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THE SAFEWAY STORY: ALIGNING LABOR, CAPITAL, AND COMMUNITY

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Reviewed and approved* by the following:

Paul Whitehead
Professor of Practice of Labor and Employment Relations
Thesis Supervisor

Brian Davis
Clinical Associate Professor of Finance
Honors Adviser

Stanley Gully
Professor of Human Resource Management
Honors Adviser

James Miles
Professor of Finance
Reader

* Signatures are on file in the Schreyer Honors College.

ABSTRACT

With the frequency of mergers and acquisitions increasing in the post-2008 period, understanding and evaluating the consequences of them is necessary to making these endeavors profitable and successful for all parties involved. The purpose of this research is to use the recent merger between Safeway and Albertsons as a case study to understand how a merger or acquisition can cause tension and division between three stakeholders: employees (labor), owners (capital), and community members (consumers). The study analyzes the impact of the merger on all three groups and discusses the shortcomings of previous methods to resolve these issues in the grocery industry. This paper then seeks to solve these conflicts of interests by proposing three strategies that can be implemented that facilitate the alignment of the three stakeholder groups: a labor oriented "white knight" or "white squire", an employee stock ownership plan (ESOP), or strategic corporate research combined with a consumer-driven initiative.

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Chapter 1

Introduction

Many corporate analysts evaluate mergers and acquisitions from a purely financial standpoint. In some cases, an analysis focused solely on potential value creation, operational efficiency, and compatibility between corporate goals and lines of business is sufficient to guarantee a smooth transition and full realization of synergies. However, in other cases there are important factors beyond those on an income statement or balance sheet that need to be carefully considered as well. Labor relations and a company's relationship with the community are critical to the successful implementation of a merger or acquisition. When businesses cut jobs, close stores, and alter product offerings but fail to take the responses of its employees and customers into account, the unexpected pushback may hurt a company's bottom line and impede the success of the merger.

Since layoffs often accompany a change in management, a merger or acquisition can quickly pose a threat to the security of a union and its collective bargaining agreement (CBA). Even an acquisition welcomed by corporate decision-makers can be disastrous for a union, since a union may not have the time or ability to persuade management or stockholders to take the union's needs into consideration when evaluating a bid. Some unions have the foresight to include successor clauses in their CBAs, that is, "contractual provision(s) stipulating that the terms of the collective bargaining agreement will be binding upon any successor to the employer or union" (Huggett 838). These clauses can assure union employees that their working conditions will be secure for the duration of the transition period.

However, given that these provisions can be difficult to enforce and many CBAs do not have such clauses, unions need a more effective strategy to protect the interests of their members during an acquisition. Even if a merger or acquisition is coordinated such that two companies develop a strategy that appeases both owners and employees, the transition may still exclude and upset consumers and local communities once changes occur

This paper will use the merger of Safeway and Albertsons as a case study to understand the underlying factors that lead to tensions between the three major stakeholder groups – labor, capital, and the community – and propose three strategies that will help align the interests of each group with each other.

Chapter 2

Cerberus Capital, Albertsons, and Safeway

Cerberus Capital Management, L.P. is a private investment firm that manages over $30 billion on behalf of "government and private sector pension and retirement funds, charitable foundations and university endowments, insurance companies, family offices, sovereign wealth funds and high net worth individuals" (Cerberus Capital Management). The firm specializes in investing in and fixing distressed assets. Two key members of the firm include former Vice President of the United States Dan Quayle and former Secretary of the Treasury Jon W. Snow, who now serves as the Chairman of Cerberus. (Cerberus Capital Management). In addition to managing distressed corporate debt, mortgage-backed securities, and real estate, Cerberus Capital has a sizable investment portfolio, including well-known brands such as Avon and Ally Bank. This portfolio comprises companies that Cerberus Capital seeks to mold into industry leaders through operating and financial efficiency. One technique the firm has employed is the use of the leveraged buyout (LBO) to purchase distressed companies. This process involves taking distressed companies private, rehabilitating or eliminating operational inefficiencies, and then taking the improved company public again.

One such example of these corporate investments is Albertsons LLC (Albertsons). Since its initial purchase of Albertsons in 2006, Cerberus Capital has been focused on turning Albertsons into a top competitor in the grocery industry. In early 2015, Albertsons was merged with the newly acquired Safeway, and the combined store network now also operates Vons, Jewel-Osco, Shaw's, ACME Markets, Tom Thumb, Randalls, United Supermarkets, Pavilions, Star Market, and Carrs (Albertsons S-1 Filing). These mergers have allowed for Albertsons to concentrate its market share in certain geographic areas, especially in the western United States and some areas of the Northeast and Mid-Atlantic. Figure 1 shows a detailed map of the geographic distribution of grocery stores under the Albertsons conglomerate.

