested to check applicable choices or to fill in their own replies for each of the questions. The questions were listed under the categories of (1) pre-merger information, (2) terms of the merger, and (3) operations since the merger. Respondents were encouraged to comment freely and space was provided for comments and discussion of each question.

Since seven firms had acquired more than one multi-unit firm during the year, each respondent was requested to

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[1]"Multi-Unit Mergers in 1956," Supermarket News, January 7, 1957, p. 1.

[2]A copy of the questionnaire appears in Appendix A.

[3]A sample letter appears in Appendix B.

reply to all questions in the frame of reference of one specific merger.

The returned questionnaires were edited and tabulated for use as a basis of discussion throughout the study. The questionnaire was designed to follow the outline of this thesis.

Sixteen employees and store-level management in three of the acquired firms were personally interviewed by the author. This was done in an attempt to gain some insight into the reactions of personnel and personnel problems associated with the food chain merger.

Adequacy of the Sample

The 25 firms undertaking multi-unit mergers in 1956 were included in the survey. Information was sought on these firms and the companies which they acquired. Fifteen completed questionnaires were returned. Three others were returned with the explanation that the information requested was too "personal" or "controversial" for release.

Consequently, data was received on 60 per cent of the acquiring firms and upon 41 per cent of the food chains which were absorbed during 1956.

At times, information from substantiated sources such as personal interviews or published financial information increased the size of the sample used on certain aspects of the mergers. In other cases, incompleted questionnaires yielded slightly smaller samples.

The interviews of store-level personnel were not intended to constitute a representative sample.

Limitations of the Study

Technical differences between the various types of external expansion will be hastily observed at a later point, however, the term "merger" will be used in an inclusive context to refer to any combinations of previously independent companies rather than in any restrictive legal or technical sense.

The term "chain" will be used to refer to any company composed of two or more retail outlets.

When the "survey" of the "questionnaire" is given mention, reference is made to the contact made by the author with the presidents of twenty-five grocery chains. Data will usually be presented on the basis of fifteen completed questionnaires.

This study is concerned with the multi-unit horizontal acquisitions of food chains. Our discussion will generally be limited to mergers of competitive-type units of food chains.

Although federal regulation of mergers will be discussed at a later point, no attempt has been made to evaluate the effects of these particular mergers upon competition.

Merger activity is a somewhat controversial subject in the retail food industry and the validity of the survey findings may be questioned on that basis. The writer hopes that the anonymity of the questionnaire has minimized this factor. The fairly adequate rate of respondence and the outright frankness of many replies has tended to substantiate this hope.

A further limitation on the survey results stems from the "forced choice" methodology which was employed throughout the questionnaire. This technique was necessary in order to gain a high rate of respondence. This high rate was essential in view of the relatively small population. In the hope of increasing the validity of these results, respondents were encouraged to express themselves freely on each question. Extra space was allowed for this purpose. The replies and remarks obtained were of great value to this presentation.

CHAPTER II

THE NATURE OF MERGERS

Terminology

Technical distinctions are ordinarily observed between different types or methods of external expansion. The terminology in use may be of some value in distinguishing between various kinds of transactions. From legal and accounting viewpoints, important distinctions are drawn between such terms as "merger," "consolidation," "purchase," "amalgamation," "acquisition," etc. Although there are probably no definitions which will prove to be universally acceptable, this differentiation does have some descriptive value.

A concept which requires definition at the outset is the use of the term "merger" in the title and throughout the text. This term refers inclusively to any combination of previously independent companies. The term "merger" is used because of its general popularity, but will be used interchangeably with other terms whenever this practice seems appropriate or necessary.

Federal tax laws recognize the combination of corporations by consolidation or by merger. A "merger" is said to take place when one of the corporations retains its corporate existence and absorbs the other or others which thereby lose their corporate existence. A "consolidation" occurs when a new corporation is created to take the place of the constituent firms which are themselves dissolved in the process.[1]

Therefore, if companies A and B combine to form C, they consolidate; if one of the two old companies loses its identity by combination with the other, they merge.

Using the federal tax laws definition of these terms, the survey revealed that only two of the fifteen responding firms undertook consolidations rather than mergers. This result might be expected in view of the fact that the acquiring firm was typically much larger than the merged company.[2] Consolidations occurred in cases where smaller firms joined forces.

The Federal Trade Commission differentiates between the terms "acquisition" and "merger." This agency states that the term merger is suggestive of a combination of companies of a similar size, whereas dissimilarity in size is suggested by the term acquisition.[3] Under the definitions of the Commission, probably very few of the food chain

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[1]Prentice-Hall, Inc., Prentice-Hall Federal Taxes, II (Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1957), p. 9805.

[2]For a comparison of the size of the acquiring and merged food chains included in the survey see Appendix C.

[3]Federal Trade Commission, Report on Corporate Mergers and Acquisitions (Washington: U.S. Government Printing Office, 1955), p. 40.

combinations taking place in 1956 could be classified as mergers. This concept of "merger" will not be used, but the Commission's use of the term "acquisition" is of some descriptive value.

The term "purchase" is also in common usage. This term may be more correctly used when an outright sale of stock or assets is made to the acquiring firm. This term would aptly describe many of the food chain combinations occurring in 1956. Several respondents were quick to note that their company did not "merge" with the smaller acquired firm. The President of one major chain stated:

> I would like to point out that our company did not merge. . . . We simply purchased stores for a cash consideration on the basis of solid asset values.

Further distinctions may be drawn between the holding company transaction and merger. The holding company arrangement is usually accomplished by the purchase of a controlling interest in the stock of one corporation by another. The purchasing corporation is known as the parent or holding company and the company whose stock is acquired is called the subsidiary. The holding company arrangement constitutes a "merger" when it is undertaken for operating reasons as opposed to mere financial control.[4]

As a notable illustration of the latter, on November 25, 1955 it was announced that W. Garfield Weston and

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[4]"Multi-Unit Mergers in 1956," op. cit., p. 34.

Associates purchased controlling interest (23 per cent of the outstanding common stock) in the National Tea Company.[5]

The terms "combination" and "amalgamation" commonly include any business arrangements by which the ownership and management of independently operated properties are brought under the control of a single management. These terms are more or less synonymous with "merger" as this term has been defined.

The Direction of Mergers

Mergers may take place in widely different directions which have been traditionally designated as horizontal, vertical and circular or conglomerate.[6] The first two are common to food retailing whereas the latter is generally not, being found most commonly among the widely-diversified manufacturing firms.

This paper is primarily concerned with horizontal-type mergers. In the horizontal merger, competitive-type units are joined. Both the acquiring and the merged firm are engaged in similar operations, for our purposes food retailing. With two exceptions, the thirty-six merged firms included in the sample represented horizontal additions to

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[5]National Association of Retail Grocers, The Merger Movement in Retail Food and Grocery Distribution (Chicago: National Association of Retail Grocers, 1956), p. 6.

[6]H. A. Toulmin, Jr., Millions in Mergers (New York: B. C. Forbes Publishing Company, 1929), p. 96.

the acquiring firms. Horizontal mergers are by far the most significant and dominant in food retailing.

Vertical mergers are those in which the merger represents a movement forward towards the end product stages of distribution or, as is more common among food retailers, backwards towards the functions of wholesaling and production of food products.

The forward-vertical merger is well illustrated by the 1956 acquisition of the Piggly-Wiggly Midwest Company and Klein Supermarkets, Incorporated, by the Consolidated Foods Corporation. The acquiring firm conducts a general wholesale grocery business and engages in canning and processing of a wide line of food products. The Piggly-Wiggly and Klein mergers represented the firm's first entry into the retailing field.[7]

Backwards vertical mergers have been undertaken by food chains which felt that it would be advantageous to acquire wholesaling operations or to process as well as distribute food products. The facilities required for these purposes need not be acquired through merger but are often built to the required specifications.

Productive facilities are more widespread among the larger food chains, and in a horizontal merger of two large

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[7]Moody's Investor Service, Moody's Industrials (New York: P. B. McCruder, Publisher, 1956), p. 2419.

firms, a vertical acquisition would be likely to emerge. None of the firms surveyed reported vertical acquisition of properties. In addition to retail stores, only transportation equipment and warehousing facilities were acquired. The absence of vertical acquisitions among the responding firms is attributed to the relatively small size of the firms which were absorbed in 1956. Only four of the thirty-six transactions were concerned with twenty-five stores or more and twenty-five of the transactions involved ten or less units.

As an example of backward-vertical merger activity by a retail food chain, Safeway Stores, Incorporated, has acquired firms in a wide range of food processing fields including meat packing, butter, cheese and other operations.[8]

Circular or conglomerate mergers are those in which no readily discernible relation exists between the nature of the business of the acquiring and the acquired firm. For example, American Home Products Company has followed a policy of expansion through diversified mergers that have provided the firm with such seemingly dis-allied interests as pharmaceuticals, house paints and Chef Boy-Ar-Dee Spaghetti.[9]

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[8]Federal Trade Commission, Report of the Federal Trade Commission on the Merger Movement (Washington: U. S. Government Printing Office, 1948), pp. 52-54.

[9]*Ibid.*, pp. 62-64.

CHAPTER III

MERGER PROCEEDINGS

Initiation of Negotiations

The first step leading to a merger is the discovery by some party that an opportunity exists whereby an apparent advantage may be gained if one firm joins with or acquires all or part of another. Negotiations originated by this party may eventually lead to the consummation of the merger.

Merger negotiations may be initiated by (1) the acquiring firm; (2) the acquired firm; (3) both, jointly; (4) by an outside promoter, or (5) by a divesting firm.

TABLE I

INITIATION OF NEGOTIATIONS LEADING TO THE MERGER OF FIFTEEN FOOD CHAINS IN 1956

Initiating Party	Number of Mergers
Management of the merged firm	7
Management of the acquiring firm	6
An outside promoter	2
Total	15

According to the Federal Trade Commission, promotions by the acquiring firm are the most common.[1] When the merger is regarded as a tool of expansion, initiation by the acquiring firm seems logical. Promotion by the merged firm is said to be common when smaller companies wish to sell out to other firms.[2] Apparently this desire was predominant among several of the firms surveyed. [See Table I.]

The top management of large food chains insist that the small companies seek them out. The President of American Stores comments:

> Virtually all of our acquisitions have been made through approaches to us.[3]

The top management of National Tea agrees:

> We seldom had to go out and scout acquisitions. Generally, word gets around that we're interested in consolidating or expanding into an area and the acquisitions seek us out.[4]

Initial joint negotiations are not common, occurring usually where the firms have been working together and consider it mutually advantageous to operate as one organization. A notable jointly-promoted merger was that of several small food chains in the Washington, D. C., area. The Food-Town

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[1]Federal Trade Commission, Report on Corporate Mergers and Acquisitions, op. cit., p. 8.

[2]Ibid.

[3]Len Kanter, Mergers U.S.A. (New York: Food Publications, Inc., 1957), p. 9.

[4]Ibid.

firms originally banded together for joint warehousing and purchasing. Later the members decided upon a complete integration of their independent operations.[5]

Mergers are initiated by professional promoters in anticipation of personal gains. Various methods are employed in compensating the promoter. A common practice is to pay him a cash retainer to cover his immediate expenses and to assign him a block of stock if the merger is consummated.[6] Operating executives of the firms surveyed were responsible for the initiation of most mergers. The managements of two acquiring firms used outside promoters.

Negotiations may be initiated by a divesting firm disposing of a portion of its assets as, for example, when a firm desires or is forced to sell a part of its property or business.

Merger Negotiations

Negotiations are usually originated on an informal level. The most practical procedure is to seek the cooperation and the consent of the key interests of the firm to be merged. If this obstacle is hurdled, the chances of overcoming any opposition of dissenting stockholders are much better.

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[5] Annete C. Ward, "3 Chains 'Force' Food Town into Washington, D.C. Merger," Supermarket News, November 12, 1956, p. 1.

[6] Federal Trade Commission, Report on Corporate Mergers and Acquisitions, op. cit., p. 89.

The evaluation of the firm to be merged is a vital area in the merger negotiations. Before negotiations on this matter begin, the acquiring firm will have thoroughly investigated the properties and the records of the firm to be merged.[7] Professional assistants such as accountants, lawyers and engineers will be employed in this investigation.

The price of the assets or shares is largely based upon informal bargaining. At times this bargaining may be competitive. Contacts with industry leaders revealed that it is not uncommon for a food chain seeking merger to have several bids or offers. On the other hand, the merging firm may be in a poor bargaining position when financial difficulties or estate taxes press a rapid liquidation.

Some considerations involved in the evaluation of the firm to be merged are (1) the book value of the firm, (2) the market value of its securities, (3) the appraised value of the firm, and (4) the earning power of the firm.

Seldom, if ever, will the price of the firm be based upon the book value of the firm. This value fails to register current or replacement prices and is deficient because of the nonuniformity of the accounting methods of the firms.

The market value of a corporation will quite often approximate the current market price of its securities.

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[7]For a discussion of the details involved, see: George Hillis Newlove, Consolidated Statements (New York: D. C. Heath and Company, 1948), pp. 4-12.

This is not applicable to small, closely-held firms since their stock has little negotiable value. A study of several mergers revealed that the exchange ratio of common stocks rather closely conformed to the market value of the respective securities.[8]

If an appraisal of the firm's holdings is made, the property is ordinarily broken down into its component parts for the purpose of detailed examination. The appraisal value is not a complete answer to the valuation problem since the results will not usually be universally acceptable.

It is axiomatic that an enterprise is only worth what it can earn. The firm will not be merged unless the anticipated earnings or savings will support the investment. Therefore, the dollar sales and the operating profit of the firm are all-important valuation considerations.

When an agreement has been reached through informal proceedings, the participants will draw up a memorandum embodying, in plain business language, a statement of the proposed terms.[9] If this meets with the approval of key interests, a formal agreement is drawn up concerning such vital factors as the price of the assets or shares or the

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[8]William H. Husband and James C. Dockeray, Modern Corporation Finance (Chicago: Richard D. Irwin, Inc., 1948), p. 535.

[9]John C. Best, "How to Buy A Company," Dun's Review and Modern Industry, March, 1955, p. 107.

exchange ratio of securities, rights of stockholders and creditors, names of the company officers and directors, maintenance of the merged firm's name and a complete description of the firm's new capitalization.[10]

If the securities of the acquiring firm are listed on a national exchange then the merger must clear with the Securities Exchange Commission.[11] Under the provisions of a newly-passed federal law, the Premerger Notification Act, the Department of Justice will require sixty days advance notice if the combined assets of the firms exceeds $10 million. If both firms are engaged in interstate commerce, their legal counsel may secure an opinion from the Federal Trade Commission on the antitrust implications of the proposed consolidation.

Authority to Merger

The authority to merge is conferred by the state either in the charter of the corporation or by state law. The acquiring firm will usually not require the consent of their stockholders when undertaking a merger. Unless otherwise stated in the corporate charter or state laws, a merger may be effected merely by the action of the directors of

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[10]Prentice-Hall, Inc., Prentice-Hall Corporation Guide (New York: Prentice-Hall, Inc., 1955), p. 2416.

[11]Best, *op. cit.*, p. 107.

the acquiring firm.[12] In some states the merger will require a unanimous vote of stockholders if the merger would enter the company into a new line of business.[13] If additional stock must be issued as consideration for the merger, the consent of a majority of stockholders will usually be required.[14]

Six of the fifteen acquiring firms responding to the survey noted that the approval of their stockholders was required before the merger was consummated.

At common law a corporation could not undergo merger unless the unanimous consent of the stockholders was obtained. The consent of the stockholders of the merged firm is always required. Most state laws permit a merger to take place after approval of a specified majority of stockholders. However, the merger of a firm in financial distress will usually require the approval of only a simple majority of the stockholders.[15]

Proceedings followed in merger negotiations will vary according to the method of merger.[16] The cost and complexity

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[12] Prentice-Hall, Inc., Prentice-Hall Corporation Guide, op. cit., p. 2416.

