A good grip on growth

It may still rank as the smallest of the Big Four food retailers, but Bradford-based supermarket chain William Morrison has shown itself every bit as ambitious as rivals Sainsbury, Asda and Tesco in recent years. It is more than seven years since the group first unveiled its plans to expand beyond its northern stronghold, with an ambitious £2.9bn takeover bid for Safeway – a rival that at the time was nearly four times bigger than Morrisons.

The ensuing bid battle stretched over a 12-month period, due to the need for approval from the Office of Fair Trading. Morrisons eventually emerged victorious but in the early days, following difficult integration issues, doubts were expressed as to whether the prize was worth winning. These reservations have steadily melted away as Morrisons has built up a national presence through the deal, and its more recent sales and profits growth has impressed investors.

In September, the group reported a 5% increase in first-half sales to £7.5bn despite tough economic conditions, while net income climbed by 42%, from £218m to £309m. Plans were also announced to further expand its network, with the aim of reaching more than eight million shoppers whose nearest Morrisons store is currently more than a 15-minute drive away.

This further growth phase follows a three-year period in which the group added 70 stores to its estate. Of these, 38 were former Somerfield or Co-op stores (acquired earlier this year); the remainder were individual purchases or new developments.

"Generally, we open between eight and 10 new stores per year, but the figure for 2009 will be around 50," says the group's treasury manager Tony Marsh, who confirms that the overall corporate plan is now for Morrisons to develop in those parts of the country where it is poorly represented at present. This will mean more stores in southern England, particularly inside the M25 area, although Marsh acknowledges that competition among retailers to secure the best locations remains keen despite the recession.

Plenty of former Woolworths outlets are still available, but Marsh says that neither the format nor the high street location of the now defunct retail chain is suitable, with the city centre sites making regular delivery of supplies difficult.

Executive summary

- An ambitious acquisition programme has propelled Morrison onto the national supermarketing stage, and its treasury has had to expand to meet the demands.

COYLE'S CAREER Also in the treasury team at the Morrisons head office is the group's head of tax and treasury, Paul Coyle. Both he and Marsh are relative newcomers to the group, having joined some time after the Safeway acquisition was completed in early 2004.

"Before that, I had come out of Dundee University with a degree in languages and joined the Inland Revenue as a tax inspector," Coyle recalls. "I was with the Revenue for six years before joining KPMG as a tax adviser in its financial division."

Coyle's next move was a three-year stint at Delta Airlines, which he joined in 1999 as global head of tax. It proved a turbulent period for the airline industry, with the repercussions of the 9/11 terrorist attacks triggering the demise of its weakest players. However, Coyle says that it was the job's travelling demands that eventually proved too much as they interfered with his family commitments.

So in 2002 he moved to the motorists' breakdown service RAC as its UK head of taxation, remaining in the post until 2005 when it was acquired by insurance giant Aviva.

"Richard Pennycook, who was then RAC's finance director, joined Morrisons to take on the same role and he took a few individuals with him," Coyle recalls. "I learned that Morrisons had no tax department at that time and, on top of this, Pennycook said he'd also like to give me responsibility for setting up the treasury function despite my lack of experience in that area."

So on joining the group in March 2006, he virtually had to start from scratch in both areas. Despite the Safeway deal two years earlier, the group lacked a designated treasury department beyond a

IT MADE A MEAL OF SWALLOWING SAFEWAY, BUT SUPERMARKET CHAIN MORRISON HAS BEEN TRANSFORMED FROM A REGIONAL PLAYER TO A NATIONAL ONE AS A RESULT. **GRAHAM BUCK** REPORTS ON HOW ITS TREASURY DEPARTMENT HAS GROWN FROM ALL BUT NOTHING TO COPE WITH THE DIZZYING GROWTH.