Figure 1: Albertsons Stores across the United States (Ascarelli, 2015)

With 2,327 stores and 276,000 employees as of 2016, Albertsons is ranked first or second in 66% of the 122 Metropolitan Statistical Areas in which it operates (Albertsons S-1 Filing). Despite its dominant market share in some regions, competition in the grocery industry has intensified over the past five years. Other large groceries have found non-acquisition growth difficult, since the US grocery industry is already flooded with competitors. In order to stay ahead of its more traditional rivals, Kroger and Publix, Albertsons has pursued an aggressive merger and acquisition campaign while under management by Cerberus Capital. However, the more imminent threat to Albertsons is the emergence of cheaper alternatives to traditional grocery chains. Discount chains like Aldi's and supercenters or warehouses run by Wal-Mart and Costco are stealing a larger share of the grocery industry by offering lower prices than the other food retailers. Although the conventional retailers are initiating the frenzy of promotional activity and price cutting in response to deflationary food prices, "there have been price wars in the supermarket sector before and history has shown it can decimate margins and profitability as chains attempt to increase market share at all costs. Food-at-home prices fell in July by 1.6 percent from a year ago, marking the eighth consecutive month of declining food prices, according to the government's Consumer Price Index for food measured by the Bureau of Labor Statistics" (Daniels).

Given the chaotic state of the grocery industry today, it is little wonder that annual growth will, according to projections, continue to hover around 1% or below for the foreseeable future (IBISWorld). Narrow margins and stagnant growth have hurt employees as well. "Wage growth has been similarly dismal, increasing at an annualized rate of 0.9% to reach $60.3 billion in 2017. Operators, especially in large national-scale companies, have been hesitant to raise wages in order to cut costs to help struggling profit margins. Many operators have also implemented self check-out stations in order to cut wage costs in the long term." (IBISWorld). When a company undergoes a merger, cost-cutting measures amplify employee feelings of vulnerability and insecurity about their future with the company.

Consumers will initially benefit from decreased food prices resulting from intense promotions and price wars. As noted by Bob Miller, the chief executive at Albertsons, before the merger with Safeway, "Working together will enable us to create cost savings that translate into price reductions for our customers…Together, we will be able to respond to local needs more quickly and deliver outstanding products at the lowest possible price, more efficiently than ever before" (Merced and Alden).

Another benefit from price wars for consumers comes in the form of loyalty programs. Safeway has an extremely effective customer loyalty program that Albertsons hopes to adopt. One marketing website highlighted the strategy on its website.

> "The core of the Safeway program is a plastic card issued to frequent shoppers. When the card is scanned during checkout, the customer receives members-only discounts on certain merchandise throughout the store. Many of these discounts are provided by product manufacturers, seeking to promote particular brands, so the costs are not all borne by Safeway.
>
> There was a monthly mailing that went to all 1.2 million card holders. It included a personalized letter. Customers were divided into Primary Shoppers and Secondary Shoppers. Secondaries were those whose spending patterns indicated that they did most of their grocery shopping elsewhere. Their package included a coupon for a manufacturer-sponsored item (i.e. free Dannon Yogurt). In addition they received a $1 off coupon for anything in the meat department (if they did not shop that department) or the produce department (if they did not shop heavily there). The result of this mailing to secondary shoppers was that sales in the meat and produce departments shot through the roof! They were changing customer behavior, by getting people to visit store departments that they had not previously shopped. The strategy was working." (Hughes).

Primary shoppers, on the other hand, got a free gift and $1 off the price of a cookie (Hughes). These incremental purchase tactics were used on primary shoppers because giving out produce or meat discounts to frequent customers would have been too expensive. The individual detail Safeway put into its marketing has paid off tremendously, and has allowed the store to keep customers happy while charging a few cents more for its products (Hughes).

However, the community will suffer if grocery stores and their employees continue to struggle. In addition to job losses stemming from grocers trying to reduce wage expenses and other long-term employee liabilities, some stores will only be able to offer a limited assortment of brands if prices remain low. In addition, grocery chains may not have the resources they need to explore offering healthier or more organic food options, a trend that is becoming increasingly more important to the average American consumer. Although specialty stores like Whole Foods have started to play a role in offering these options, the prices simply may not be affordable for many customers nor sustainable for such companies (Hanbury 2017).

These conditions have made it difficult for Cerberus Capital to execute the plan it had in mind for Albertsons. It will be useful for later discussions to expand on the strategic elements outlined in Figure 2. This figure highlights the firm's strategy to achieve financial and operational efficiency in its grocery stores post-merger.