[13] Husband, op. cit., p. 545.

[14] Newlove, op. cit., p. 3.

[15] Ibid.

[16] A discussion of several different methods of merger appears in Chapter IV.

of merger proceedings are likely to be much greater when a new company is formed than when one firm merely absorbs the other. In the former case it is necessary to float new securities, liquidate the old firm and transfer the assets.

Rights of Dissenting Stockholders

A sufficient number of dissenting stockholders may prevent the completion of merger proceedings. A minority group insufficient to halt merger proceedings by ballot may be able to do so by seeking an injunction against the assenting stockholders and officers. An injunction may prohibit the transaction on the grounds that the corporation has not the legal authority to merge or that the move has been taken in bad faith.[17]

If the merger does obtain the required vote, the stockholders may refuse to sell their shares or make the required exchange. State laws which permit mergers to take place with less than the unanimous consent of the stockholders of the merged firm will generally make provision for paying the dissatisfied stockholders the appraised value of their shares at the time of the merger.[18] Stockholders dissenting to the merger have a certain specified time to file a demand upon the corporation for the payment

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[17]Prentice-Hall, Inc., Prentice-Hall Corporation Service (Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1957), Vol. 1, p. 2921.

[18]*Ibid.*, Vol. 1, p. 2419.

of the fair value of their stock. The method of appointing appraisers varys from state to state as do the proceedings involved in seeking this payment.

Even when completed, a merger may be enjoined by action at law on the grounds that the merger was undertaken fraudulently or in bad faith. Minority stockholders are also protected by courts of equity against fraud or oppression. Stockholders proving damages are entitled to redress from assenting stockholders.[19]

Preferred stockholders are not bound to take stock in the new corporation. After the merger, the continuing corporation is liable to the preferred stockholders regarding stock dividends.[20] These shares may be called in if a redemption clause exists. An attractive exchange ratio may be offered for common stock or bonds of the acquiring firm.

Rights of Creditors

Generally, the merger will not require the consent of the creditors of the firm to be merged. In the event of fraud creditors may, however, halt merger proceedings.

The merger transaction may not impair the rights of the creditors. Legally, the liabilities of the merged firm

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[19]Floyd F. Burtchett and Clifford M. Hicks, Corporation Finance (New York: Harper and Brothers Publishers, 1948), p. 578.

[20]Newlove, op. cit., p. 4.

are assumed by the acquiring firm only if the merger contract specifies.[21] As a practical matter, when the merged firm is dissolved, the liabilities become attached to the acquiring firm.

When the merger preserves the corporate entity of the merged firm, the creditor's position requires no adjustment aside from the fact that the credit rating of the firm is likely to be influenced by the transaction. The laws of some states specifically provide that the merged firm may not be dissolved, but must continue for the purpose of adjusting its liabilities.[22]

Whether the liabilities are retained by the merged firm or assumed by the acquiring corporation, the debts of the firm are legally enforceable.

Unsecured creditors have no claim against the assets of the acquiring firm but may enforce their claims through legal proceedings.

Since the acquiring firm cannot receive better title than the merged firm possessed, secured leins are not affected by the merger.[23] Upon default, the secured creditor may either bring an action at equity to follow the assets of the merged firm or he may bring an action at law to enforce the liabilities of the company.

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[21] Ibid.

[22] Prentice-Hall, Inc., Prentice-Hall Corporation Service, op. cit., Vol. 1, p. 2015.

[23] Husband, op. cit., p. 547.

CHAPTER IV

METHODS OF MERGER

To say that there are a few well defined and established approaches to consolidation would be incorrect, since each transaction has unique provisions. But it will be possible to distinguish between a few rather clearly defined avenues of operation through which mergers may be arranged. The problems of finance involved with each method will be discussed briefly.

Merger of the properties of an acquired firm may take place through: (1) a direct purchase of the assets of the merged firm; (2) a negotiated exchange of the stocks of the acquiring and the merged firm; (3) a direct purchase of the stock of the merged firm, or (4) through some combination of these.

In every case it may be said that a sale of the assets of the merged firm is involved for some consideration.[1] This consideration may be in the form of cash or securities. This is not to imply that every sale of assets constitutes a merger.

The method of merger employed by the surveyed food chains is indicated in Table II.

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[1]Prentice-Hall, Inc., Corporation Service, op. cit., Vol. 1, p. 2400.

TABLE II

METHODS BY WHICH SEVENTEEN FOOD CHAINS WERE MERGED DURING 1956

Method Employed	Number of Times Mentioned
Purchase of assets	8
Stock exchange	7
Stock purchase, from concentrated stockholders	3
Stock purchase, on the open market	0
Total	18*

*One respondent noted that a combination had been used.

The Asset Purchase

The simplest way to bring about a consolidation in the average corporation is to arrange through the officers and directors of the company for a purchase of its assets.[2]

In the asset purchase merger, the acquiring firm will purchase, for a cash consideration, such assets as the land, buildings, inventory, accounts receivable, patent rights, etc. of the merged firm. All or only a portion of the assets may be purchased. This transaction is a "sale" in the true sense of the word. Of the eight food chains noting that the asset purchase method had been used, two stated that they had not purchased all of the properties of the merged firm.

[2]Burtchett, op. cit., p. 565.

The fundamental limitation of the asset purchase method is the large capital requirements which will necessarily be involved.

Generally, the acquiring firm will favor a purchase of assets over a purchase of stock.[3] Because the asset purchase transaction gives the acquiring firm a larger tax basis, it is likely to reduce the taxable income in subsequent years.[4] Prior to the 1950 Amendment of the Clayton Act, the asset purchase method enjoyed great popularity among acquiring firms because its use exempted them from the antitrust proceedings of the Federal Trade Commission.[5]

The Negotiated Stock Exchange

Under the negotiated exchange method, representatives of the acquiring and the merged firm meet and negotiate for an exchange of their common stocks. The exchange ratio agreed upon represents, in effect, the price of the merged firm. Among active securities, the ratio of exchange is likely to approximate the market value of the stocks.[6]

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[3] J. Kieth Butters, John Litner, William L. Cary, and Powell Niland, Effects of Taxation on Corporate Mergers (Cambridge: The Riverside Press, 1951), p. 317.

[4] Ibid.

[5] See Chapter V, "Mergers and the Federal Law," p. 34.

[6] Husband, op. cit., p. 535.

The negotiated exchange offers the distinct advantage of low capital requirements. When this method is used, the firm's expansion is less dependent upon the availability of capital to the firm. Small food chains are said to have great difficulty in raising funds required for expansion purposes.[7]

The stock exchange may represent a further division of the present shares outstanding or the exchange may be accompanied by an increase in the capital stock of the acquiring firm. One respondent noted that such an increase had been made.

A limitation of the stock exchange method is that the control of the acquiring firm may be threatened through its use. Large, or continual mergers on the basis of stock exchanges will be likely to weaken the relative position of key interests. This will affect their ability to control the management and the policies of the firm.

The stock exchange method is well illustrated by the merger of Piggly-Wiggly Midwest Company, Incorporated, in 1956. In this transaction involving thirty-four retail food stores, the Consolidated Foods Corporation exchanged all of Piggly-Wiggly's outstanding stock for 211,603 common shares of Consolidated. Further provision was made for the subsequent issuance of up to 200,000 more shares dependent upon the future earnings of Piggly-Wiggly.[8]

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[7] National Association of Retail Grocers, op.cit.,p.17.

[8] Moody's Investor Service, op. cit., p. 2419.

The Stock Purchase

Historically, the customary and prevailing method of absorbing companies was through the purchase of the firm's outstanding common stock. Although now less important, stock purchase mergers are still of some significance.

The shares of the merged firm may be obtained through direct negotiations with the officers and directors of the firm, through dealings with key stockholders and, if the stock is widely held, through the purchase of the stock on the open market.

Three of the responding firms noted that their mergers had been effected through a purchase of the stock of the merged firm. In these cases, the stock was purchased solely from concentrated interests. The stock of the merged firms was, in all likelihood, very closely held. The merged firms were very small, none possessed more than ten stores.

Purchase of stock on the open market is open to severe limitations. The price of shares will rise sharply as soon as the rumor of a possible merger is afloat or, at any rate, as soon as the floating supply of shares is absorbed. The risk of failure is also present and controlling interest may not be obtained. For this reason, a stock purchase merger is not likely to be undertaken unless the stockholders are relatively few and in favor of the sale.

The stock purchase merger is open to the same objection as the asset purchase method. Namely, the extensive capital required to complete the merger transaction.

The Method of Finance

The questionnaire choices concerning the method of finance involved in the merger were: (1) stock exchange; (2) retained earnings (internally financed); (3) bank loan; (4) issue of additional common stock; (5) issue of additional preferred stock; (6) floated new bond issue; (7) funds borrowed from company officers; and (8) funds borrowed from an insurance company. Each respondent checked at least one of these methods. No other methods were noted in the provided space although some explanations were made for purposes of clarification.

The stock exchange method probably presented the least financial problems to the acquiring firms, being at once a method of merger and a method of financing the merger. Since stock of the acquiring firm represents the consideration required for the purchase, further capital needs will be minimal. One of the firms undertaking a stock exchange merger noted that the outstanding common stock had been increased. Other than this, no further means of finance were employed by the seven firms using the stock exchange method.

Both the stock and asset purchase methods require that capital be obtained from some internal or external source. The methods of finance employed by the responding firms are summarized in Table III.

TABLE III

METHOD OF FINANCE EMPLOYED IN THE MERGER OF SEVENTEEN RETAIL FOOD CHAINS IN 1956

Method of Finance	Number of Times Mentioned
Retained earnings	7
Stock exchange	7
Bank loan	4
Floated new bond issue	2
Issued additional common stock	2
Issued additional preferred stock	1
Borrowed funds from officers of the firm	1
Insurance company loan	1
Total	25*

*Several respondents noted that a combination of methods had been used.

The methods by which the acquiring firms raised the capital necessary for their stock purchase or asset purchase acquisition seemed to be related to the size of the acquiring firm. Larger firms probably had easier access to the required funds.

In general, the largest responding firms tended to note that they had financed their acquisition solely from one source. Only the largest firms financed their acquisitions from retained earnings alone. Two of the larger firms floated bond issues to cover the costs of the acquired assets. Stock exchange mergers were utilized by firms of all sizes.

With the exception of those undertaking stock exchange mergers, smaller firms tended to use multiple sources of funds. Bank loans, insurance company loans and loans from company officers were used only by small firms. Of the firms noting that these methods had been employed, none had as many as twenty stores, three had less than ten.

CHAPTER V

MERGERS AND THE FEDERAL LAW

Merger activity has played an important role in shaping federal law. Mergers have occurred in waves during prosperous eras, and major waves have contributed to the enactment of such laws as the Sherman Antitrust Act, the Federal Trade Commission Act, the Clayton Act, the Public Utilities Holding Company Act, the Securities Exchange Act and, more recently, the Anti-Merger Act.

The Clayton Act of 1914, as amended by the Anti-Merger Act of 1950 and enforced through the provisions of the Federal Trade Commission Act of 1914, provides the primary legal means for the regulation of mergers of firms engaged in interstate commerce. The inclusiveness of this federal law largely precludes prosecution under the old Sherman Act.[1] Several mergers which were declared legal under the Sherman Antitrust Act would probably not have been allowed under the Amended Clayton Act.[2]

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[1] Federal Trade Commission, Report on Corporate Mergers and Acquisitions, op. cit., pp. 156-160.

[2] Irwin M. Stelzer, Selected Antitrust Cases (Homewood, Illinois: Richard D. Irwin, 1955), p. 74.

The Retail Food Industry

At the outset it should be noted that in no instance have formal proceedings been taken against any food retailing chain under the anti-merger provisions of the Clayton Act.[3] However, a legal advisor of the Federal Trade Commission has stated that a number of mergers currently under consideration by the Commission do involve food chains.[4] Also, a public statement by a representative of the Commission warned that proceedings may be initiated against offending retail food chains in the future.[5]

Interstate Commerce

For a merger to come within the jurisdiction of the federal law, both the acquiring and the merged firms must be engaged in interstate commerce. Some interests hold that this point constitutes a loophole in the law since ". . . it has the effect of allowing acquisitions of local food distributors by large interstate concerns that would otherwise violate the Clayton Act."[6] Unlike other federal laws, the Clayton Act's merger provisions apply only to

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[3]From personal correspondence with Frank C. Hale, Legal Advisor, Federal Trade Commission, May 22, 1957.

[4]*Ibid.*

[5]Marvin Chaplin, "FTC is Studying Recent Mergers by Major Supermarket Chains," *Supermarket News*, October, 1956, pp. 1, 22.

[6]National Association of Retail Grocers, *op. cit.*, p. 20.

transactions "in" interstate commerce and not to merger activity which merely "affect" interstate commerce.[7]

Merger transactions not subject to the federal law will necessarily be governed by applicable state laws. These statutes vary widely, some are exact duplicates of the Clayton Act whereas others are at great variance with it.[8]

Specific provisions which deal with the lawfulness of mergers in interstate commerce are Sections 7 and 11 of the Clayton Act. The first is concerned with a statement of the federal regulation while the latter makes provision for the enforcement of the law.

Section 7

This section was originally written to take action against mergers effected through stock purchase, this being the prevailing method of absorbing firms at the time. This wording constituted a serious loophole in the law and was continually evaded by companies who confined their mergers to the purchase of the assets of the acquired firm. The Federal Trade Commission lacked the authority to take action against mergers which did not involve the purchase of stock. For example, the Consolidated Grocers Corporation successfully

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[7]Commerce Clearing House, Trade Regulation Reporter (New York: Commerce Clearing House, Inc., 1956), II, p. 10,033.

[8]For a brief summary of state laws comparable to the anti-merger provisions of the Clayton Act, see: Morris Forkosch, Antitrust and the Consumer (Buffalo, New York: Dennis and Co., Inc., 1956), pp. 428-432.

pleaded this defense in 1947.[9] The law now covers all mergers of interstate firms regardless of the manner in which they are undertaken. The amended section reads as follows:

> . . . no corporation engaged in (interstate) commerce shall acquire, directly or indirectly, the whole or any part of the stock or other share capital and no corporation subject to the jurisdiction of the Federal Trade Commission shall acquire the whole or any part of the assets of another corporation engaged also in commerce, where in any line of commerce in any section of the country, the effect of such acquisition may be substantially to lessen competition or to tend to create a monopoly.[10]

The terms "substantially to lessen competition" and "tend to create a monopoly" have offered problems of judical interpretation. These topics will be considered separately for convenience in discussion.

Effects Upon Competition

The type of information which the Commission considers in determining whether a merger is restrictive upon competition are: (1) information concerning the sales volume of the acquiring and the merged firm, (2) information concerning the share of sales controlled by the acquiring and the

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[9] Federal Trade Commission, Report of the Federal Trade Commission on the Merger Movement, op. cit., p. 4.

[10] Federal Trade Commission, Rules of Practice, Procedure, Organization and Acts (Washington: U. S. Government Printing Office, 1955), p. 14.

merged firm, and (3) particular facts concerning subsequent changes in competition in the market affected.[11]

Under the Clayton Act, a merger need not have actual or immediate effects upon competition since the law applies to the probable future effects of the transaction. The law, as amended in 1950, can be applied whenever it appears that competition may be adversely affected, and no actual evidence need be presented. Furthermore, any particular merger need not "substantially" affect competition if it is one of a series of mergers which, if taken as a whole, would have a "substantial" effect.[12]

A merger which brings a food retailing firm into a new area would not seem to affect competition inasmuch as the number of competitors in the market remains unchanged. One writer made this comment:

> The Federal Trade Commission is looking into recent mergers involving large super market chains for possible violations of antitrust laws. Many major mergers have involved expansion into new areas, thus hardly lessening competition at local levels.[13]

In a personal conversation with the author, the legal counsel for a major food chain expressed general agreement

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[11]For a discussion of the Federal Trade Commission's interpretation of these criteria, see: Federal Trade Commission, Report on Corporate Mergers and Acquisitions, *op. cit.*, pp. 173-210.