AS WELL AS BEING THE UK'S FOURTH-BIGGEST SUPERMARKET GROUP, MORRISONS IS ALSO THE FIFTH BIGGEST FOOD MANUFACTURER, WITH VARIOUS PRODUCTION FACILITIES AROUND THE COUNTRY.

few individuals within the finance department who carried out limited treasury-related activities.

"It was quite a challenge for me due to my lack of previous experience," admits Coyle. "I basically got by through by embarking on the ACT exams and also through talking to other people and by listening to and learning from them as to what was needed. Tony's arrival at the group the next year helped to further cement the treasury function."

MARSH MAKES HIS MARK Marsh's first position was an administration apprenticeship with Case Corporation, formerly JI Case Company. Today it still operates as a division of Fiat and is a major producer of both agricultural and construction equipment under the Case New Holland brand. At the start of the 1980s, though, it was a Huddersfield-based company with a US parent, primarily making tractors. Exports were particularly important for Case, which had overseas subsidiaries and sold to the European markets.

"I started work with the company on leaving school and took up an administration apprenticeship, which offered day release and the opportunity for an HNC in business studies," Marsh recalls. "While working in finance I moved into treasury almost by accident as it represented part of my work, but was able to progress it as the effectiveness of treasury improved."

The business generated revenues and costs in currency, which resulted in simple foreign exchange operations at a time when the introduction of the single European currency was still many years away. The company dealt in multiple currencies and had to cope with currency fluctuations.

It also had to contend with the recession that marked Margaret Thatcher's first term as prime minister and a decline in farming subsidies, both of which hit sales and drove consolidation in the industry. This in turn led to Case's relocation to Doncaster, in a merger with International Harvester Corp.

Marsh's next company was more recession-proof. In 1987, he joined Bradford-based Fine Arts Developments, whose two main divisions were greetings cards and a mail order operation. In the late 1990s, the two divisions were separated through a demerger and Marsh remained with the greetings card business. Two years later in 1999 the operation was acquired by rival Hallmark Cards and Marsh's work, which had been fairly similar to his role at Case, was expanded to include internal audit, insurance and tax.

After 20 years with Fine Arts/Hallmark, the opportunity to move to a much larger organisation came two years ago, with an offer from Morrisons.

TIGHT TEAM Today, Coyle oversees a team of four handling tax issues and three for treasury, balancing his dual roles as head of tax and head of treasury. He says it is hard to say what proportion of his overall time is taken up by each role as they regularly change.

The operation is still a relatively small one for a head office that houses around 1,500 employees and a group with a total workforce of some 140,000 people. This may partly be due to the fact that, unlike its larger competitors, Morrisons has minimal exposure outside the UK. The exception is a successful outlet in Gibraltar, which the group inherited from the Safeway acquisition. Its basic format and product lines are the same as those of the group's UK stores, and are attractive to Spanish shoppers, who currently flock there to take advantage of the strong euro.

However, as well as being the UK's fourth-biggest supermarket group, Morrisons is also the fifth biggest food manufacturer, with various production facilities around the country.

Marsh says that his responsibilities since joining Morrisons have been based on teamwork, with risk management, cash management, cash forecasting and the relationship with the group's banks very much to the fore. "I'm also involved with our internal expansion programme, which involves moving our IT systems to Oracle over the next two to three years," he adds. "It represents a huge project as most of our businesses are currently on separate systems."

Morrisons has also been proactive in developing a corporate social responsibility (CSR) programme over the past three years. In June 2008, the group was one of the first 12 companies to receive Carbon Trust Standard accreditation in recognition of its efforts to manage and reduce its carbon footprint

Marsh says the group hadn't previously actively publicised its green agenda or its achievements and its reputation has suffered as a result "but the Carbon Trust accreditation says it all for us!" He adds: "Our CFO decided that we'd pick a couple of CSR issues and be really good at them. So we focused on energy saving."