- Improving operations on a store-by-store level
- Reducing the company's debt significantly by refinancing or paying down obligations to creditors
- Executing a sale-and-leaseback transaction for the stores' properties, eliminating more than $300 million in real estate debt
- Launching new store-branded product lines
- Implementing an in-sourced collections function to improve recovery of unsolicited receivables
- Lowering product costs by transitioning all prescription sourcing and grocery supply to retailer-owned cooperative Associated Wholesale Grocers (AWG)

Figure 2: Leading Grocer Strategy (Cerberus Capital Management)

First, Albertsons's launch of store-branded products foreshadows an approaching price war with competitors such as Kroger and Wal-Mart, because a store can sell generic brands at a lower cost than brand-names. Second, the company is concerned with the amount of outstanding debt it has. According to its most recent S-1 filing with the SEC on January 18th, 2017, Albertson's had $11.7 billion in outstanding debt. With a price tag of $9.4 billion, Cerberus Capital's leveraged buyout of Safeway was "supported with roughly $7.6 billion worth of borrowed money" (Merced and Alden), and much of this debt has variable rate financing. This could quickly pose a problem, as the Federal Reserve is looking to increase interest rates in the coming year, and Cerberus Capital's access to cheap financing could disappear. Third, layoffs are inevitable if the grocery supply function is outsourced to a third-party, especially one that has little respect for unionized workers. One such example is C&S Wholesale Grocers, a grocery company that, according to the president of one of the most significantly affected unions, has "a notorious record of casting thousands of workers aside, destroying decent jobs and leaving taxpayers and communities with the task of picking up the pieces and cleaning up the economic fallout" (Hoffa 2).

These three prongs of Cerberus's strategy to put Albertsons ahead of its competition target both employees and customers, and understanding labor and community relations in the grocery industry is crucial to the analysis explored in this paper.

Chapter 3

Recent History of Labor Relations in the Grocery Industry

For the past decade, supermarket employees have been struggling to assert their rights as grocery chains have cut wages, healthcare plans, and pension benefits. Neither Albertsons nor Safeway is new to contentious labor relations, and both have had considerable success in recent years in beating the United Food and Commercial Workers (UFCW) and Teamsters unions during times of labor unrest. For Albertsons and Safeway (which owns Vons), a UFCW strike in 2003-2004 was particularly costly. The strike hit both Albertsons, Vons, and another grocery store, Ralphs, at the same time, and lasted for 141 days. The strike cost Albertsons alone over $1.5 billion. Over 70,000 UFCW workers picketed and camped out in front of grocery stores in Southern California. Teamsters members joined them and protested at the warehouse that supplied the stores, and they also refused to drive the groceries past the UFCW picket lines. This method was extremely effective in generating public support, and much of the local community supported the strike by boycotting 900 affected stores. Despite this tremendous outpouring of public support and financial damage to the grocers, the strike came to an end when wildfires broke out in California and people stocked up on food and supplies.

Both employers and trade unions claimed victory, but many union activists were unhappy with the labor leadership's response and handling of the strike. One author from a radical grass-roots labor publication quipped:

> "…contract terms are reported to include piddling lump-sum payments instead of wage increases for current workers. Contributions to health care benefits by the

companies will be capped. Even worse is the growth of a two-tier system under which new hires will earn even less in wages and benefits. These terms are a pretty accurate reflection of how the union leadership conducted the strike. The union, through the ranks' willingness to stay out and inflict severe losses on the companies ($2.1 billion by one estimate), was able to blunt the threat of further health cuts and even total defeat through mass firings and decertification" (Proletarian Revolution).

Some activists were also displeased by the AFL-CIO's response, which was to distance itself from the strike out of fear of losing face by backing a strike that had a high possibility of failing. They felt that if the local union leadership and the AFL-CIO had been more committed to the strike, the workers could have achieved a better outcome. In addition, some members were frustrated by the perceived ineffectiveness of the union leaders in promoting cross-union solidarity, given the timing of the picketing. For example, one Teamster driver noted that "The timing was terrible. First the pickets were extended November 24 after we had already supplied the stores for the Thanksgiving holiday. Then they pull them down December 22 just in time to make us work 12 to 14 hour days to clean up the mess and get ready for the remaining holidays" (Proletarian Revolution). This discord between union leadership and rank and file members helped the grocery companies when the strike ended and both parties came back to the bargaining table.

Although the strike was certainly not an outright success for the Albertsons and the other supermarkets, it served as a valuable learning experience for them. One strategic takeaway Albertsons learned was that consumers have the power to sway the momentum of the strike. The more sympathetic customers are toward the workers, the more prolonged the strike will be and the greater the financial loss will be. The second lesson Albertsons learned was that the

Teamsters and UFCW are most effective when they strike together, since it cripples both the grocery stores themselves and the necessary distribution to stock the stores. The more Albertsons can weaken the strength of each union, the less labor unrest the company will need to deal with. After the 2003-2004 strike, Albertsons and Safeway both took drastic measures to compromise union power, and Cerberus has been pushing the two companies even harder since the merger.