[12]*Ibid.*, p. 157.

[13]Godfrey M. Lebhar, Chain Stores in America (New York: Chain Store Publishing Corporation, Inc., 1952), p.29.

with this statement but was quick to add that the as-yet-untested law applies to "any line of commerce in any section of the country," and not "in any section or community" as stated in the Clayton Act prior to the 1950 Amendment. The acquisition of a food chain in an area which is already served would seem more apt to "affect competition" than entry into a new area. Vertical mergers may also be held to adversely affect competition. For example, when a food chain purchases a wholesaling operation, competition may be weakened because independent food companies must either find a new source of supply or purchase indirectly from their competition.[14] Discrimination may occur during supply shortages.

Tendency Towards Monopoly

Prosecution may be undertaken on the grounds that a particular merger "tends to create a monopoly." The statement is frequently made that the major cause of industrial concentration or "big business" in the United States is the growth of large firms through merger.[15] This was undoubtably true of the extensive merger activity which took place around the turn of the century. However, recent

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[14]National Association of Retail Grocers, op. cit., p. 11.

[15]J. Fred Weston, The Role of Mergers in the Growth of Large Firms (Los Angeles: University of California Press, 1953), p. 101.

studies indicate that this is not a true picture of recent merger activity. In a study of seventy-eight firms in highly-concentrated industries, Weston concludes that ". . . external growth is a relatively minor fraction of the total growth of most of the firms."[16] Litner and Butters claim that in the mergers occurring between 1940-1947, the relative concentration of the industries was ". . . reduced as a result of the acquisitions of these companies over the eight year period."[17] This reduction in concentration resulted from the strengthening of smaller and middle-sized firms which detracted from the dominance of the largest firms.

The recent case of the Scott Paper Company is illustrative of federal proceedings undertaken to prevent over-concentration in a particular industry. In June, 1956 the Federal Trade Commission filed a complaint charging that Scott's acquisitions of Soundview Pulp Company, Hollingsworth and Whitney Company, and Detroit Sulphate Pulp and Paper Company were contrary to the Anti-Merger Act. The Commission made no claim that any competition existed between Scott and the acquired companies, but, rather, stated that the company had become the dominant firm in the

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[16]*Ibid.*, pp. 101-102.

[17]John Litner and J. Kieth Butters, "Effects of Merger on Industrial Concentration," *The Review of Economics and Statistics*, XXXII (February, 1950), 101.

manufacture and sale of paper products and that any substantial acquisition by a dominant firm violates the Clayton Act. Although competition was not injured, the Commission felt that the transactions tended towards monopoly.[18]

An outstanding characteristic of the food retailing field is the absence of any single concern which has the power to exert a controlling influence. In terms of units operated, independent operators (those with ten stores or less) operate 94 or 95 per cent of the total number of grocery stores.[19] The estimated 437 retail food stores absorbed in food chain mergers in 1956 amounted to a very small percentage of the estimated 310,000 food stores in operation.[20] Assuredly, the sales volume of these units was of much more significance than this comparison reveals. Many very small operations are included in this larger figure. This example does, however, dramatize the lack of industry-wide concentration. Also of significance is the fact that the firms acquiring food chains in recent years have been the smaller and middle-sized firms.[21] In the 1956 food chain mergers, the very largest firms were

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[18] Annual Report, the Scott Paper Company, 1956, p. 7.

[19] National Association of Retail Grocers, op. cit., p. 4.

[20] R. W. Mueller, "Facts in Grocery Distribution," Progressive Grocer, April, 1957, p. 56.

[21] Kanter, op. cit., p. 6.

inactive. Many of the larger regional and national chains were very active in this merger movement.

Jurisdiction of the Federal Trade Commission

Section 11 of the Clayton Act gives the Federal Trade Commission the authority to enforce compliance upon all firms subject to its jurisdiction. The jurisdiction of the Commission is specifically stated in the Federal Trade Commission Act of 1914 and includes authority over all fields of business with the exceptions of banks, common and air carriers and firms subject to the Packers and Stockyards Act of 1921.[22] Exempted firms are under the jurisdiction of other governmental agencies. Interstate food chains are ordinarily subject to the jurisdiction of the Federal Trade Commission. However, the exemption of firms subject to the Packers and Stockyards Act is currently posing an interesting legal problem. This law defines a meat packer as:

> . . . any business in whatever primary field, connected in any way, or operating to any degree, in meat packing.[23]

Food Fair Stores, Incorporated, has temporarily avoided the jurisdiction of the Federal Trade Commission on an alleged violation of Section 2 of the Clayton Act because the firm owns and operates a meat-packing plant.[24] Until this

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[22]Federal Trade Commission, Rules of Practice, Procedure, Organization and Acts, op. cit., p. 3.

[23]Art Garel, "Food Fair Ruled FTC Exempt; Others Packing Meat Affected," Supermarket News, April 22,1957, p.1.

[24]Ibid.

law is changed or clarified, mergers undertaken by any of fourteen food chains, wholesalers, manufacturers or other businesses operating meat packing facilities would appear to be exempt from the Clayton Act.[25] These firms do, however, come under the jurisdiction of the United States Department of Agriculture. This situation will probably be resolved in the near future. Hearings have already been suggested which would transfer antitrust and discriminatory practices of all meat packers to the Federal Trade Commission.[26]

Proceedings Under Section 7 of the Clayton Act

An inquiry or investigation of an interstate merger may be undertaken by the Federal Trade Commission upon the request of the President, Congress, other governmental agencies or the Attorney General or upon referrals by the Courts or the complaint of a consumer, businessman or concern aggrieved by the merger.[27] The Commission will usually initiate an inquiry or investigation into a particular merger

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[25] Ibid.

[26] Art Garel, "Meat Packing Ruling Called Blow to FTC Usefullness," Supermarket News, April 29, 1957, p. 4.

[27] Federal Trade Commission, Rules of Practice, Procedure, Organization and Acts, op. cit., p. 7.

on its own motion to do so. At the present time, each merger of which the Commission has knowledge is "considered for the purpose of determining its probable future effects upon competition."[28]

Section 7 may be directly enforced by either the Department of Justice or the Federal Trade Commission or indirectly enforced by any injured party through a private suit. Occasionally business concerns have undertaken legal action for damages under the Clayton Act, but suits by individual persons are very rare.[29] Legal action is not generally feasible since the injured person must not only prove a violation of the Act, but actual damages as well. Moreover, the costs of carrying on such a suit are very high.[30]

Usually the inquiry or investigation will be undertaken by the Federal Trade Commission. This agency has the power to gather and compile evidence for the investigation of any merger of firms engaged in interstate commerce. In obtaining information, the Commission may require firms to file annual or special reports or answers to specific questions concerning their organization, business practices,

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[28]Hale, loc. cit.

[29]Forkosch, op. cit., p. 293.

[30]Ibid., p. 292.

management, etc. The Commission is authorized to subpoena witnesses and conduct investigational hearings through the Federal Courts in order to produce documentary evidence. The agency also obtains a great deal of its information from financial periodicals, trade journals and other business publications.[31]

To improve the effectiveness of the Commission in obtaining information, the Premerger Notification Bill has been passed very recently. This Act requires firms intending to merger to give sixty-day advance notice to the Justice Department if their combined assets exceed $10 million.[32] This will allow the Federal Trade Commission time to halt undesirable mergers before they can be completed. Prior to the passage of this law, co-mingling of the assets of the acquiring and merged firms greatly complicated divestment proceedings.

Upon the request of the Federal Trade Commission or other prosecuting party, the Attorney General serves a complaint stating the offence to the firm whose merger is alleged to be illegal. A hearing is held in a Federal Court within thirty days of the formal complaint. The accused

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[31]National Association of Retail Grocers, op. cit., p. 21.

[32]U.S. House of Representatives, Committee on the Judiciary, Premerger Notification, Hearings before Subcommittee, 85th Cong., 1st Sess., on H.R. 264 and H.R. 2143, March 6-21, 1957 (Washington: Government Printing Office, 1957), pp. 2-4.

firm must show why the merger was not unlawful. The Federal Trade Commission, upon reaching an opinion that the Act has been violated, may issue a cease and desist order upon the acquiring firm, ordering it to divest itself of its illegally acquired property or stock.

If the firm refuses to comply with the order, the Federal Trade Commission may appeal to the United States Court of Appeals. Private parties are not allowed to receive damages on the basis of a cease and desist order but only after court litigation.[33]

The decision of the Federal Court is not final but is subject to review at the request of the firm under prosecution. However, when the firm is issued a final decree, it will be ordered to divest itself of the stock or the assets of the acquired firm.[34]

Violation of the Clayton Act is a crime punishable by a maximum penalty of $5,000 fine and one year's imprisonment. If the suit has been carried on by an individual or a firm, triple damages will be awarded on the basis of the actual damages sustained and proven.[35]

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[33] Arthur T. Dietz, An Introduction to the Antitrust Laws (New York: Bookman Associates, Inc., 1951), p. 44.

[34] Commerce Clearing House, op. cit., Vol. 1, p. 4204.

[35] Ibid., Vol. 2, p. 9011.

Informal Pre-Merger Proceedings

The Federal Trade Commission recommends that firms contemplating merger avoid the possibility of future litigation by meeting with representatives of the Commission and discussing the motives, terms and properties involved in the proposed merger. This service is entirely voluntary on the part of merger participants and the proceedings are highly confidential.[36]

This service is particularly helpful because participants might otherwise unknowingly violate the federal law. Under the Amended Clayton Act, the intention of the parties is not considered in determining the legality of the merger.[37]

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[36]Federal Trade Commission, Rules of Practice, Procedure, Organization and Acts, op. cit., p. 18.

[37]Federal Trade Commission, Report on Corporate Mergers and Acquisitions, op. cit., p. 159.

CHAPTER VI

NON ECONOMIC MOTIVATIONS

Mergers do not simply occur, but are the end result of long hours of planning, negotiation and work. Rather than being conceived as ends in themselves, mergers should be regarded as means of accomplishing the objectives of firms and individuals.

Definition of Economic Motivations

Both the acquiring and the merged firm seek to gain specific advantages through the merger transaction. These objectives will vary but are, in themselves, steps towards the expansion or the improvement of their firms.

Economic motivations are those objectives which seek to improve the business conditions of the firms involved in a merger. Such factors may act to increase sales, to decrease or eliminate costs or otherwise improve the efficiency and the profitability of the firm's operations. Sound economics must underlie the successful merger. The economic motivations of the surveyed acquiring and merged food chains will be discussed in Chapters VII and VIII.

Although food chain mergers are undertaken or, at the very least, justified in terms of economic motives, it is important to realize that human motives are involved in every decision to merge or be merged. Such motives may operate at both the conscious and subconscious levels.

Characteristics of Major Merger Movements

Each of the major movements in this country have had outstanding characteristics.

The classical era of consolidation took place from 1898-1903 and was by far the largest and most significant of the merger movements.[1] This movement was not based upon sound business motivations but, rather, it was characterized by individuals who were building personal empires.[2]

The second major movement took place in the 1920's and was of less significance than the first.[3] Rather than being characterized by rational managerial decisions, this movement was largely based upon speculative motives. These mergers were initiated and carried out by financial interests rather than by the management of the firms involved.[4]

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[1] A. D. H. Kaplin, "The Current Merger Movement Analyzed," The Harvard Business Review, 33 (May-June, 1955), 92.

[2] Edward F. Howry, "An Outlook on Mergers," Dun's Review and Modern Industry, October, 1955, p. 45.

[3] M. A. Adelman, "An Economic Analysis of the Current Wave of Mergers," Legal, Financial and Tax Aspects of Mergers and Acquisitions, ed. Elizabeth Marting, Financial Management Series, No. 114 (New York: American Management Association, 1957), p. 85.

[4] Kaplin, op. cit., p. 94.

Modern-day mergers are far less significant than either of these major movements and are based largely upon sound business judgment.[5] In general, these combinations are initiated by management and there is a definite emphasis on the managerial problems of the firms involved.[6] Personal motives are probably of minor importance in most modern-day mergers.

However, it should not be assumed that personal motives are nonexistent. Some writers take the view that personal motives are the most significant factors in most mergers.[7] Without sharing this extreme viewpoint, it would seem worthwhile to consider some examples of its possible implications.

The Acquiring Firm

Expansion is not likely to be undertaken in the absence of an enthusiastic and hopeful management. This point is well expressed in the following statement:

> All business enterprises are the creatures of human beings. . . a business does not expand of itself; it expands because of the motives, passions and hopes of men who operate it.[8]

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[5]Adelman, op. cit., p. 85.

[6]Kaplin, op. cit., p. 95.

[7]Arthur Stone Dewing, The Financial Policy of Corporations (New York: The Ronald Press Company, 1941), II, p. 854.

[8]Ibid., p. 853.

Each merger movement has come at a time of high business expectations. During depression years, merger activity is generally of very little significance.[9]

An important factor which is responsible for merger activity is the drive for expansion which characterizes American business. Dewing has suggested that the size of a corporation is the primary criterion for the evaluation of its success:

> All motives for expansion. . . arise out of the preconception that there is increased strength, excellance or value in increased size . . . the world, or as much of it as records the standing of a business and the reputation of the man who guides its destinies, measures the success of a corporation by increased size. . .[10]

Closely akin to this thinking is a non-economic motive seldom (if ever) advanced by merger participants, but possibly in the background of many transactions. This is the effect of the merger upon the personal status of the management of the acquiring firm.

The prestige and the earning power of management depends, among other things, upon the size of the company which is operated. A merger will tend to increase the size of the firm and, consequently, the power, prestige and perhaps the earning power of top management personnel.

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[9] Federal Trade Commission, Report on Corporate Mergers and Acquisitions, op. cit., p. 19.

[10] Dewing, op. cit., p. 854.

Business executives can hardly be presumed to be completely impervious to such considerations.

The Merged Firm

The management of the merged firm cannot be presumed to act upon purely economic motives. As an illustration, an extensive survey of the motives of merging firms in different industries revealed that some managers welcomed the opportunity to become connected with larger companies. Their reasons were varied, ranging from a desire for a greater sense of personal security to the prestige of being a responsible officer in a large organization.[11] Such motives are not necessarily in the best economic interests of the merged corporation.

Executives of a merged firm might encourage a merger solely on the basis of their own personal gains. Under the provisions of many recent food chain mergers, the top officers of the merged firm are given a personal service contract with the acquiring firm at a substantial salary for a stated number of years. The presidents of several food chains merged in 1955 were given personal service contracts at a salary of $75,000 a year.[12] If this amount was greatly

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[11]Butters, op. cit., p. 217.

[12]National Association of Retail Grocers, op. cit., p. 19.

in excess of the executive's previous salary, this may have tended to elicit his support of the proposed merger.

Promoters

Outside promoters are sometimes accused of initiating and encouraging mergers which they know to be economically unsound.[13] Since the promoter's income is largely dependent upon the consummation of the merger, it is said that he may actively endorse a merger although the combination has little economic justification and may prove harmful or disastrous to the firms involved.

Importance of Non-Economic Motives

Regardless of the personal ambitions or interests of the individuals concerned, the idea of merging will be sold on the basis of its economic justification to the companies involved. The parties concerned must generally be convinced that something of value will be gained by the act of combining the independent operations. There must be tangible evidence of anticipated benefits. The basis upon which mergers are justified is the hope of profitability.

