Increased M&A Will Propel the Retail Sector Forward
By Madeline Hurley and Jonathan Hadad

Many retailers have used acquisitions to enter new markets and expand on existing product lines.

In recent years, mergers and acquisitions (M&A) in the retail sector have become commonplace. Mature industries especially are consolidating, and multiple factors drive this rising M&A activity. For example, slow or nonexistent organic expansion in brick-and-mortar markets due to strengthening e-commerce has forced many to acquire their competitors, online or otherwise, in order to grow. Additionally, a number of brick-and-mortar retailers have also acquired e-tailers as a way to expand through omnichannel operations. Many retailers have also used acquisitions to enter new markets or access product segments not previously accessible. Below are this year’s retail acquisitions that have shaken up the retail sector.

**Brick-and-mortar to brick-and-mortar**
As competition heats up and organic growth becomes increasingly difficult in the brick-and-mortar retail environment, many operators have used acquisitions to expand their reach. While many traditional store operators are seeking to acquire rapidly expanding e-tailing brands, brick-and-mortar acquisitions have been all but few and far between.

Companies in the $297.3 billion Pharmacies and Drug Stores industry (IBISWorld report 44611) have been actively consolidating; the industry, with 61.9% of revenue generated by the top three players, is set to become even more concentrated as a result of recent merger and acquisition activity. Walgreen Co., which has a 28.6% share of the industry, announced in June 2017 that it will acquire 2,186 of 4,600 Rite Aid stores, as the Federal Trade Commission blocked the initial merger proposed in 2015. The initial merger would have given Walgreens a 40.2% industry market share, and although the initial transaction was blocked, the newly absorbed stores will considerably boost Walgreen’s size and scope. Additionally, the industry’s second-largest company, CVS Caremark (21.7% of industry market share), has also engaged in M&A activity this year, albeit on a smaller scale. In June 2017, the company acquired Doc’s Drugs, an Illinois-based pharmacy chain that had 14 locations and over 200 employees. Although this acquisition is much smaller than many of the company’s prior acquisitions, the transaction will further consolidation within the industry.

Another retailing industry that has recently ramped-up its consolidation activity is the $14.3 billion Handbag, Luggage and Accessory Stores industry (44833). Despite industry revenue growing an annualized 1.5% over the five years to 2017, Coach Inc., the industry’s...
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second-largest company with 14.2% market share, has struggled to keep up. In an attempt to improve performance and transition into a “lifestyle brand,” the company acquired Kate Spade New York for $2.4 billion, which will add 98 Kate Spade stores and 65 Kate Spade outlet stores to Coach’s US portfolio. In addition to owning a major competitor in the handbag and accessory retail market, Coach will be able to tap into Kate Spade’s established apparel and home goods lines. Overall, the acquisition will boost Coach’s market share and enable the company to be more competitive with Michael Kors Holdings Inc., which has a market share of 23.2%, making it the largest player in the industry.

With many brick-and-mortar retail industries struggling amid falling foot traffic and rising e-commerce, many retailers have become the target of private equity buyers. For example, many companies in the Women’s Clothing Stores industry (44812), the Hobby and Toy Stores industry (45112) and other distressed industries have been especially prone to takeovers. This year, private equity firm Sycamore Partners has participated in two large-scale transactions, including the purchase of Staples Inc. and the sale of Dollar Express Inc. Staples, which accounts for 39.7% of the $13.0 billion Office Supply Stores industry (45321) has declined substantially over the past five years, as offices, schools and households alike have switched to paperless documents. Additionally, the industry’s products have become increasingly accessible and affordable online. While this transaction may not have immediate effects on industry dynamics, the acquisition highlights the trend of heightened private equity ownership in the retail sector. On the other side, Sycamore Partner’s sale of Dollar Express to Dollar General Corp. will make market share concentration within the $65.7 billion Dollar and Variety Stores industry (45299) rise.

![Industry Revenue](image_url)
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Dollar General is currently the largest operator, controlling a 33.4% share of the industry and is expected to grow as it gains 323 additional storefronts.

**Brick-and-mortar to online**
Since e-commerce is the fastest expanding portion of the retail sector, many brick-and-mortar companies have looked to acquire e-tailers for growth opportunities. Walmart Stores Inc. has grown into an international retail behemoth with more than 5,000 stores across the United States, 2.3 million employees globally and revenue nearing $500.0 billion. However, the king of retail has had a sluggish response to the ongoing shift to online shopping, presenting the company with billion-dollar challenges. In an effort to improve its e-commerce presence, the brick-and-mortar giant recently acquired Jet.com for $3.0 billion, e-commerce clothing companies Bonobos Inc. for $310.0 million and Modcloth Inc. for between $50.0 and $75.0 million, as well as shoe seller Shoebuy.com for $70.0 million. Walmart’s increased investment in online shopping companies has been the result of surging e-commerce sales; in the five years to 2017, online sales have risen at an annualized rate of 13.4%, while most brick-and-mortar industries increased by single digits or declined all together. By focusing on shoes and apparel, Walmart is positioning itself to take advantage of declining apparel sales in brick-and-mortar department stores, as more customers buy online. Furthermore, Walmart is emulating rival Amazon.com Inc., which purchased online shoe retailer Zappos.com Inc. in 2009 and has turned its focus on fashion with the recently launched Amazon Fashion. Walmart’s recent acquisitions may prove crucial in its ability to continue to compete with Amazon and other general-merchandise online retailers.

Walmart is not the only brick-and-mortar retailer investing heavily in e-commerce acquisitions; earlier this year, pet retailer PetSmart Inc. acquired Chewy.com, a similar online-based retailer, for $3.4 billion in the highest-valued e-commerce acquisition to date. While PetSmart is the country’s largest company in the Pet Stores industry (45391), with expected 2017 revenue of more than $7.0 billion and an estimated 38.0% market share, its e-commerce capabilities are extremely limited. For example, rival PETCO Animals Supply Inc. is expected to generate nearly $660.0 million in revenue from online sales, which dwarfs PetSmart’s expected 2017 online revenue of $70.0 million. This threatens PetSmart’s industry hegemony, as online sales are becoming increasingly important for retailers; the Pet Stores industry is expected to experience revenue growth of 2.7% in the five years to 2017, which is significantly less than the 8.9% annualized growth of the Online Pet Food and Pet Supply industry (OD5086). As Chewy earned more than $900.0 million in revenue in 2016, PetSmart’s acquisition was a smart move for a company looking to increase online revenue and become a major
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Online to brick-and-mortar
While brick-and-mortar titan Walmart Stores has taken steps to improve its online shopping capability and customer experience, rival retailer and e-commerce leader Amazon is moving in the opposite direction. With its nearly $14.0 billion acquisition of Whole Foods Market Inc. in June 2017, Amazon is looking to expand its storefront footprint in cities and towns across the country. By operating more than 450 brick-and-mortar Whole Foods stores, Amazon is setting its sights on the $600.0 billion grocery industry, which is currently dominated by Walmart. Perhaps more importantly, given Whole Foods’ close proximity to 75.0 million Americans (according to an analysis by Quartz), the acquisition puts Amazon in a prime position to increase and improve its e-commerce grocery capabilities. Online grocery sales have increased an annualized 10.1% over the five years to 2017, compared with 1.0% for traditional supermarkets and grocery stores. Leveraging Whole Foods as a fulfillment center could prove to be the perfect recipe for Amazon’s quest to bring the grocery industry into the 21st century, much like the company has done to so many other retail channels.
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