One of the key outcomes of the 2003-2004 strike was that Albertsons and Safeway each lowered the base salaries for employees. Avoiding this scenario had been one of the main priorities of the union because of Southern California's extremely high cost of living. Wage increases had to be sacrificed in order to keep provisions concerning healthcare and pension funds intact. In the years since the strike, the escalating cost of healthcare has plagued collective bargaining and pensions everywhere, as demonstrated in Figure 3. Healthcare costs have been a particularly contentious issue since the passage of the Affordable Care Act, which has been heavily criticized for failing to stop insurance premiums from rising. The AFL-CIO has been concerned by these rising costs, fearing that "soaring costs threaten the survival of employment-based coverage. The average annual premium for single coverage in employment-based plans in 2011 was $5,429. For family plans it was $15,073—an increase of 113 percent over 10 years. If family coverage premiums continue to grow as they have over the past seven years, they will average $23,793 in 2020" (AFL-CIO).

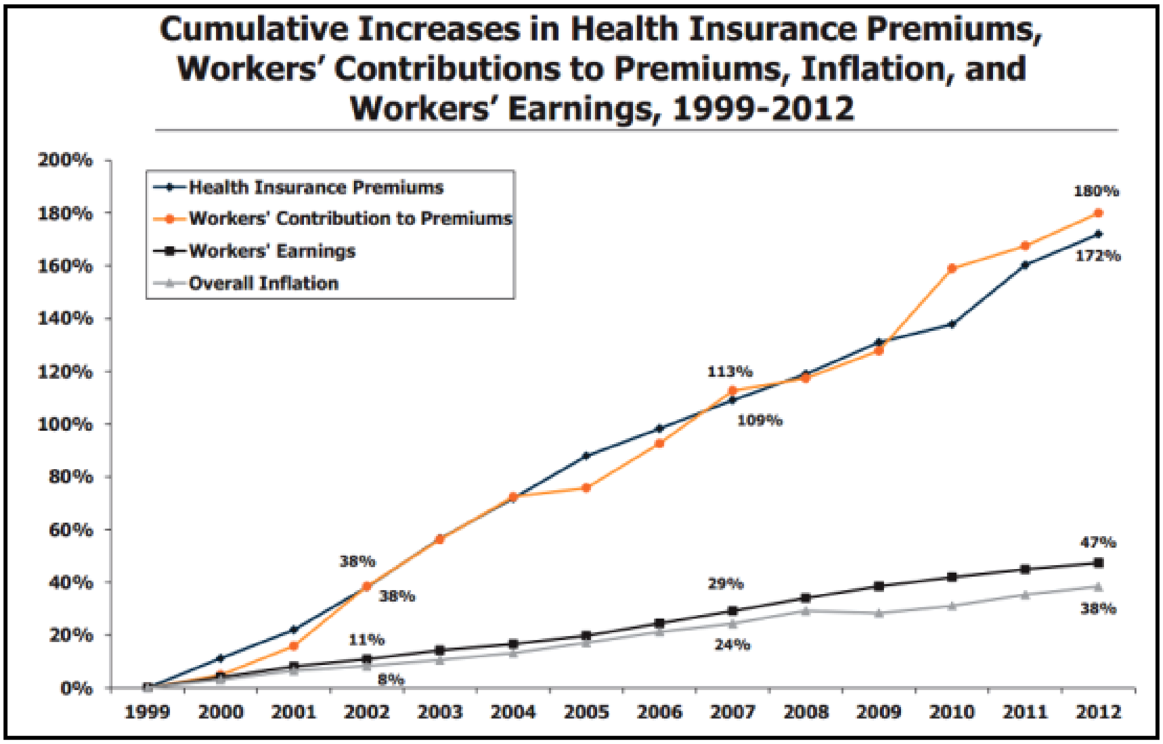

Figure 3: Insurance Premiums (Landy, 2016)

In addition to disputes over healthcare and wages, pension plan funding has become a huge issue in collective bargaining in the grocery industry in recent years. With many states and cities passing laws that increase the minimum wage, grocery stores have been looking for other ways to control their labor costs, and pension plans and other benefits such as healthcare are often targeted for cuts. As noted in its recent SEC filing, the Albertsons family of grocery stores, which includes Safeway, Vons, Jewel-Osco, etc., "participate in various multiemployer pension plans for substantially all employees represented by unions that require us to make contributions to these plans in amounts established under collective bargaining agreements. In fiscal 2015, we contributed $379.8 million to multiemployer pension plans, and in fiscal 2016, we expect to contribute approximately $400 million to multiemployer pension plans, subject to collective bargaining conditions. Based on an assessment of the most recent information available, the company believes that most of the multiemployer plans to which it contributes are underfunded. As of February 27, 2016, our estimate of the company's share of the underfunding of multiemployer plans to which it contributes was approximately $3.2 billion" (Albertsons S-1 Filing).