Non-economic motivations are probably not of great importance in most modern-day mergers. This previous discussion has not been intended to preclude the fact that a

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[13] George J. Stigler, "Monopoly and Oligopoly by Merger," American Economic Review, Proceedings, XL (May, 1950), 28-29.

merger may at once serve the interests of individuals and the economic requirements of the firm. This is probably the most usual turn of events.

However, it should be noted that personal elements are present in the merger transaction. This paper is concerned far less with these human motives which lead firms to merger than with the actual economic influences involved in the transaction.

CHAPTER VII

ECONOMIC MOTIVES OF THE ACQUIRING FIRM

Critical Motivations

The dominant motives that lead the acquiring and the merged firms to merge are of varying significance and, consequently, it is difficult or impossible for the participants to isolate one factor as being "the" cause of a particular merger.

The ideal classification of merger motives would be on the basis of "critical motivations," i.e., those factors in whose absence a particular merger would not have occurred.[1] This approach is impracticable since the decisions of the management of both the acquiring and the merged firm are invariably based upon a complex of motivations. At best, one can only determine whether a particular factor was of major or minor importance as an objective of the merger.

In the presentation of data on the motivations of participants in fifteen food chain mergers an attempt has been made to show the relative importance of certain factors in leading to the consummation of these transactions. But

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[1]Butters, op. cit., pp. 201-202.

to say that a particular factor was a "motive" is not to say that the merger was "caused" by that factor in the sense that the transaction would not have taken place in its absence.

Anticipated Motives

Through an investigation of secondary materials, case studies and personal contacts with industry leaders, six major classifications of economic motivations of acquiring food chains were developed. These were: (1) an opportunity for increased sales volume in a new market; (2) increased sales volume in a market already served; (3) an opportunity for economies of operation; (4) an opportunity to draw in top management talent; (5) an opportunity to improve the financial condition of the firm, and (6) tax savings.

Perhaps it is noteworthy that in every case respondents felt that one of these factors was "of the utmost importance." [See Table IV.] Nine write-in answers were received in reply to the question "Would you please make a brief statement concerning the motives of your firm in entering this merger?" In no case was a totally new reason presented, typical replies being: "to get new territory quickly within range of our existing warehouses"; "over-all savings due from consolidation"; "to increase sales"; and "new untouched territory."

TABLE IV

MERGER MOTIVATIONS STATED TO BE "OF THE UTMOST IMPORTANCE" TO THE ACQUIRED FIRM IN FIFTEEN MERGERS OF FOOD CHAINS IN 1956

Motivation	Number of Times Mentioned
Increased sales by entering a new market	8
Increased sales through expansion in present market	4
Economies of operation	2
Improved financial condition	1
To draw top management personnel into the firm	0
Tax savings	0
Total	15

Vertical diversification was not included as a merger motivation. This was not felt to be important for our purposes in the belief that only horizontal acquisitions had been included in the survey. However, two of the chains acquired in 1956 were absorbed for the purposes of vertical integration. (See Chapter II, p. 11.)

Business expansion is an obvious motivation for merger activity. An opportunity for increased sales in either a new or presently served market were the most significant objectives of the firms surveyed. [See Table IV.] In these cases, the merger was largely a tool of expansion. As such, it may be regarded as a supplement to the construction of new capacity.

The New Area

Expansion into a new area was the most predominant motive expressed by respondents. [See Table V.] The new area offers great potential to the acquiring firm since the sales volume of the new units represents totally new business which does not encroach upon the sales volume of the chain's presently operated units.

TABLE V

THE STATED IMPORTANCE OF INCREASED SALES IN A NEW MARKET AS A MERGER MOTIVATION AMONG FIFTEEN FIRMS ACQUIRING FOOD CHAINS IN 1956

Stated Importance	Number of Times Mentioned
Utmost importance	8
Very important	1
Of some importance	4
Of very little importance	1
Of absolutely no importance	1
Total	15

Joseph B. Hall, President of The Kroger Company, points out that some areas are growing much faster than others and that this fact was important in Kroger's mergers in 1956 and 1957.[2] In the words of Mr. Hall:

> These four mergers were effected because we were convinced they represented an opportunity to join forces with companies of good reputation, located in territory with great growth potential where Kroger representation was lacking entirely or at best was sketchy.[3]

[2]Kanter, op. cit., pp. 9-10.

[3]Ibid., p. 10.

The new area is also said to provide benefits from geographical diversification. Colonial President, Joseph Seitz explains this advantage:

> Mergers were decided upon as a logical way to diversify by uniting two areas of varying economic structure under one management. This provides a desirable balance between the heavily industrial midwest and the still basically agricultural south-east. In short, we have tried to create a diversified market not so directly dependent on the fluctuation of the region's economy.[4]

Once the firm has decided to enter a new market, the merger route may provide a multitude of advantages over the alternative procedure of entry by building additional capacity in the new market.

Desired facilities can sometimes be obtained more cheaply by buying up an existing company which possesses these than by building them or developing them directly.

Entry by merger does not intensify existing competitive conditions as does the direct entry of the chain into the area. On the contrary, it enables the purchaser to enter the new market in the position of an established competitor. Because the merged firm has operated for some time, a nucleus of loyal customers is obtained. If the merged firm has operated successfully, the acquiring chain may obtain "ready made" or "built in" customer loyalty. The advertising and promotional costs will be substantially less because of the antecedent firm's reputation. One chain executive said:

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[4] Ibid.

> The company will acquire a complete organization of retail . . . outlets without incurring the development, organization, and promotion costs required to build public recognition and good will for a trade name in new territories.[5]

The element of risk should also be introduced. Entry into a new location is at best a calculated risk. Perhaps the past sales records of the acquired firm are more reliable than those of stores yet unbuilt.

The value of a "foothold" in a new area cannot be stated purely in terms of the additional assets and sales volume which the merger adds to the acquiring firm. At times merger may present the only practical approach to market entry. Before a food chain can become successful in an area it must locate there. Suitable locations are not always available. One respondent indicated this in his statement that "they [the merged firm] had locations in an area that we were not able to get into." After market entry has been achieved, the firm may gradually eliminate the original locations of the merged firm.

Another important benefit of entry by merger is that there will be no expensive time lag between the decision to enter the market and the time when this becomes an operating reality. Finding locations, making leasing arrangements, building and organizing stores will take time. Time during which no sales will be realized.

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[5]Federal Trade Commission, Report on Corporate Mergers and Acquisitions, op. cit., p. 10.

An executive of the National Tea Company has summarized much of the thinking that motivates market entry by merger in the following statement:

> Taking over an outfit that's already established eliminates a great many headaches that normally plague the opening sally of an organization into a new area. Warehouse and purchasing facilities are already there and we don't have to start from scratch. In addition to these, we acquire a nucleus of personnel that knows the business and a certain number of shoppers who are used to buying at the stores we acquire.[6]

<u>Expansion in Present Area</u>

Expansion of the chains' present market was also stated by respondents to be a significant motivation. [See Table VI.] This finding was not in basic disagreement with an extensive study of "heavy" industry which revealed that a notable advantage derived in two out of five mergers was the "additional capacity to supply a market already supplied."[7]

The motivations which lead firms to acquire chains in an area already served are not dissimilar to those discussed in reference to the new area. Sales are increased, a complete operating unit is absorbed and the level of competition is not increased. Indeed, the level of competition may be

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[6]Kanter, <u>op. cit</u>., p. 9.

[7]Federal Trade Commission, <u>Report on Corporate Mergers and Acquisitions</u>, <u>op. cit</u>., p. 10.

lessened in the local market. One executive stated that his firm had merged with a competitor because "Since we had moved into the market we had difficulty and so had they. So we got together."

TABLE VI

THE STATED IMPORTANCE OF INCREASED SALES VOLUME IN AN AREA ALREADY SERVED AS A MERGER MOTIVATION AMONG FIFTEEN FIRMS ACQUIRING FOOD CHAINS IN 1956

Stated Importance	Number of Times Mentioned
Utmost importance	4
Very important	2
Of some importance	4
Of very little importance	0
Of absolutely no importance	5
Total	15

The coincidence of replies on these two motivations, expansion in new and old areas, would tend to indicate an overlapping of the markets of the acquired and the acquiring firms. Perhaps several of these mergers represented an expansion of the outer limits of the acquired firm's territories.

In many cases expansion by merger in a market already served will not offer the potential of the new area. There is a strong chance that the stores absorbed may represent a duplication of facilities in particular locations.

Economies of Operation

Firms reporting that mergers were largely or partially undertaken to increase the sales volume in their present market generally also reported that the motivation of operational economies was also of some significance. [See Table VII.]

TABLE VII

THE STATED IMPORTANCE OF ECONOMIES OF OPERATION AS A MERGER MOTIVATION AMONG FIFTEEN FIRMS ACQUIRING FOOD CHAINS IN 1956

Stated Importance	Number of Times Mentioned
Utmost importance	2
Very important	5
Of some importance	4
Of very little importance	1
Of absolutely no importance	3
Total	15

Operating economies are likely to be derived from the increased efficiency of the centralized facilities of the firms. Over-all economies of operation will quite naturally result from the elimination of duplicate overhead expenses. Operated as separate units, there will be a duplication of purchasing staffs and facilities, advertising costs, warehouse facilities and minimal stocks, accounting equipment and staffs, office staff, etc. When the firms are not operating in the same general area, the opportunities for such economies are minimal. Economies of operation may be very significant in the consolidation of small food chains. [See Chapter VIII.]

Top Management

Top flight executives are a scarce commodity and merging will sometimes offer the acquiring firm the opportunity of absorbing such people into their organization.

This motive was not felt to be of great importance by the executives responding to the survey. This fact was borne out factually in that among the fifteen firms responding, the president of the merged firm had been retained in an active capacity in only three cases. Four others were retained in an advisory capacity.

TABLE VIII

THE STATED IMPORTANCE OF DRAWING TOP MANAGEMENT PERSONNEL AS A MERGER MOTIVATION AMONG FIFTEEN FIRMS ACQUIRING FOOD CHAINS IN 1956

Stated Importance	Number of Times Mentioned
Utmost importance	0
Very important	3
Of some importance	4
Of very little importance	0
Of absolutely no importance	8
Total	15

Eight respondents noted that this motive was of absolutely no importance in their food chain acquisition. Several firms did feel, however, that this motive was of some significance.

The Kroger Company feels that top management is an important motivation for their mergers. Mr. Joseph Hall, President of The Kroger Company, has been quoted as saying:

> Two out of three groups (merged food chains) were acquired because of their top management rather than for any other reason.[8]

A representative of this firm went on to say that they would not consider a firm for acquisition unless it possessed available high-caliber management.[9]

A benefit of obtaining the top management of merged chains is their knowledge of the firm's operations and the market which their firm serves. Mr. Nathan Lurie, Chairman of the Board of ACF-Wrigley Stores, Incorporated, whose firm was founded by the merger of several regional chains made this comment:

> One of the strong factors of ACF-Wrigley's organization is the intimate knowledge of local conditions that is possessed by the management of the respective chain members.[10]

In addition to the benefits of obtaining further top level management, the merger may allow the acquiring firm to derive the maximum value and usefulness from the executive capacity of its present staff of officers.

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[8]From a personal discussion with Wilbur Korengel, Regional Vice President, The Kroger Company.

[9]*Ibid*.

[10]Kanter, *op. cit*., p. 9.

The value of the middle and lower levels of management and the trained work force of the merged firm to the acquiring company should not be underestimated. Although a merger may not have been undertaken for the purpose of securing this asset, it does not seem likely that it would occur in its absence. Unless the middle and lower levels of management can be retained, the acquiring firm faces the onerous task of transferring valuable personnel out of its own organization.

Tax Motives

Mergers undertaken for tax purposes are probably less common than is generally thought. In one extensive study, the authors concluded that the role of tax considerations ". . . were of little significance."[11] Tax motivations are said to be more common among large firms than small ones.[12] They are also held to be more significant as a seller consideration than as a motive of the acquiring firm.[13] Tax motives of the acquired firm will be discussed in the following chapter.

Tax savings were not of great importance among the responding food chains. [See Table IX.] Perhaps it is

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[11]Butters, op. cit., p. 212.

[12]Federal Trade Commission, Report on Corporate Mergers and Acquisitions, op. cit., p. 138.

[13]Butters, op. cit., p. 212.

worthy of notation that they were of some significance as a planned objective in five mergers. Since the respondents stated various operating reasons as their primary motive in entering the merger, it can be assumed that the tax benefits were incidental to these more significant motivations. However, this does not preclude the fact that these mergers may not have occurred were the tax saving potential unavailable.

TABLE IX

THE STATED IMPORTANCE OF TAX SAVINGS AS A MERGER MOTIVATION AMONG FIFTEEN FIRMS ACQUIRING FOOD CHAINS IN 1956

Stated Importance	Number of Times Mentioned
Utmost importance	0
Very important	1
Of some importance	1
Of very little importance	3
Of absolutely no importance	10
Total	15

Tax savings can be effected through merger in numerous ways. Three general methods will be given brief consideration. These are: (1) through the expenditure of excess accumulated capital, (2) through consolidated tax returns, and (3) through tax carryovers.

Section 102 of the Federal Income Tax Law penalizes unreasonable accumulations of surplus by the imposition of a surtax upon the corporation's undistributed income. This is done in the belief that such accumulations are designed to lower the income tax of concentrated individual stockholders whose income from dividends would normally be subject to Federal Income Tax. In a study conducted by the Tax Institute, Incorporated, it was revealed that among 150 responding accounting firms, 38 indicated that Section 102 had stimulated mergers on the part of their clients.[14]

The Federal Government tolerates mergers of strong with weak companies for the purpose of averaging a lower net income. To reap tax benefits, the affiliation must be undertaken for a business reason and the activities of the firms must be related.[15]

The Internal Revenue Code allows a firm to carry over net operating losses into the following tax year. In this manner, operating losses can be used to offset future corporate income taxes. This operating loss can be carried over by the acquiring firm under certain conditions. The acquiring firm can thus recoup the operating losses of the absorbed firm through tax credits against the future earnings of the firm. The tax carryover can be a strong incentive for merger.

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[14]Alfred C. Buehler and Weston Vernon Jr., Economic Effects of Section 102 (Princeton, New Jersey: Tax Institute Inc., 1951), p. 21.

[15]Prentice-Hall, Inc., Prentice-Hall, Federal Taxes (Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1957), p. 9668.

Financial Improvement

Mergers may be undertaken to improve the financial condition of the acquiring firm. [See Table X.] A major assumption made in many mergers is that the value of the merged companies will exceed the sum of the values of the companies operated individually.[16]

TABLE X

THE STATED IMPORTANCE OF FINANCIAL IMPROVEMENT AS A MERGER MOTIVATION AMONG FIFTEEN FIRMS ACQUIRING FOOD CHAINS IN 1956

Stated Importance	Number of Times Mentioned
Utmost importance	1
Very important	0
Of some importance	5
Of very little importance	0
Of absolutely no importance	9
Total	15

To improve the financial condition of the firm, a company might seek to annex a firm in solid financial condition for the improvement of its own. However, the opposite is far more likely to occur.

While one respondent noted that financial improvement was of the "utmost importance" in their acquisition, other respondents were inclined to think this motivation was

[16] Hiram L. Jome, Corporation Finance (New York: Henry Holt and Company, 1948), p. 562.

unimportant. The term, as stated in the questionnaire, was ambiguous. The firm noting that the motivation of "financial improvement" was of great importance was referring to the savings effected through economies of operation. In this sense, mergers undertaken for increased sales volume or tax reasons would also improve the financial condition of the acquiring firm.

CHAPTER VIII

ECONOMIC MOTIVES OF THE MERGED FIRM

As with the acquiring firm, a complex of factors may enter into the decision to merge. The reasons why the owners and management of a food chain may be willing or even eager to undergo merger poses an interesting question.