Initiatives include giving out 10 million reusable carrier bags made from recycled materials to customers in May last year and repeating the exercise in December. Usage of flimsier plastic bags gas has been

"WE DON'T WAKE UP EVERY DAY WITH THE THOUGHT THAT WE HAVE TO OVERTAKE SAINSBURY; WE'RE QUITE HAPPY WITH THE CURRENT SITUATION."

reduced by 50% over a year as a result. More energy-efficient plant has also been installed, such as the refrigeration units in newer stores

"The lighting at head office is motion-sensitive and switches off automatically if an area is not being used; the toilets in our offices and stores use rainwater; and these initiatives have been extended into our manufacturing facilities," adds Marsh.

SEEING OFF THE DISCOUNTERS A year ago, it seemed as if the Big Four might see their market share eroded by the deep discount chains, which offer cheap prices as the trade-off for a restricted choice of brands. More recently the threat appears to have diminished and Coyle suggests that the supposed challenge presented by the likes of Aldi, Lidl and Netto in late 2008 and early 2009 may have been overstated.

"They were able to increase their market share mainly due to the demise of Kwik Save, but the overall market penetration of these retailers hasn't really increased," he says. "What's more, the growth they have achieved comes from a relatively low base."

More recent media reports cite Morrisons as harbouring ambitions to usurp rival Sainsbury and move from fourth to third ranking in the sector, but Coyle is keen to downplay such an idea.

"We'd certainly like to, but we recognise that our market share is 12% against the 15% that Sainsbury enjoys. The difference may not sound like a lot, but it still represents a considerable amount of ground that we'd have to make up.

"So we don't wake up every day with the thought that we have to overtake Sainsbury; we're quite happy with the current situation. We generate a greater profit than they do despite having fewer stores, thanks to the real cost culture observed within the organisation."

He adds that the recent acquisition of some of the larger Co-op and Somerfield stores has kept the heat on the competition. The Morrisons policy has been to avoid entering the small convenience stores sector, so "the Co-op may have regarded us as less of a direct threat than other competitors who also operate in the convenience space".

Indeed, the typical Morrisons store is a relatively substantial 15,000-plus square feet. When the group reported in September, it confirmed that this policy would be maintained and that it would stay back from the bidding fray for smaller higher street and city centre outlets.

"It's already a very crowded market thanks to the likes of Tesco Metro," says Coyle. "We prefer to have a single, but decent-sized presence in each of our chosen markets, particularly in the London area where the level of competition for decent sites is fiercest.

"Like other major retailers, we're seeking additional floor space and the competition means that anyone selling retail land is able to make good money. This can push up prices, although our department doesn't really get involved in negotiations; we're merely asked to provide the funding once the deal is done."

So would the group consider expanding outside the UK and adding to its lone store on the continent?

Coyle replies that the group is conscious that UK retailers generally have a poor track record abroad. In the supermarket sector Sainsbury and Marks & Spencer had only short-lived ventures into the US and the latter also closed most of its European stores several years ago. Even the mighty Tesco has found the US difficult to crack, with its Fresh & Easy chain struggling.

In addition, the European market has become very crowded. "Tesco was able to steal a march on us by developing in many of the weaker regions, such as Eastern Europe, at a time when we were focusing on the UK and assimilating the Safeway stores."

Morrisons is also alone among the Big Four operators in having no online offering, but management is apparently happy with the strategy even if it flies in the face of conventional wisdom. "We prefer our focus to be on fresh foods, and you can't smell the bread on the internet!" quips Coyle. "We aren't contemplating an online offering in the near term, although we'd never say never."

He himself doubts whether online operations can produce a reasonable profit. "Ancillary purchases rarely happen online, but they are far more common in-store where people go in for a particular item and come out with several.

"Our stores have qualified butchers, bakers and fishmongers and we spent a significant amount on training them. It makes us different from the other major supermarket operators and a lot of our produce is made in-store."

Graham Buck is a reporter on The Treasurer.
editor@treasurers.org