The following figure lists the multiemployer pension obligations of Albertsons and indicates whether the plan is classified as "red" or "green" according to the Pension Protection Act (PPA) guidelines.

Status of Multi-Employer Pension Plans	Pension Protection Act zone status 2015
UFCW-Northern California Employers Joint Pension Trust Fund	Red
Western Conference of Teamsters Pension Plan	Green
Southern California United Food & Commercial Workers Unions and Food Employers Joint Pension Plan	Red
Sound Retirement Trust (formerly Retail Clerks Pension Trust)(2)	Red
Food Employers Labor Relations Association and United Food and Commercial Workers Pension Fund	Red
Bakery and Confectionery Union and Industry International Pension Fund	Red
UFCW Union and Participating Food Industry Employers Tri-State Pension Fund	Red
Rocky Mountain UFCW Unions & Employers Pension Plan	Green
Desert States Employers & UFCW Unions Pension Plan	Green
UFCW Local 152 Retail Meat Pension Fund	Red
UFCW International Union—Industry Pension Fund	Green
MidAtlantic Pension Fund	Green
Retail Food Employers and UFCW Local 711 Pension Trust Fund	Red
Oregon Retail Employees Pension Trust	Green

Figure 4: Multiemployer Pension Funding Status

The above color guidelines were established to ensure that plan participants were aware of the status of their pension, and that companies were taking appropriate measures toward adequately meeting their funding obligations. Under the guidelines, there are three funding categories: red, yellow, and green. Green means the plan is fully funded, yellow indicates that the plan is below 80% funded, and red means that the plan is severely underfunded and has a short-term credit balance deficiency. Unfortunately, there are only two ways to resolve underfunded plans – (1) find new funding for the plan, which is hard to do as employers continue to drop out of multiemployer plans; or (2) reduce the pension liability.

To further complicate the issue for Albertsons, two lawsuits, Terraza v. Safeway (Manganaro) and Lorenz v. Safeway (Manganaro), have recently been brought against Safeway for violating the Employee Retirement Income Security Act (ERISA). In the latter case, "In the underlying complaint, plaintiff Lorenz alleges that the Safeway defendants 'breached their fiduciary duty of prudence by selecting funds that charged higher fees than comparable, readily-available funds, and which had no meaningful record of performance so as to indicate that higher performance would offset this difference in fees; and entering into and maintaining a revenue-sharing agreement with the plan's recordkeepers … that resulted in excessive compensation to those entities'" (Manganaro). Further, Lorenz claims that the "revenue-sharing agreement constituted a prohibited transaction under ERISA for which the Safeway defendants (as fiduciaries) and Great-West (as a party in interest) are both liable" (Manganaro). In brief, revenue-sharing agreements allow the plan's recordkeeper to pad their earnings with non-investment related expenses, such as marketing and general administration. These revenue-sharing agreements tend to lead to significant paybacks for the plan's recordkeeper, which has led to speculation that these agreements are siphoning money away from severely underfunded plans.

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Since its acquisition by Cerberus in 2006, Albertsons has been successful at controlling its labor costs and preventing strikes. In 2011, when the impact of the 2008 financial crisis was still being felt and unemployment was a huge problem, rumors of a strike once again circulated in Southern California. With 62,000 workers ready to walk off the job, the strike would have been nearly the same magnitude as the 2003-2004 strike. This time, however, Albertsons was not caught off guard. In a public statement, the company announced it would close stores if an agreement could not be reached, saying that “We have contingency plans in place in the unfortunate event that there is a strike. One of the lessons we learned during the 2003-04 labor dispute is that it doesn't make good business sense to try to operate all our stores during a strike. At this point, we believe up to 100 stores could close for some or all of the strike. Any decision to reopen closed stores will be based on the business conditions at that end of a strike. We hope it does not come to this. We've been bargaining almost non-stop since Aug. 29 and we feel that we were moving toward our goal of reaching an agreement that is fair to both sides” (Smith). This move was almost unprecedented in the grocery industry, because a store closure, even if only temporary, could cause customers to develop loyalty to another grocery store. As a result, union leadership called off the strike, out of fear that a picket line in front of an empty grocery store would fail to generate the public support the union had in previous labor disputes. This move by Albertsons undercut the power of a strike, which has been one of the most useful weapons in labor’s arsenal over the past century in the United States.