Attractive Offer

In many cases the merger is considered to be a sound alternative in meeting the varied problems of the firm. In other cases, the acquired firm may enter a merger because, for some reason or other, it is literally forced to do so. A third possibility is that the firm may not be particularly interested in entering a merger but the terms proposed by the buyer are very attractive.

Particularly during prosperous times, the expanding food chain may be willing to pay a premium for an opportunity to rapidly expand its sales and sales area. The owners of the merged firm may consent to merge simply because the terms available are particularly attractive.

Merger is sometimes regarded as an unsuccessful ending to business operations of a corporation. The financial condition of food chains merged during 1955 was investigated by Dun and Bradstreet. In reference to these mergers, a report by Dun and Bradstreet made this comment:

> . . . in that same year, (1955) 783 (food) stores were absorbed, ending their independence--not in failure--but as spectacular financial successes, through deals with big chains.[1]

Perhaps this finding would have some applicability to the food chain mergers occurring during 1956.

The questionnaire listed three motivations which might encourage or force food chains into a merger. These were: (1) financial difficulties, (2) retirement of owner or management, and (3) economies of operation. Only one write-in answer was received. [See Table XI.]

TABLE XI

STATED MOTIVATIONS OF FIFTEEN FOOD CHAINS MERGED IN 1956

Stated Motivation	Number of Times Mentioned
Financial difficulties	6
Retirement of owner or management	6
Economies of operation	3
Unable to meet competition	1
Total	16*

*One respondent noted two motivations

Financial Difficulties

In some cases the acquired firm may choose or be forced into merger because of the financial difficulties

[1]"Food Topic's Probing Study of Mergers, History and Effects Presented at CFDA Meeting," Food Topics, February 18, 1957, p. 2.

which the company faces. Three respondents noted that the merged food chain had operated unprofitably in the year prior to its acquisition.

An executive of one firm stated that the merged firm had expanded their facilities on borrowed funds. This firm, although operating successfully, had ". . . got over their heads in finance, their credit was bad and they lacked working capital." At times merger is the only alternative to bankruptcy and possible liquidation of the firm.

A merger may be entered because the food chain is unable to finance the expansion necessary to maintain their share of the market. The current "tight money" situation is said to increase this difficulty. In a personal interview, Mr. Wilbur Korengel, Regional Vice President of The Kroger Company, made this comment:

> This tight money hasn't hurt us, but its a concern of the smaller firms. Tight money is really tough on many small retailers.

Closely allied with the financial problems of the small chain operator is the corporate tax structure. The present tax laws have been criticized as encouraging the merger of small food chains.[2] Small food retailers, as a general rule, depend to a large extent upon retained earnings for expansion purposes.[3] Under the present law,

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[2]Kanter, op. cit., p. 18.

[3]U. S. House of Representatives, Committee on the Judiciary, Premerger Notification, op. cit., p. 411.

corporate income over the first twenty-five thousand dollars is taxed at a rate of 52 per cent. This does not adversly affect the expansion of the large operators possessing more ready access to the money market. However, it is maintained that this tax structure multiplies the financial difficulties faced by the small food retailer.[4]

Retirement of Owner or Management

The retirement of the owner or manager of a food chain does not, of course, necessitate the sale of the business, but does pose a crisis in the life of the business which may result in a merger unless the business can be successfully continued without undue risks in the absence of the active direction of the owner management.

A suitable replacement for this person may be unavailable. Perhaps the type of individual who seeks the personal freedom of owning his own food chain is not likely to excell at providing for a smooth succession of management.

Top management of the National Tea Company described the owner's position in this manner:

> . . . fairly small companies . . . have been founded by one individual. He is beginning to feel like retiring and realizes he must either expand or get out of business. The man wants his investment back and is anxious to find a buyer.[5]

Estate taxes encourage the aging owner of a small chain to enter into a merger. If the corporation is unsold

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[4] Ibid.   [5] Kanter, op. cit., p. 8.

at the time of the owner's death, the firm is likely to be pressed into a rapid liquidation. This occurs because the estate taxes will demand cash and the stock of the small corporation will have little or no marketability. In the absence of the owner, and under the pressure of cash requirements, the business is likely to be sacrificed.

If, on the other hand, the owner sells while he lives, he will have to pay taxes on the capital gains which he realizes upon the sale of the assets or stock. Under the present tax laws, the most he will have to pay on these gains is the maximum rate of 25 per cent. Perhaps he may be able to arrange for an exchange of securities in which case the merger is tax free.[6]

Economies of Operation

Economies of scale have been a significant factor aiding the economical and efficient operations of the retail grocery chain. Food retailing is characterized by hard competition, and hard competition is bound to take its toll first among the less efficient competitors. One respondent noted that the acquired firm had initiated the merger proceedings because the management was "tired of fighting the competition."

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[6]Hugh M. McNeill, "Certain Tax Aspects of Mergers and Acquisitions," Legal, Financial, and Tax Aspects of Mergers and Acquisitions, ed. Elizabeth Marting (New York: American Management Association, Inc., 1957), Financial Management Series, No. 114, p. 39.

Smaller food chains are likely to merge in order to match the efficiency of their larger competitors. Food Town of Washington, D. C. well illustrates a case in which operational economies contributed to a consolidation of small food retailers. This merger was undertaken in order to eliminate the inefficient duplication of facilities among three small food chains. This merger was felt to be essential if the firms were to meet the heavy competition presented by several food chains in this area.[7]

Concerning the motives of the Food Town companies, Mr. Aran Krompus, Executive Vice President of Food Town and active promoter of the merger had this to say:

> How else could we meet the powers aligned against us? We were up against three national and two regional chains. . . . We were individual super market operators with a few as one and as many as four units under a single ownership. Each had its own warehouse, did his own direct buying, advertising and the like. . . . We had to do something, so we merged and those independent owners all became assigned to those areas of the super market business within the group for which they were best suited.[8]

An executive of another food company was quoted as saying:

> Instead of bewailing what our competitors do, it is a time when we should examine our own operations. . . we can play this game of merging as well as the chains.[9]

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[7]Ward, <u>op. cit.</u>, p. 1.

[8]<u>Ibid</u>.

[9]Kanter, <u>op. cit.</u>, p. 14.

The president of an association of independent food companies has gone so far as to strongly recommend that its members merger whenever this seems feasible. This recommendation was made even though this move would cut the association's membership.[10]

The surveyed firms entering merger for economies of operation generally joined organizations of comparable size. The acquiring and acquired firm both sought economies of operation in most cases. With one exception, the firms operated in the same geographical areas.

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[10]Roxanna Ward, "Warehouse-Dealer Ties Stressed at CFDA," Supermarket News, February 18, 1957, p. 31.

CHAPTER IX

AN EVALUATION OF MERGERS

Alternatives to Merger

Mergers are generally undertaken to meet the specific needs of a business. An evaluation of any particular merger might well be based upon its superiority over other methods for the uses intended. For example, the management of a firm usually finds merger preferable to the alternative of liquidation for financial reasons. Economies of operation can be effectively achieved through cooperative and voluntary associations and through internal expansion as well as through merger.

Industry leaders are in real disagreement as to the value of expansion through merger as opposed to growth through the construction of new stores.[1] Louis Stein, President of Food Fair Stores, Incorporated, has gone on the record with the contention that it requires about one dollar in capital for six dollars in sales through the merger method. By building its own stores, Food Fair is said to obtain eleven dollars of sales for every dollar of capital investment.[2]

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[1] Kanter, op. cit.,p.16.

[2] "Food Topic's Probing Study of Mergers, History, Effects, Presented at CFDA Meeting," op. cit., p. 2.

Respondents were evenly divided on the issue of the costs of building as opposed to the cost of their particular mergers. [See Table XII.]

TABLE XII

Question:

On the basis of your firm's past experience, would you personally estimate that the sales volume added by this merger could have been obtained more cheaply by building new stores?

Reply	Number of Times Mentioned
Yes, building would have been cheaper	7
No, building would have been more expensive	7
Total	14

Mergers should be viewed as a supplement to the food chains' normal expansion through the construction of new stores. External expansion is the major source of growth in even the most concentrated industries.[3] As a notable exception among food chains, ACF-Wrigley has developed almost completely by way of merger.[4] No doubt the importance of merger activity to the total growth of food chains will vary greatly from firm to firm. On a national scale, however,

[3]See Weston, op. cit., p. 101.

[4]National Association of Retail Grocers, op. cit., pp. 7-8.

mergers do not seem to be of great importance when compared to the external growth of food chains. The 2,500 new supermarkets constructed in 1956[5] exceeded those acquired through merger by better than four to one.[6] The sales volume of these acquired units was probably even less significant than this would imply since the new stores are generally much larger than older units.

Profits and Sales Volume

A majority of the firms acquiring food chains in 1956 intended to expand their companies through the transaction. Profits and sales volume are a vital index to the evaluation of mergers undertaken for this purpose.

Industry leaders are not in complete agreement on the profitability of mergers. A top officer of National Tea Company made this remark:

> While acquisitions have not materially affected our profit rate, certainly our sales volume goes up. Increased profit is the product of the same profit rate, operating on a higher gross volume of trade.[7]

More enthusiastic was the management of ACF-Wrigley Stores, Incorporated:

> Combined net income, after taxes, of its original constituent organizations, increased 87 per cent . .

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[5]Mueller, op. cit., p. 60.

[6]Lawrence Drake, "Store Talk," Chain Store Age, May, 1957, p. 4.

[7]Kanter, op. cit., p. 10.

. . with pre-tax profit raising 85 per cent on a gain in sales of only 41 per cent.[8]

The reason given by the management of ACF-Wrigley was the expert management and efficiency that was added by the merger activity which took place over a period of three years.[9]

Executives responding to the survey noted that only three of thirteen merged food chains had operated unprofitably in 1955, the year prior to the merger. None of these three firms improved to the point where they were operating at a profit during 1956. Even more significant was the fact that three of the ten firms which were said to have operated profitably during 1955, became unprofitable during 1956. [This information is summarized in Table XIII.]

TABLE XIII

PROFITABILITY OF THIRTEEN FOOD CHAINS IN THE YEARS PRIOR TO AND FOLLOWING THEIR MERGER

Item	1955	1956
Number of firms operating at a net profit	10	6
Number of firms operating at a net loss	3	7
Total	13	13

[8] *Ibid.*, p. 10.

[9] *Ibid.*

Perhaps this information is indicative, to some degree, of the success of these particular mergers. However, it is important to note that the profitability of these acquired firms cannot be directly attributed to the merger. In general, 1956 was a year characterized by industry-wide decreasing profits. Differences in the accounting methods of the acquiring and the merged firms might also be of some significance.

Responding firms largely entered mergers to increase the sales volume of their operation. The approximate sales volume annexed (in terms of 1955 sales) in 36 per cent of the retail food chain mergers occurring in 1956 are listed in Table XIV. The sales volume annexed in these mergers totaled to approximately $130,378,000 or considerably less than 1/2 of 1 per cent of the total 1955 grocery sales of $42,500,000,000.[10] Some of the larger firms are, however, not included in the survey results.

The merger might also be evaluated on the changes in the sales volume which occur subsequent to the merger. The surveyed firms tended to rather closely maintain the sales volume which the merged firm had shown in the previous year. [See Table XV.]

Several firms noted that a slight decrease in sales volume had taken place in 1956 and one firm noted that a

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[10] Mueller, <u>op. cit</u>., p. 57.

TABLE XIV

1955 SALES VOLUME OF THIRTEEN FOOD CHAINS MERGED IN 1956

	$ 25,000,000
	25,000,000
	24,000,000
	10,000,000
	9,000,000
	9,000,000
	7,000,000
	6,000,000
	5,000,000
	4,500,000
	4,000,000
	3,000,000
	1,878,000
	1,000,000
Total	$130,378,000

TABLE XV

CHANGES IN THE SALES VOLUME OF THIRTEEN FOOD CHAINS IN THE YEAR FOLLOWING THEIR MERGER

Change in Sales Volume	Number of Times Mentioned
Substantial increase	1
Slight or "normal" increase	5
Remained about the same	2
Slight decrease	4
Substantial decrease	1
Total	13

substantial decrease in sales had resulted. To some extent decreasing sales volume may be attributed to the fact that stores had been closed since the merger. One firm reported that it had closed eleven of the acquired units while the other firms closed a total of nine units. No information was obtained on the new store construction in these firms.

The fact that only one firm reported that the acquired chain had shown a substantial increase in the sales may be of some significance. Coupled with lower profitability of several of the merged chains, this finding would tend to indicate that these particular transactions have not been outstanding successes. A majority of the firms, however, did show slight increases or stable sales. Mediocrity rather than outstanding commercial success or failure is suggested.

The Success of Mergers

An oft-quoted source on the success of merger activity has been Arthur S. Dewing. The clear implications of Dewing's extensive research is that mergers on the whole were unsuccessful. However, his extensive studies were undertaken some time ago, and it has been indicated that his sample was weighted with industries for which the long term influence had been unfavorable.[11] Although most mergers are

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[11] Weston, op. cit., p. 68.

intended to be commercially successful, case histories generally show that the results usually fall short of their expected performance.[12] Perhaps in some cases the merger has been regarded as an elixer which works magic on business operations.

The trend towards merger has historically reflected prosperous economic conditions. Each cycle of mergers has begun with the prosperity preceeding a depression. This historical phenomenon has given rise to the axiom that "mergers brought about in bad business years will be more likely to succeed than those undertaken in good times or in speculative eras."[13]

Prosperous times warrant expansion. Consequently, mergers occur since through them expansion can be rapidly effected. The survey results tend to indicate that the responding firms, in a majority of cases, did not spend excessive time in the completion of merger proceedings. [See Table XVI.] This may be indicative of a desire to expand rapidly during these prosperous times.

The success or the failure of the merger should be evaluated in terms of the objectives which the merger seeks to accomplish. One respondent noted that the merger was an expensive method of gaining market entry but that

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[12]Husband, op. cit., p. 531.

[13]Burtchett, op. cit., p. 570.

locations in that area were otherwise unavailable. Market entry was of more urgency than commercial success. If, for another example, a merger was designed primarily for tax savings purposes, it might well prove a commercial failure and yet be described as "successful" if the anticipated savings are, in fact, realized.

TABLE XVI

APPROXIMATE TIME ELAPSING BETWEEN FIRST NEGOTIATIONS AND COMPLETION OF THE MERGER IN FIFTEEN FOOD CHAINS IN 1956

Length of Time	Number of Times Mentioned
Less than 6 months	10
From 6 months to 1 year	3
From 1 to 3 years	1
From 3 to 5 years	0
Over 5 years	1
Total	15

Respondents were requested to personally evaluate the success of their merger on the basis of the objectives for which it was designed. The objectives or motives of the acquiring firms appear in Chapter VII. Top management's appraisal of these mergers did not, in general, reveal great enthusiasm. [See Table XVII.] No respondent stated that the merger had greatly exceeded his expectations. Five respondents noted that the merger had been below their expectations and the transaction's results had been "un-successful." The president of one firm expressed complete dissatisfaction with the entire proceedings and stated that the merger was a "failure" and that their firm had "sold (the) company back to the original stockholders." A majority of the respondents were not displeased with the results, but only three of these stated that it had exceeded their expectations.

TABLE XVII

EVALUATION OF THE SUCCESS OF FIFTEEN MERGERS BY THE PRESIDENTS OF THE ACQUIRING FIRMS

Personal Evaluation	Number of Times Mentioned
Successful beyond your greatest expectations	0
Very successful	3
Up to expectations	5
Unsuccessful	5
A failure	1
Too soon to determine	1
Total	15

Concerning the problems associated with these mergers, the following remarks were representative: "stores too small"; "resistance by top men"; (management of the merged firm) "personnel indoctrination"; "corporate setup of the acquired firm" and the need for "increased sales and neater stores." The problems of operations following the food chain merger will be discussed in the remaining chapters. These problems will be considered under the headings of personnel and operating problems.