Workers in the grocery industry are not the only ones who have seen the effectiveness of strikes diminish in recent years. The Wall Street Journal published an article summarizing a report by the Department of Labor that found that “fewer major work stoppages occurred in the past 10 years than happened annually each year from 1947 to 1981, according to new data from the Labor Department. From 2007 to 2016, there were 143 strikes or employer lockouts involving more than 1,000 workers. That 10-year total is below the 70-year annual average of work stoppages, which is 164” (Morath). In 2016, the Communication Workers of America strike against Verizon was responsible for 1.2 million of the 1.54 million idle days and involved 36,500 workers.

For those employees in the more precarious sectors of retail, coordinating a strike and creating solidarity among workers can be a real challenge, and so called “flash strikes” appear to be a more pragmatic approach to demonstrate the power of employees, given that “workers in low-skill, hourly wage jobs have been particularly hard to organize because of their replaceability. It’s hard to convince workers to sign on to a lengthy walk-out when it would almost certainly cost them their jobs. A one-day strike allows fast food employees to call attention to their cause without losing employment. Many of the workers are compensated for their lost wages from a strike fund paid for by union groups” (Luckerson). As labor historian Jeff Cowie of Cornell University notes, this new wave of non-traditional union tactics “has more in common with the labor strategies employed before the union era, when short strike campaigns aimed to raise awareness around issues like workplace safety. ‘What it actually hearkens back to is sort of a pre-New Deal paradigm. There were a lot of events that were really trying to solve issues through these pressure points…and to raise people’s awareness and change the discussion of these issues’” (Luckerson). However, these flash strikes have had little concrete success increasing wages or expanding benefits.

Unfortunately for the employees at Safeway, over the past ten years, the UFCW and Teamsters have had trouble using the traditional methods of union resistance to get real results for the workers. The situation would only continue to deteriorate further after the merger with Albertsons.

Chapter 4

Leveraged Buyout Analysis and Implications for IPO

Since Albertsons acquired Safeway in January 2015, Cerberus Capital has been intending to take the grocery conglomerate public. In the past, Safeway had been taken private, reorganized, and then taken public again when "it was bought in 1986 by Kohlberg Kravis Roberts for $4.25 billion. The deal was a huge success for K.K.R., which reaped billions of dollars of profit, but at the expense of thousands of jobs" (Merced and Alden). This time, when Albertsons goes public, Cerberus and the rest of the consortium will retain a large stake of the shares in Albertsons, and so will continue to control management decisions for the grocer.

Cerberus originally anticipated that this would be an IPO with a fast turnaround period, believing that the main obstacle would be merging Safeway's and Albertsons IT systems. The Wall Street Journal agreed in mid-2015, estimating that if "investors value Albertsons similar to how Kroger is currently valued in the public markets, at about seven times its past-year earnings before interest, taxes, depreciation and amortization, the company would have a market capitalization of about $16.5 billion. That would be a substantial return for the Cerberus-led consortium. All told, Albertsons was assembled from parts with equity value of about $9 billion at the time of the deals. That doesn't include what the investors made on certain stock they purchased, nor does it reflect any benefits of the use of borrowed money, or leverage" (Gasparro and Demo). However, several external factors have complicated the process for Cerberus and Albertsons.

The first challenge was Wal-Mart's dismal announcement on October 14th, 2015. This was the day before the Albertsons conglomerate was supposed to go public on the New York Stock Exchange (NYSE) with the ticker ABS. Wal-Mart, which by that time had over half of overall sales coming from grocery products, announced that the deflationary environment that has persisted in the grocery business for a few years was continuing to worsen, and that earnings might decrease as much as 12% through fiscal year 2016 (La Monica). This announcement stunned Wall Street analysts, and they issued a downward revision of the entire grocery industry overnight. In response, Cerberus decided to postpone the IPO indefinitely.

Another problem that Albertsons now faces in the wake of these events is that the IPO needs to happen very soon if Cerberus's $9.4 billion Safeway gamble is to pay off. Given that the "company intends to use the net proceeds from this offering [of the Albertsons family of stores] to repay certain existing debt, to pay fees and expenses related to this offering and for general corporate purposes" (Lange), and combined with the fact that the merger with Safeway was fueled by $7 billion in variable interest rate debt, Cerberus only has a short time left before the Federal Reserve makes hefty rate hikes. Many leveraged buyouts (LBOs) took advantage of the low interest rate environment after the 2008 crisis to use cheap debt to fund large acquisitions, with the Safeway deal being one of the largest. On March 15th, 2017, the Federal Reserve raised rates a quarter percentage point, and promised two more raises in 2017 and three in 2018. If Cerberus cannot take Albertsons public in the near future, much of the existing debt will end up being refinanced at significantly higher interest rates.

These factors have put increasing pressure on Cerberus to take Albertsons public as soon as possible. Over the past two years, potential investors have grown increasingly weary of the eventual IPO, and in response Albertsons has tried to shed liabilities (primarily debt and pension liabilities) from its books in order to remain attractive to these investors (Lange).

Despite Cerberus saying that the Albertsons IPO will be postponed indefinitely, the company has continually made efforts to be prepared for a public offering. The most recent update to its S-1/A SEC filing occurred on January 18^{th}, 2017. In this filing, 2016 data through the beginning of December was released, and financial statements were adjusted to account for the cost of the Safeway merger. In the remainder of this chapter, this information will be used to construct a leveraged buyout (LBO) analysis to demonstrate that the Albertsons-Safeway merger is excessively levered, and to show that an IPO may be insufficient to repay the debt Cerberus and Albertsons used to acquire Safeway.

In a LBO, such as the one used to acquire Safeway, a private equity firm acquires a company by using a limited amount of equity (relative to the total purchase price) and funds the rest through leverage. The purchase price in this case was $9.4 billion, and $7.6 billion in debt was used to finance the transaction in addition to cash on hand and $1.25 billion in equity. The S-1 form indicates that the debt used for the acquisition is financed at a variable rate between 4.75%-5.5%, so an average of 5.125% was used to calculate interest expense.

Projected Free Cash Flows For Safeway, Post-Acquisition (in millions)					
	2015	2016	2017	2018	2019
Sales	36,694	37,060	37,431	37,805	38,183
COGS	27,153	27,425	27,699	27,976	28,256
Gross Profit	9,540	9,636	9,732	9,829	9,928
O&A Expense	8,968	9,058	9,148	9,240	9,332
EBIT	572	578	584	590	596
Less: Interest Expense	-390	-390	-390	-390	-390
EBT	183	189	194	200	206
Less: Taxes	64	66	68	70	72
EBT(Tax-Affected)	119	123	126	130	134
Plus: D&A	113	114	115	117	118
Less: CapEx	300	100	101	102	103
Less: Increase in NWC	50	51	51	52	52
FCF	(118)	86	90	93	97

Figure 5: Projected Free Cash Flows

The projections in Table 5 assume Safeway sales continue to grow at the industry average of 1% annually, and that cost of goods sold (COGS), operating and administrative expenses (O&A Expense), debt and amortization (D&A), and capital expenditures (CapEx) will also grow at that rate (not including additional one-time expenditures incurred in 2015 due to the merger). Based on these assumptions, Safeway would expect to have free cash flows (FCF) of almost $100 million by the end of 2019. The LBO model assumes that 100% of FCF will be used to reduce leverage, yielding a total debt pay-down of $249 million. Figure 6 estimates total enterprise value (TEV), by taking earnings before interest and taxes plus debt and amortization (EBITDA) at exit ($713 million) and multiplying it by the industry exit multiple of 8 times EV/EBITDA. This estimates a $5.7 billion TEV of Safeway. This is significantly lower than what Albertsons paid for Safeway in the first place, and even if sales could be optimistically expected to grow by 10% annually, enterprise value would still be only around $6 billion. This is especially alarming for Cerberus, since ending debt would still be over $7 billion.

Safeway's Terminal Value, 2019	
EBITDA	713
Exit Multiple	8
Enterprise Value	5,708
Ending Debt	7,351
Ending EV	-1644

Figure 6: Estimate of Ending Enterprise Value

Of course, Cerberus believes that the $9.4 billion it spent on Safeway will prove to be a wise move once the "synergies" are realized. However, this belief rests on the funds that would have been generated from the failed Albertsons IPO to help reduce the debt on Albertsons's balance sheet. Before Wal-Mart's announcement, Albertsons had planned to offer 65.3 million shares in a price range between $23-$26 per share. Assuming that Albertsons could have got the $25 per share price, the IPO would have raised a little over $1.6 billion – which, combined with the $5.7 billion enterprise value, would have been enough to cover ending debt from the acquisition. Unfortunately, for Albertsons and Cerberus, the time for a $25 initial price has passed. First, the market conditions are simply not conducive to a grocery IPO. Because of intense competition, many analysts have questioned that valuation (Pender), and that was even before things started looking grim for the grocery industry at the end of 2015. Although Kroger had been trading up over 41% in 2015, "Albertsons, which lost money last year (2015), doesn't deserve as high a valuation. Although Albertsons' gross profit margins are higher than Kroger's, its sales per square foot and capital expenditures are lower. Also, Albertsons's operating history, under current ownership, is not as long or intact as Kroger's" (Pender). In addition, Albertsons has extremely unrealistic expectations about what benefits it will gain from the merger. In order for the merger to be a success, the $800 million in synergy value would need to occur by 2018. Figure 7 breaks down what operational areas the synergy value will come from.