CHAPTER X

PERSONNEL PROBLEMS

Although mergers are undertaken for business reasons, there is a distinctly human element in every merger. The successful merger represents an acquisition of the valuable personnel as well as the assets and the sales capacity of the merged firm. Complete and successful integration of the merged personnel seems essential if the objectives of the merger are to be accomplished. Serious personnel problems will greatly detract from the effectiveness of the food chain merger. The seriousness of the personnel problem is indicated by the fact that five respondents wrote that various aspects of the personnel problem constituted the "most urgent" operating problem faced by the acquiring firm following the merger.

Integration of Policies and Procedures

Ordinarily the food chain merger will present personnel problems associated with the tasks of integrating dissimilar operations. The process of integration will have profound implications upon the adjustment of the managerial staff and the employees of the chain which loses its identity.

The traditional idea is that uniformity must eventually prevail. Chains which had formerly operated under different policies and procedures of work must now continue according to a single plan. The majority of the respondents revealed that the policies and work procedures of the merged chain were being changed to the methods of the acquiring firm. [See Table XVIII.]

TABLE XVIII

RATE OF CHANGE IN THE OPERATING PROCEDURES, (POLICIES AND WORK PRACTICES) AMONG FOURTEEN FOOD CHAINS MERGED IN 1956

Rate of Change	Number of Times Mentioned
Changed very rapidly to the procedures of the acquiring firm	2
Changed fairly rapidly to the procedures of the acquiring firm	5
Changed gradually to the procedures of the acquiring firm	6
Remained relatively unchanged	1
Total	14

Certain changes in the methods of the merged firm are essential if the full benefits of the combination are to be realized. Particularly when the stores serve the same general area, uniformity is important. Great discrepancies in the operations of the firm's stores may be irritating to customers. Store records must be consistent for the performance of central accounting and warehousing.

The necessary changes need not, however, be initiated solely by the acquiring firm. For example, in the merger of Shopwell Stores by Daitch Crystal Dairies, the managements got together, analyzed the methods of both firms and then put the chosen method into operation throughout the entire chain.[1]

A relatively new idea is that of minimizing the transition in the acquired chain. Mr. Joseph Hall, President of the Kroger Company, recently stated that the local flexibility of the merged firm is all important and that their acquired units were operated as independently as possible. Mr. Hall stated that Kroger's decentralization plan was designed to make their present divisions ". . . more like the companies we've bought."[2] Insofar as changes in their acquired units are concerned, Mr. Hall stated:

> We will gradually expose them to our thinking, if they like our ideas they can take them on, but they certainly don't have to.[3]

This philosophy is directly opposed to that of one respondent who stated that the major problem faced in their merger was to "Teach them our philosophy of business."

Even with minimal changes in operating procedures, the merger will be a startling and traumic change for both

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[1]"Big Chain Merger Effects Seen in Marketing Trend," Supermarket News, November 12, 1956, p. 8.

[2]Joseph Hall, President of The Kroger Company, in an address to the Food Distribution Club, Michigan State University, April 16, 1957.

[3]*Ibid.*

the management and employees of the acquired firm. The ability to change procedures successfully will be dependent upon the attitudes of the personnel of the merged chain. Unless the transition is accepted by personnel, serious problems seem inevitable.

Management of the Merged Firm

One respondent noted that the resistance of the management of the acquired firm to the new owners had caused the failure of their merger. The importance of management acceptance of the merger and its accompanying changes is dramatically evident in this case.

Unless the management personnel of the merged firm feel that their positions in the company are secure, there may be a fear by "insiders" that "outsiders" will get their jobs. A store manager in one chain merged in 1956 made this comment in a personal interview:

> At first I felt that they (the management of the acquiring firm) might bring in a lot of higher ups and I wouldn't have as much chance for advancement.

Often the middle and lower levels of management will be left completely outside of the merger. Secrecy will generally predominate the merger transaction. The reason for this was stated by the chairman of the board of one large concern:

> If the word leaks out before the deal is concluded, the organizations on both sides are likely to freeze up.[4]

However, a few weeks will usually pass between the conclusion of the deal and the public announcement of the merger. During this period management can be told why the merger is necessary, what the future plans of the company are, and how these will affect the present management personnel and their positions.

One food chain held a special dinner meeting of all management personnel from department heads up. The merger was announced and the people were assured that their positions were secure and that no "outsiders" would be brought in from other divisions of the company. They were told why the merger had been necessary and were shown that their opportunity for advancement was greatly increased because of the size of the acquiring organization and its plans for tremendous expansion in the area. It was pointed out that this expansion program would not have been possible under the limited finances of the smaller company.

A meat market manager in one store of this chain made this comment when asked how the merger had affected his position in the company:

> I've already got a promotion out of it. . . right off they started doing central buying so they needed

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[4]"Merger Mechanics: You Have to Try Them to Know If They'll Work," Business Week, August 8, 1953, p. 96.

> a meat buyer. I was the head meat cutter and so when my boss got that job, I got his. So the merger has worked out real fine for me.

Many times mergers have displaced managerial personnel, particularly at the higher levels of management.[5] Usually too, the transaction will produce some voluntary resignations. Following the merger there is usually a reassignment of managerial duties within the firm. This is very likely to occur when the chains serve the same general area and the combination was undertaken to achieve economies of operation. Such a merger will be likely to eliminate duplicate facilities and functions and will result in a general shakeup of the whole organization. Some members of the management team are likely to get lesser positions since the organization is saddled with two complete sets of executive officers. Great tact is required to retain all managerial personnel in the light of position (not necessarily salary) demotions.

When a larger chain acquires a firm operating in a new area, fewer changes may be necessary. In some cases, the acquiring firm has simply assigned one man from their central headquarters to aid and advise the management of the merged firm. However, such factors as executive compensation, stock options and deferred compensation are often

[5]Grant Jeffrey, "What Happens to the Board of Directors When Companies Merge?," Sales Management, May 1, 1956, p. 48.

critical areas.[6] Inconsistencies between the salary schedule of the acquiring firm and that of the merged firm may present difficulties. Very little trouble would be evidenced when the acquiring firm's salaries are superior to those of the merged firm. However, when the opposite holds true, some firms will carry individuals on a "red circle" rate (that is, their previous salary) until the inconsistencies can be worked out.[7]

Most firms will attempt to retain the management of the merged firm. A sincere attempt along these lines is a minimal requirement for the successful integration of the merged firm's operations. Perhaps it would be wise to retain surplus or even inadequate management personnel merely to avoid the human relations repercussions which the discharge of these individuals would produce during the critical early stages of integration.

Unless all levels of management are secure and enthusiastic following the merger, their insecurity and apathy are bound to permeate the entire organization. Unfortunately there are no set rules or procedures which will produce affirmative attitudes. Nevertheless, an effective job of selling the new firm and the changes in operational

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[6] Lyle H. Fisher, "Integrating Personnel," Integration Policies and Problems in Mergers and Acquisitions, ed. Elizabeth Marting (New York: American Management Association, Inc., 1957), Financial Management Series, No. 113, p. 49.

[7] Ibid., p. 48.

procedures to employees is not likely to be accomplished by an insecure or apathetic management team.

The Employee Problems

As with management, insecurity can be an urgent problem among the employees of the merged firm. In the 1956 acquisition of Black's Markets by the Mayfair Markets Company, Mr. Joseph Patterson, Vice President of Mayfair made this statement:

> One of our greatest concerns is that of instilling confidence among employees added through a purchase. Usually there is a feeling of insecurity among such people.[8]

Merger can be a startling and traumic change for the worker. Throughout the merged company, employees discover that they have been "sold out" and are working for a new company, possibly under changed supervision, modified policies, benefits and terms of work.

Problems of employee resentment and insecurity are probably more serious when the workers are not given advance notice of the merger. A cashier in one store said:

> . . . they didn't tell us until after we'd already read about it in the paper and the word had already gotten around to everybody that they had sold us out. We were all pretty worried for a while there.

Eight respondents noted that their employees had been given notice prior to the merger while seven others stated that no such notice had been given. The length of notice varied

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[8]"Big Chain Merger Effects Seen in Marketing Trend," op. cit., p. 5.

from one week to ninety days. Advance notification seems essential to the best interests of employee relations.

The management of the merged firm is generally in a better position to ally the insecurity of the employees than is the management of the acquiring firm. The trust that one long-service employee put in his management is indicated in this remark:

> When I heard that Mr. _____ (the president of the merged chain) was going with them I wasn't very worried because I knew that he'd look out for us.

Employees should be given the assurance that their present positions with the firm will not be impaired by the merger. In the interests of future employee relations, the acquiring interests should insist that the management of the firm to be merged prepare their employees for merger. Employees will want to know: "Will I keep my job?"; "Will this affect my chance for promotion?"; "Do I get a new boss?"; "Who owns the company now?", etc. Questions of wages, benefits, personnel policies and seniority are also likely to be in their minds. Unless management makes a statement accurately, and at the right time, they have abdicated in favor of the rumors which are bound to crop up. Usually insufficient information will be given to the employees.

The management of the merged firm might do well to conduct a company-wide meeting in order to explain the conditions that led to the merger and the changes which will take place in the future. In some cases, more complete knowledge might tend to sway employees in favor of the combination. This would be true, for example, when the firm is faced with financial difficulties and merger is the sole alternative to the discontinuance of operations. This would also be the case when the acquiring firm intends to undertake an expansion program which would have been impossible under the limited finances of the merged firm.

After the merger has been completed, the acquiring firm should make efforts to welcome the new employees into their organization. Employees should be reassured of their security within the firm. One firm welcomed their new employees with a banquet at which future plans were discussed and "service" pins awarded according to the length of service with the merged firm. One respondent stated that the management spent a great deal of time in personal contacts with the employees of the acquired firm. The very fact that the management of the acquiring firm cares, and is interested in the welfare of the employees should make the merger more acceptable to them. Frankness and honesty are essential in all dealings with the new employees. The sincere actions of the management of the acquiring firm will speak louder than promises alone.

The conditions of work and employee benefits will have important bearings upon the successful integration of merger personnel. Improvements in these areas can be utilized as strong selling points for the merger. In a personal interview, the personnel director of one large food chain indicated that this type of improvement had been a great benefit in gaining the support of employees added through their merger in 1956. Concerning the improvements made, this executive had this to say:

> Those people (the employees of the merged firm) had been working under unbelievably miserable conditions. We gave them more money, new and better benefits and greatly improved working conditions.

Mr. Joseph Hall of The Kroger Company relates a similar example:

> We integrated our wage levels into their's and we introduced our retirement plan and profit sharing so, in each of these cases, the position of the employees was improved.[9]

In only four cases respondents noted that the fringe benefits of their company had not been extended to the employees of the acquired firm. Several respondents considered these benefits to be a selling point inasmuch as they represented improvements over the existing benefits. Perhaps some firms do not fully utilize the sales value which these benefits may have. One authority feels that the management of the merged firm should be thoroughly indoctrinated in all phases of the new program and that these should be sold to the employees through informal group meetings.[10]

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[9] Address by Joseph Hall, op. cit.

[10] John L. Hawn, "Corporate Personnel Policies and Fringe Benefits," Integration Policies and Problems in Mergers and Acquisitions, ed. Elizabeth Marting, Financial Management Series, No. 115 (New York: American Management Association, 1957), p. 56-57.

The immediate extension of employee benefits is not always wise. In 1955 one national chain created a very undesirable situation through the immediate withdrawal of the merged firm's benefits and the rapid installation of their own. As a result of this, employees were given a raise in pay but were denied their "regular" Christmas bonus. A nearly complete walkout resulted when the employees discovered they had lost their bonus. This situation also caused irreparable damage to community relations in the area. The more thoughtful or far sighted management of another food chain enlisted an employee committee to help out in the change to new benefits.

When the personnel problems of the food chain merger are not adequately met, it may be expected that employee turnover will be high, morale low and resistance to change great. Adverse affects upon community relations and sales volume might also be anticipated.

As changes take place in the work situation, employees should be provided with the reasons and "whys" of proposed changes. If the management has enlisted employee enthusiasm, there should be little resistance to change within the organization.

Employee loyalty can only be obtained over a period of years by the fair policies and actions of management. But attention to the problem of the merger personnel will build a firm basis upon which to build employee relations.

In general, respondents indicated that employee turnover had not been a serious problem following the merger. [See Table XIX.] This might tend to indicate that the acquiring firms had some degree of success in the integration of the employees of the acquired firm.

TABLE XIX

THE EXTENT OF LABOR TURNOVER IN FOURTEEN FOOD CHAINS FOLLOWING THEIR MERGER IN 1956

Extent of Turnover	Number of Times Mentioned
Excessively high	0
Higher than "normal"	2
'Normal," not noticably higher or lower	10
"Very low"; "none"	2*
Total	14

*Write-in answers.

CHAPTER XI

SOME OPERATING PROBLEMS

A transaction of the magnitude of a merger could not be expected to be accomplished in the complete absence of operating problems. The participants may enter the merger with a full realization of many of the problems to be faced, but still others are likely to emerge as the integration of the firms is effected.

Severe limitations are involved in generalizing about the operating problems which are associated with food chain mergers. Since no two mergers are alike, the problems involved in every case will be unique. The method of attacking even similar problems in different cases will vary significantly according to the particular circumstances.

Community Relations

Sometimes the acquisition of a local distributor will have adverse affects upon the attitude of local citizens. For example, in 1956, Mayfair Markets had to overcome the negative psychology of a large company buying out a small, locally-owned business.[1]

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[1]"Big Chain Merger Effects Seen in Marketing Trend," *op. cit.*, p. 5.

In four other 1956 food chain mergers respondents noted that local resentment was stirred up in the area which the merged firm served. However, none of these respondents stated that this local resentment was the most serious problem which their firm had faced in the merger.

Community antagonism will naturally have adverse effects upon the sales volume of the merged firm. This is perhaps illustrated by the fact that none of the surveyed food chains which faced community relations problems revealed an increase in the sales volume of the merged units in the year following the merger. Three of these respondents noted that a decrease in sales had resulted during this period.

There is some question as to whether or not the merger should be heavily publicized in the area served by the local concern. This will, of course, depend upon the particular circumstances involved. Respondents were about equally divided on their use of publicity following the merger. However, it is notable that eight firms used little or no publicity following their food chain acquisition. [See Table XX.] Perhaps the reasoning here is that the customers are not likely to resent the merger if they are not even aware that it has taken place. On the other hand, affirmative action might minimize the community relations problem should the news of the transaction become widespread.

Perhaps resentment can be avoided or lessened if the management will bring its story into the open.

TABLE XX

EXTENT OF PUBLICITY IMMEDIATELY FOLLOWING THE MERGER OF FIFTEEN FOOD CHAINS IN 1956

Extent of Publicity	Number of Times Mentioned
Intensive publicity program	1
A good deal of local publicity	6
Little publicity	5
No publicity	3
Total	15

The community relations problem may be closely related to the personnel problems which the merger presents. This was true in the previously mentioned case where the employees of the acquired firm had been denied their Christmas bonus. The community's evaluation of a firm will be based largely upon customer contacts with employees of the merged chain. Dissatisfied employees are not likely to engender community good will. For this reason, one respondent whose firm was faced with problems of community relations directly attacked the issue through "heavy advertising with the emphasis on employee relations." This promotion probably improved both personnel and community relations.

Name Change

Closely allied with the problem of community relations is the issue of whether or not to change the name of the acquired units to that of the acquiring food chain. Here again the issue of company-wide uniformity is presented. All but two of the firms surveyed intended to "eventually" change the name of all of their acquired food stores. Several of these had already completed this by the end of the first year of operations under the merger. [See Table XXI.] Those firms which had not completed the changeover stated that this would be completed in several years. Their estimates ranged from one to five years.

TABLE XXI

THE EXTENT TO WHICH THE NAMES OF THE STORES OF FOURTEEN MERGED FOOD CHAINS HAVE BEEN CHANGED TO THAT OF THE ACQUIRING FIRM

Extent of Change	Number of Times Mentioned
All units have undergone a name change	6
A majority of units have undergone a name change	1
Some units have undergone a name change	0
None of the units have undergone a name change	7
Total	14

The change in name may be necessary in order to achieve the maximum benefits in economies of operation. However, the name of the merged firm will carry some degree of customer loyalty and for this reason is not to be hastily discarded. To preserve customer loyalty some chains prefer to leave the name of the merged company unchanged. For the same purpose the acquiring firm will often proceed with a very gradual transition in the name change.

The gradual name change may involve the use of transitory logotypes, the name of the acquiring firm first appearing in small letters, then, in later years, dominating the sign until, at last, the merged chain's name disappears completely. While this is a relatively common practice, the expense involved is a serious objection to its use. In place of this costly procedure, Daitch Crystal Dairies implemented an extensive advertising campaign to acquaint the public with the new name.[2] The other firms which had undergone a name change in some or all of the merged stores noted that they had avertised the name change through radio and television spots but primarily through their regular food advertisement. No firm stated that they had used a purely institutional advertising campaign to introduce the name change, but this practice would seem advisable.

Private Label Merchandise

The food chain merger may allow for the expansion of the private label's distribution or may, in the case of smaller food chains, permit their economical introduction.

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[2]*Ibid.*, p. 5.

On the other hand, the private label merchandise may create serious operating problems in the merged chain.

Mergers may introduce private labels into a food chain which had previously carried only nationally advertised merchandise. In a survey conducted by the Supermarket News, most of the supermarket operators questioned stated that the merged food chain's line of nationally advertised merchandise would have to be reduced in the future.[3] If this policy was to follow a merger, it might irritate and inconvenience customers who have relied upon the local chain for particular brands of food products.

Another problem is that the private label merchandise will be unknown to customers of the merged firm. An officer of one national chain said, in a personal interview, that his firm would not immediately install a complete line of private labels into an acquired firm because ". . . our merchandise is an 'off brand' in the new area." Building trade acceptance for a private label line will present a formidable problem which cannot be resolved in a short period of time. For this reason, Mr. Joseph Hall, President of The Kroger Company, stated that their extensive control brands are not automatically distributed to their acquired firms:

> It's up to them (the management of the merged chain) to look at our merchandise and buy it if they like it.[4]

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[3] *Ibid.*, p. 5.

[4] Hall, *op. cit.*

Private labels may also introduce the problem of duplication in various commodity lines. While it is expensive to maintain two lines of private label merchandise, the pride and customer loyalty attached to each label must be given adequate consideration. A sudden change or withdrawal of private label merchandise may have serious affects upon customer relations.

In six of seventeen 1956 food chain mergers, the firms were faced with a duplication of private labeled food products. Smaller firms entering merger usually did not present this problem since they did not have a controlled line of groceries. Only one of the surveyed firms felt that the duplication of private labels constituted a really serious problem.

Two food chains extended their own lines of merchandise while dropping those of the merged firms. For example, when Black's Markets were absorbed by Mayfair, Black's controlled labels in canned food and perishables were permitted to go out of stock and were then discontinued.[5] In this case any brand loyalty or customer preference which the labels had possessed was discarded.

Three respondents noted that their firms had maintained both lines of private labels. This duplication involved additional expenses since extra shelf space is required,

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[5]"Big Chain Merger Effects Seen in Marketing Trend," *op. cit.*, p. 5.

larger purchasing quantities are precluded and since divided promotions and larger minimal stocks become necessary.

A third alternative was used in the 1956 Daitch-Shopwell merger. Following this transaction, a new label was developed and introduced throughout the entire chain.[6]

Another possibility would be to extend those lines which the merged firm did not possess and retain those which the merged firm had previously carried. Transitory labels might also be used to gain uniformity without loss in customer loyalty.

Merchandising Problems

Merger will generally permit economies to be derived from joint advertising and promotion. A limitation of centralized advertising and promotion is that these must be uniform whereas the merged firms may serve dissimilar needs and markets. For example, one firm may appeal to a particular income level or nationality group. Or, the smaller firm may have based its advertising and promotion around manufacturers' products whereas centralized promotions and advertisements may have some emphasis on company brands. A firm operating in a strong price competition market may lose some degree of its local flexibility which is so vital in leader-type price competition. As an illustration of this, one large national chain has continued advertising a merged

[6] Ibid.

unit's prices in a separate advertisement because this store had based its entire appeal around a loss-leader policy, and it was felt that customer loyalty would have been lost if this policy had been changed to that of the stores operated by the acquiring firm in the same area.

In recent years the use of trading stamps and similar-type promotions has become widespread among retail food chains. Because in many markets these plans carry tremendous customer loyalty, they may present serious problems in joint merchandising. For maximum benefits from large-scale use, uniformity of stamp plans is essential. This would be particularly true when one of the chains owns all or partial interest in a trading stamp company. In local markets, uniformity of stamp plans is essential for the purposes of joint advertising. Stamps are ordinarily advertised through local media along with regular food advertisements. A duplication of trading stamp programs would necessarily involve an expensive duplication of food advertisements.

Six of the surveyed food chains were not faced with a duplication of trading stamps since the acquired chain had not used this type of promotion. However, three of these have since installed the stamp plan of the dominant firm.

Nine of the surveyed food chains were concerned with a duplication of stamp plans. Five of these maintained both plans. In each of these cases the acquiring and merged chains operated in different geographical markets so the expenses of joint advertising were not presented. Four respondents noted that they had dropped the stamp plan of the merged firm and introduced their own. In two cases, these firms operated in the same market and this was probably essential in order to derive the benefits of joint advertising. In the two remaining mergers, the duplication was probably eliminated because of the additional expense or for the sake of uniformity.

Other Operating Problems

Several respondents indicated that their merger posed problems which stemmed from inadequacies in the merged chain's operations or facilities or from the necessity of changing the procedures or policies of the firm.

The small size of the stores of the merged firm was a problem of four acquiring chains. Another respondent stated that a unit of the merged chain duplicated an area served by one of their units. For these two reasons, a total of twenty stores were closed by five acquiring chains and this was an important operating problem.

Another chain found the corporate structure or organization of the merged firm was inadequate and the consequent reshuffling of duties and positions was a formidable task.

Several other respondents stated that "housekeeping" was necessary, the stores of the merged firm had to be straightened and cleaned up, the stock controlled and the merchandise rearranged. The management of one acquiring chain decided that the appearance of the merged units was not up to their standards and remodeling was required.

Some executives felt that the methods and the procedures of the merged firm were not as good as their own and that their most serious problem had been to retrain the executives and employees of the merged firm to their new methods.

Although the problems that may be faced in food chain mergers are almost limitless in their variety, one general statement seems safe; the operating problems faced in the integration of food chains through merger will be related to the extent of similarity in their operations prior to the merger, and to the degree of company-wide uniformity which is sought by the management of the acquiring food chain.

CHAPTER XII

SUMMARY

A general introduction to food chain mergers has been presented along with material on the nature of food chain mergers in 1956. These will be considered separately for convenience in summarization.

An Introduction to Food Chain Mergers

The term "merger" is used inclusively to refer to any combination of independent companies. A "consolidation" is said to occur when two or more firms unite to form a new firm. The terms "purchase" and "acquisition" refer to the absorbtion of one relatively small firm by a larger one.

Mergers may be classified by their direction; in a horizontal merger, competitive-type units are joined; in a vertical merger the acquiring firm moves forward towards the end-product stages of distribution or backwards towards production or wholesaling functions and, in a circular merger, the operations of the firm are disrelated.

Mergers may be initiated by: (1) the acquiring firm; (2) the merged firm; (3) both, jointly; (4) by an outside promoter, or (5) by a divesting firms.

Merger negotiations are usually originated on an informal basis. The merged firm's properties or securities are evaluated and an informal agreement made between key interests. A formal agreement is presented for the approval of the directors of the firms. Consent of the stockholders of the firm to be merged will be required. In some cases, the approval of the stockholders of the acquiring firm will also be mandatory. If the combined assets of the firms is in excess of $10 million, the approval of the Department of Justice will be required. If securities of the firms are listed on a national exchange, the permission of the Securities Exchange Commission must be obtained.

Mergers may be effected through: (1) a direct purchase of the assets of the merged firm, (2) a negotiated exchange of the stocks of the companies, (3) a direct purchase of the stock of the merged firm, or (4) through some combination of these. The merger may be financed internally, through stock exchange or from external sources.

When both food chains are engaged in interstate commerce, they will be under the jurisdiction of the Clayton Act. The Federal Trade Commission, the Department of Justice or a private citizen or business may take action against the firm if the effect of merger is ". . . substantially to lessen competition or to tend to create a monopoly." A final decree against the company would force a divestment of the illegally acquired stock or assets and might enforce a maximum fine up to $5,000 and the payment of triple damages to injured parties prosecuting the case.

Mergers are undertaken for the expansion or the improvement of the firms involved. However, outside interests, as well as the management of either firm may have personal reasons for encouraging the merger. Through the food chain merger acquiring firms may seek such general economic objectives as: (1) an opportunity for increased sales through expansion into a new area; (2) an opportunity for increased sales volume in their present market; (3) an opportunity for economies in operation; (4) an opportunity to draw in top management talent; (5) an opportunity to improve the financial condition of the company; (6) an opportunity for tax savings, or (7) an opportunity for vertical diversification.

The acquired food chain may enter the merger for such reasons as: (1) financial difficulties; (2) the retirement of the owner or manager; (3) an opportunity for operational economies, or (4) simply because of the attractiveness of the offer. The decision to merge or be merged will be based on a complex of factors and participants will usually be unable to isolate one factor as being "the" reason for merger.

Merger results may be evaluated in terms of: (1) the superiority of merger over alternative methods; (2) the sales volume and profits of the merged firm following the merger, and (3) how well the objectives of the merger are met.

Usually the merger will involve problems in the integration of the operations of dissimilar firms. The personnel problems center around retaining the management and the employees of the merged firm and gaining their trust and loyalty. Serious personnel problems will greatly detract from the effectiveness of the food chain merger. The operating problems of food chain mergers are limitless in their variety. The extent of these problems will be related to the extent of the similarity existing between the operations of the acquiring and the merged firm, and to the degree of company-wide uniformity which is sought.

Mergers, 1956

Some general remarks can be made concerning the characteristics of the surveyed 1956 food chain mergers. These statements will generally represent a sample consisting of 60 per cent of the acquiring and 41 per cent of the merged firms participating in 1956 food chain mergers.

Thirty-four of the thirty-six food chain mergers were horizontal in nature. None of the acquiring firms noted vertical acquisitions along with the stores obtained. Two chains were absorbed vertically by a food processing-wholesaling firm. In most cases, acquiring food chains were considerably larger than the merged firms. Acquired firms were small, the average firm possessing twelve units. Many of the fast-growing middle sized and larger regional and national food chains participated in 1956 mergers, the very largest chains were inactive.

Food chain mergers were initiated by both the acquiring and merged firms with the latter showing a slight preponderance. Only two of the surveyed mergers were initiated by promoters, indicating that the merger proceedings were generally handled by the managements of the chains involved.

Respondents indicated that the asset purchase and the stock exchange methods were used most often in completing food chain mergers. Three of the very small chains were acquired through a stock purchase.

Firms using the stock exchange method required no further financing whereas the stock and asset purchases required each chain to rely upon retained earnings, increased equity or borrowed funds. Larger firms tended to use only one source of funds while smaller firms utilized multiple sources. Only larger firms used retained earning alone or floated new bond issues. Only small firms used insurance company, bank and company officer loans. The use of retained earnings, stock exchange and increased capitalization through new stock were used by firms of various sizes.

In no case have formal anti-trust proceedings been taken against a food chain for merger activity. However, the Federal Trade Commission has investigated 1956 food chain mergers for the purpose of determining their effects upon concentration and competition in the retail food industry. The lack of industry-wide concentration, and the relatively small size and sales volume of the surveyed food chains would tend to indicate that these mergers did not have great affects upon the food distribution scene. Where chains have used merger for market entry, it would not seem that local competition was at all affected.

No attempt has been made to evaluate the importance of personal motives involved in the surveyed mergers; it is sufficient to state that these factors exist and warrant consideration.

An opportunity for increased sales in either a new or presently-served market were of major importance to all acquiring firms. A desire for rapid expansion was indicated in these mergers. Other factors of some importance were economies of operation and improved financial condition. Top management was not of great importance. Tax savings were also of minor importance but it is noteworthy that tax savings were of some small importance as a planned objective of the merger in five cases.

Merged chains entered the transaction primarily because of the retirement of the owner or management or because of unprofitability and financial difficulties. Economies of operation were important when firms of roughly similar size operating in geographical proximity were merged.

Respondents were equally divided as to the value of their merger as opposed to the alternative of building new capacity. The sales volume of the merged units tended to remain at the 1955 levels. Three of the merged firms had operated unprofitably in 1955, in 1956 this number was increased to six. Respondents evaluated their mergers on the basis of the purposes for which it had been designed. Although several reported that the merger results had been up to, or slightly in excess of anticipations, no respondent stated that the merger results greatly exceeded his expectations. Five respondents termed the merger "unsuccessful" and one declared that it was a "failure." These criteria would suggest mediocrity rather than the outstanding success or failure of these food chain mergers.

All but one of the acquiring firms intended to change operation procedures and policies of the merged firm to their own methods. Company-wide uniformity seems more vital than local flexibility.

Several respondents stated that the personnel problem was the most serious issue faced following the merger. Eight of the surveyed firms gave their employees advance notice of the merger. Probably all of them attempted to retain all merger personnel. In most cases, the personnel benefits of the acquired firm were extended to the merged chain's employees. Executives of acquiring firms felt that their benefits were a selling point of the merger. Some firms held meetings to welcome new employees and management and to tell them of future plans and intentions. The acquiring firms probably had some degree of success in meeting their personnel problem since employee turnover was not high in the merged units.

The community relations problem was faced by three food chains in their 1956 mergers. In no case did these respondents indicate that their firms increased sales in the year following the merger. Surveyed firms were about equally divided on the advisability of promoting or advertising the merger in the area served. All but two of the acquiring firms intended to "eventually" change the names of all the acquired units. Several chains have already completed this, the remainder will be changed within five years. Some food chains prefer the use of transitory logotypes while others feel the use of heavy promotion is more advantageous. Surveyed firms which have already undertaken a name change have advertised this through radio and television spot announcements and in their regular food advertisement.

Six of the surveyed chains were faced with a duplication of private labels in some commodity lines. Two of these dropped the line of the acquired firm while the others have thus far retained both.

A problem of post-merger merchandising is that advertising will usually have to be uniform while the merged firms may serve different markets with dissimilar needs. Duplication of trading stamps was a merchandising problem faced by nine of the surveyed food chains. Four of these dropped the stamps of the merged unit and introduced their own. Four others, whose firms did not serve the same areas, maintained both plans.

Other operating problems of the surveyed food chains concerned such subjects as the necessity for closing stores, the small size of the merged units, the duplication of areas served by a unit of the acquiring and merged firm, the corporate structure of the merged firm, the appearance and housekeeping of the stores and the problems associated with retraining personnel and introducing new policies and methods.

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APPENDICES

APPENDIX A

Apartment 1204-J
University Village
Michigan State University
East Lansing, Michigan

March 22, 1957

Mr. A. D. Davis
President
Winn-Dixie Stores, Inc.
5050 Edgewood Court
Jacksonville, Florida

Dear Mr. Davis:

Despite the importance of mergers in the supermarket industry, very little information is available to industry members on the subject.

As a graduate student in the NAFC Program at Michigan State University, I have undertaken a thesis study of the food chain mergers which took place during 1956. I am attempting to draw some useful generalizations and add to the knowledge available on this subject.

When completed, this study will be available to you, on a loan basis, through the NAFC.

Some general information is sought concerning your recent acquisition of the H. C. Hill Company. Would you please com-please the enclosed questionnaire? The name of your company will not be directly associated with your replies which will appear anonymously or as averages.

The questionnaire has been designed to require a minimum of your time. Most of the questions will merely require a "check off" reply. Further, or more detailed information which you may volunteer will be greatly appreciated. Space has been provided in the questionnaire for your comments, suggestions or explanatory notes.

The success and the value of this study will be wholly de-pendent upon the assistance which you may be able to donate. Your cooperation is sincerely appreciated.

Very truly yours,

Enclosure: 1

Donald A. Duchesneau

APPENDIX B
QUESTIONNAIRE

All questions will apply to your merger with____________________________
Choices have been indicated; check off those which seem most correct or applicable to this merger. Please write in your own answers wherever you feel that they will be more correct or to the point. Space has been provided for your write-in answers, comments or suggestions.

I. Pre-Merger Information

1. Was the idea of this merger originated by:
   (a.) a member of your firm. . . . . ( )
   (b.) a member of the acquired firm. . . . . ( )
   (c.) an outside promoter. . . . . ( )
   (d.) other____________________________
2. Was the bulk of the promotional activities carried on by:
   (a.) a promoter retained by the acquired firm . . . . ( )
   (b.) management of the acquired firm. . . . . ( )
   (c.) a promoter retained by your firm . . . . ( )
   (d.) management of your firm. . . . . ( )
   (e.) management of both firms . . . . ( )
   (f.) other____________________________
3. Approximately how much time elapsed between the first contact made between the firms and the actual merger:
   (a.) less than 6 months . . . . ( )
   (b.) more than 6 months; but less than 1 year . . . . ( )
   (c.) more than 1 year; but less than 3 years . . . . ( )
   (d.) more than 3 years; but less than 5 years . . . . ( )
   (e.) over 5 years________________________ ( )
4. Was the approval of <u>your</u> stockholders required for this merger?
   (a.) yes. . . . . . . ( ) (b.) no. . . . . . . ( )
5. Did the acquired firm operate at a profit during the year ending 1955?
   (a.) yes. . . . . . . ( ) (b.) no . . . . ( )
6. To what degree were each of the following 6 factors significant as a planned objective of this merger:
   (1.) An opportunity for greater operational efficiencies: (for example, savings from joint advertising, warehousing, etc.)
      (a.) of the utmost importance . . . . ( )
      (b.) very important . . . . ( )
      (c.) of some importance . . . . ( )
      (d.) of very little importance. . . . . ( )
      (e.) of absolutely no importance. . . . . ( )
   (2.) An opportunity to draw top-management people into your firm:
      (a.) of the utmost importance . . . . ( )
      (b.) very important . . . . ( )
      (c.) of some importance . . . . ( )
      (d.) of very little importance. . . . . ( )
      (e.) of absolutely no importance. . . . . ( )
   (3.) An opportunity for tax savings:
      (a.) of the utmost importance . . . . ( )
      (b.) very important . . . . ( )
      (c.) of some importance . . . . ( )
      (d.) of very little importance. . . . . ( )
      (e.) of absolutely no importance. . . . . ( )
   (4.) An opportunity to improve the financial strength of your firm:
      (a.) of the utmost importance . . . . ( )
      (b.) very important . . . . ( )
      (c.) of some importance . . . . ( )
      (d.) of very little importance. . . . . ( )
      (e.) of absolutely no importance. . . . . ( )

(5.) An opportunity for increased sales by serving a totally new geographical area: (a city or state where you had very few or no stores)
- (a.) of the utmost importance . . . . ( )
- (b.) very important . . . . ( )
- (c.) of some importance . . . . ( )
- (d.) of very little importance. . . . . ( )
- (e.) of absolutely no importance. . . . . ( )

(6.) An opportunity for increased sales by better serving a geographical area already served:
- (a.) of the utmost importance . . . . ( )
- (b.) very important . . . . ( )
- (c.) of some importance . . . . ( )
- (d.) of very little importance. . . . . ( )
- (e.) of absolutely no importance. . . . . ( )

7. Would you please make a brief statement concerning the motives of your firm in entering this merger: ____________________

8. Why did the acquired firm enter the merger: (check all that apply)
- (a.) because of financial difficulties. . . . . ( )
- (b.) for operating economies. . . . . ( )
- (c.) retirement of owner or management. . . . . ( )
- (d.) tax savings. . . . . ( )
- (e.) other ____________________

II. Terms of the Merger

1. Was a totally new corporation created by this merger?
   (a.) yes . . . . . ( ) (b.) no. . . . . . ( )
2. Did your firm acquire all of the assets and properties of all the operating companies of the acquired firm?
   (a.) yes . . . . . ( ) (b.) no. . . . . . ( )
3. How was this merger financed: (check all that apply)
   - (a.) borrowed funds; floated new bond issue . . . . . . ( )
   - (b.) borrowed funds; insurance company loan . . . . . . ( )
   - (c.) borrowed funds; from officers of the firm. . . . ( )
   - (d.) through an exchange of stocks . . . . ( )
   - (e.) from retained earnings of the firm . . . . ( )
   - (f.) new, or additional common stock issued . . . . . ( )
   - (g.) new, or additional preferred stock issued. . . . ( )
   - (h.) borrowed funds; bank loan. . . . . ( )
   - (i.) other ____________________
4. How was the merger accomplished: (check all that apply)
   - (a.) stock purchased from concentrated owners for cash( )
   - (b.) stock purchased on open market for cash. . . . . ( )
   - (c.) purchased the assets of the acquired firm. . . . ( )
   - (d.) an exchange of stocks was made . . . . ( )
   - (e.) other ____________________
5. What did your firm acquire in addition to retail food stores:
   - (a.) wholesaling operations . . . . ( )
   - (b.) warehousing properties . . . . ( )
   - (c.) transportation equipement. . . . . ( )
   - (d.) home delivery routes . . . . ( )
   - (e.) meat packing facilities. . . . . ( )
   - (f.) manufacturing facilities for private label brands( )
   - (g.) other (or details) ____________________
6. What was the approximate sales volume of the acquire units in the year ending 1955? . . . .$__________

7. What general subjects did the merger terms cover:
   (a.) financial terms of the merger. . . . . ( )
   (b.) maintenance of the acquired firms name . . . . . ( )
   (c.) placement of executives of the acquired firm . . ( )
   (d.) rights of stockholders of the acquired firm . . ( )
   (e.) rights of secured creditors upon assets of your firm . . . . ( )
   (f.) other (list briefly) ________________________

____

III. Operations Since Merger

1. Did the acquired firm operate profitably during 1955?
   (a.) yes . . . . . . ( )   (b.) no . . . . ( )
2. Has the acquired firm operated at a profit during the past year?
   (a.) yes . . . . . . ( )   (b.) no . . . . ( )
3. On the basis of your firms past experience would you personally estimate that the sales volume added by this merger could have been more cheaply obtained by building new stores?
   (a.) yes, building would have been "cheaper". . . . . ( )
   (b.) no, building would have been more expensive. . . ( )
4. Since the merger, has the sales volume of the acquired units:
   (a.) remained about the same. . . . . ( )
   (b.) shown a slight or "normal" increase. . . . . . . ( )
   (c.) shown a substantial increase . . . . ( )
   (d.) shown a slight decrease. . . . . ( )
5. How many of the acquired units have since been closed:
   (a.) none . . . . ( )
   (b.) one. . . . . ( )
   (c.) two or three . . . . ( )
   (d.) four or five . . . . ( )
   (e.) more than five (specify) ________________ ( )
6. Why were these units closed:
   (a.) volume of store was too small. . . . . ( )
   (b.) replaced by new stores . . . . ( )
   (c.) duplication of area served by the acquired unit and one of your own units. . . . . ( )
   (d.) other ________________________

IV. Operating Problems

1. In the area served by the acquired firm, was the merger immediately followed by:
   (a.) wide publicity through an intensive program. . . ( )
   (b.) a good deal of publicity . . . . ( )
   (c.) just a little publicity at this time . . . . . . ( )
   (d.) no publicity at this time. . . . . ( )
2. Was the merger met with some local resentment?
   (a.) yes . . . . . . ( )   (b.) no . . . . ( )
3. If so, what was done about this situation? ________________

____
4. To date, have the names of the acquired units:
   (a.) all been changed . . . . ( )
   (b.) a majority have been changed . . . . ( )
   (c.) some have been changed . . . . ( )
   (d.) none have been changed . . . . ( )
5. Do you plan to evenually change the names of all these units?
   (a.) yes . . . . . . ( )   (b.) no . . . . ( )
6. If so, within how many years would you estimate this will be done? ___yrs.
7. In units which have undergone a "name change", how was this publicized?
   (a.) radio or television spots. . . . . ( )
   (b.) newspaper, in regular food ad. . . . . ( )
   (c.) newspaper, in special ad or notice . . . . ( )
   (d.) other ________________________

8. Did the acquired firm have a "stamp" or "tape" plan?
(a.) yes . . . . ( ) (b.) no . . . . ( )
If so, has this plan: . . . . ( )
(a.) been kept on. ( )
(b.) dropped and your own (if any) introduced . . . . . ( )
(c.) dropped and no new one introduced. . . . . ( )
If not, has your stamp plan (if any) been introduced?
(a.) yes . . . . ( ) (b.) no . . . . ( )

9. Did a duplication of private labels take place on any item(s)?
(a.) yes . . . . ( ) (b.) no . . . . ( )
If so, was this felt to be a serious problem?
(a.) yes . . . . ( ) (b.) no . . . . ( )
What was done to remedy this situation: (check all that apply)
(a.) introduced our labels, dropped theirs. . . . . . . ( )
(b.) introduced our labels, kept theirs as well . . . . ( )
(c.) kept their labels, did not introduce ours. . . . . ( )
(d.) developed a new label to replace both labels . . . ( )
(e.) other ______________________________

10. Does the President of the acquired firm hold a position in your firm?
(a.) yes . . . . ( ) (b.) no . . . . ( )
If so, what is his present position? (job title)____________
If not, has he been retained in an advisory capacity?
(a.) yes . . . . ( ) (b.) no . . . . ( )

11. Were employees given notification of the merger before it took place?
(a.) yes . . . . ( ) (b.) no . . . . ( )
If so, how long before the merger was notice given?____________

12. At what level was labor turnover following the merger:
(a.) excessively high . . . . ( )
(b.) higher than "normal", but not excessive. . . . . . ( )
(c.) "normal", not noticably higher or lower. . . . . . ( )
(d.) other ______________________________

13. What was done to retain the employees of the acquired firm?______
____
____

14. Have "fringe" benefits of the acquired firm been replaced with your own?
(a.) yes . . . . ( ) (b.) no . . . . ( )

15. In general, have the operational procedures of the acquired firm:
(such as work procedures, personnel policies, etc.)
(a.) remained relatively unchanged. . . . . ( )
(b.) been changed gradually to your methods . . . . . . ( )
(c.) been changed fairly rapidly to your methods. . . . ( )
(d.) been changed very rapidly to your methods . . . . ( )

16. What was the most important or urgent operational problem faced
by your firm in this merger?______________________________
____
What has been done about this problem?______________________
____
____

17. What, in your opinion, was the most important single advantage
gained by this merger?______________________________

18. In view of the objectives which your firm sought through this
merger, would you personally say that it has been:
(a.) successful beyond your greatest expectations . . . ( )
(b.) very successful. . . . . ( )
(c.) successful (up to your expectations) . . . . ( )
(d.) unsuccessful (below your expectations) . . . . . . ( )
(e.) a failure. . . . . ( )

APPENDIX C

SIZE OF ACQUIRING AND MERGED FOOD COMPANIES IN 1956 ON THE BASIS OF THE NUMBER OF RETAIL OUTLETS OPERATED

	Acquiring Firm	Number of Units		Merged Firm	Number of Units	Total Units
1.	ACF-Wrigley Stores, Inc.	127	1.	Fred P. Rapp, Inc.	10	137
	" " " "	137	2.	Food Town	13	150
2.	American Stores Co.	922	3.	Market Basket Corp.	92	1014
	" " "	1014	4.	Food Barn	5	1019
3.	Big Apple Super Markets, Inc.	41	5.	Brigham Supermarkets	6	47
4.	Century Food Markets	18	6.	Cook's Supermarkets	5	23
5.	Consolidated Foods Corporation	0	7.	Piggly-Wiggly Midwest	34	34
	" " "	34	8.	Klein Supermarkets	23	57
6.	Daitch Crystal Dairies, Inc.	65	9.	Diamond K Markets	11	76
7.	Eagle-United, Inc.	29	10.	Strom Food Stores	3	32
8.	The Food Banks, Inc.	6	11.	Justensens Food Stores	14	20
9.	Food Fair Stores, Inc.	245	12.	Kirk Supermarkets	4	249
10.	Food Mart, Inc.	44	13.	Pipkin Grocery	13	57
11.	Fox Markets, Inc.	7	14.	Desert Fair	3	10
	" " "	10	15.	Smith Brothers	2	12
12.	The Grand Union Co.	335	16.	B-Thrifty	4	339
	" " " "	339	17.	Food Center Supermarkets	6	345
	" " " "	345	18.	Shirlington Supermarkets	5	350
	" " " "	350	19.	Value Food Markets	2	352
13.	J. C. Pace Corporation	6	20.	Buddie's Supermarkets	4	10
14.	The Kroger Co.	1577	21.	Big Chain Stores	7	1584
15.	Loblaw, Inc.	147	22.	Sparkle Markets	16	163
16.	Lucky Stores, Inc.	57	23.	Cardinal Grocery Stores	32	89
	" " "	89	24.	Food Basket Stores	6	95
17.	Mayfair Markets	35	25.	Food Mart	2	37
	" "	37	26.	Black's Markets Co.	7	44

APPENDIX C (continued)

Acquiring Firm	Number of Units	Merged Firm	Number of Units	Total Units
18. The Mohican Stores	57	27. J. E. Kelley Food Stores	7	64
19. National Tea Company	759	28. Maker's Supermarkets	3	762
20. Shoprite Foods, Inc.	7	29. Piggly-Wiggly Amerillo	3	10
21. Star Market Company	9	30. United Public Markets	5	14
22. Tradewell Stores, Inc.	31	31. C & H Foods	9	40
23. United Supermarkets, Inc.	14	32. Taylor's Saveway	2	16
24. Victory Chain, Inc.	89	33. Johnsons Foods	4	93
25. Winn-Dixie Stores, Inc.	376	34. H. G. Hill Stores	42	418
" " " "	418	35. Ketner-Milner Co.	24	442
" " " "	442	36. Kings Self Service	9	451
Total Units	5003		437	5440
Average Number of Units	200		12	

Date Due

Dec 5 58 pd.
Feb 28 59
3 Apr 59

23 Apr 59
~~APR 22 1967~~
24 Apr 59
DEC 8 1959
~~MAY 11 1967~~
FEB 17 1960
~~MAY 26 1960~~ PD
JUL 20 1960
AUG 1 1960
~~AUG 16 1960~~
~~APR 20 1961~~ pd
pd
~~DEC 5 1961~~
~~JAN 25 1962~~
~~11635 MAY 20 63~~
~~JUN 21 1963~~
~~NOV 17 1964~~

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