Sources of Expected "Synergies"

•28 percent from "operational efficiencies within our back office, distribution and manufacturing operations." This includes layoffs. As of June 20, 2015, about 70 percent of its planned "headcount reductions" had been completed.

•21 percent from putting all stores on Safeway's IT platform.

•14 percent from carrying more store brands.

•12 percent from "improved vendor relationships."

•25 percent from "optimizing marketing and advertising spending in adjacent regions, as well as actionable synergies in pharmacy, utilities and insurance."

Figure 7: Merger Synergies (Pender, 2015)

The current landscape in the grocery business would make it nearly impossible to achieve all of these synergies in such a short period of time, and as with any merger, the employees will be instrumental in turning these "synergies" into actual profits and cost reductions. But the more layoffs and cuts to healthcare and pensions that Albertsons makes while trying to trim liabilities off its balance sheet, the more contentious its relationship with employees will be. In addition, the last strike cost Albertsons $1.5 billion in revenue, and a sympathy boycott by consumers could hurt their bottom line even more. But even if the company can make it through the next few years without a strike, losing customers could also dash hopes of going public. As the next chapter will illustrate, years of poor labor relations have started to come back to haunt Albertsons and Safeway, and the communities they operate in are beginning to notice.

Chapter 5

Impact on Labor Relations and the Community

The UFCW and the Teamsters have found themselves in a tough position since Safeway's merger with Albertsons. While UFCW members have faced store closures and layoffs, the Teamster members, who primarily work in the distribution warehouses that supply the actual grocery stores, have been fighting off Albertsons's attempts to outsource their jobs to a third-party distributor. In 2016, 248 CBAs in the Albertsons family of stores were renegotiated, and another large wave is set to expire in 2018 (Albertsons S-1 Filing). However, when the UFCW threatened to strike again in July of 2016 if grocery store negotiations were unsuccessful, Albertsons and Safeway were ready. Albertsons, with its "strike playbook" developed after the 2003-2004 labor dispute, announced that if the strike were to go through, it would close stores for the duration of the strike. However, a deal was reached, and no strike took place, at least partially due to the hesitancy on the union's part to strike. This has made it hard for the UFCW to do little more than watch stores close and layoffs increase since the 2015 Safeway merger.

The Teamsters have faced similar difficulties, although its problems are more directly tied to Safeway's acquisition. Prior to being bought by Cerberus, Safeway had managed its own warehouses and distribution centers, and most had been unionized. However, as noted by Teamster Phil Giles, part of Albertsons strategy for industry dominance is to transfer warehousing and logistics responsibilities to a third party. "Cerberus appears to be at the root of the union busting, Giles continues. The New York-based financing company acquired Albertsons and Safeway separately, and are now combining the two for the purpose of making a public stock offering that should be profitable for Cerberus. Job cuts at Safeway are part of increasing the profitability of the stock offering, Giles says, and C&S Wholesale is the mechanism to implement the cuts" (Vail).

C&S is a grocery distribution company that specializes in wholesale procurement and warehousing. They also have expertise in pricing strategies and private-label products, such as Piggly-Wiggly. In addition to Albertsons and Safeway, its clientele includes Giant Foods, Winn-Dixie, and Target. Over the past decade, C&S has become the bane of the Teamsters union. They have perfected the art of busting union warehouses and relocating to another one a short distance away. Albertsons, which is acutely aware of this fact, has sought C&S out for its uncanny ability to defeat the Teamsters (Vail). Furthermore, "C&S has been aggressively expanding its operations, often at the expense of Teamster members. It has become almost commonplace for C&S to acquire control of Teamster-contracted warehouses, transfer the shipping work to other C&S non-union subsidiaries, and then get rid of the unionized workers, one Teamster official said. The union estimates it has lost about 4,500 jobs from such C&S union busting since 2001" (Vail). The most illustrative example comes from a recent battle that stemmed from the Safeway merger.

In late 2015, 700 employees at two warehouses in Maryland were informed that the locations would be closing in December and work would be transferred to non-union warehouses across the border in Pennsylvania. Most of the union truck drivers lost their jobs, and C&S did not give any indication of whether workers would be offered jobs at the new Pennsylvania warehouse. This caused Teamsters President James Hoffa to write an open letter to the CEO of Albertsons to express his concerns and as a way to implore state and local government as well. He wrote that he was "shocked that Safeway would send—with no prior discussion—a 60-day

WARN [Worker Adjustment and Retraining Notification] notice to Teamsters members and their local unions. The 700 Teamster members at this facility worked for decades to make Safeway a healthy and profitable company in Maryland. Together, Safeway and the Teamsters have provided thousands of workers with good-paying jobs and benefits that support families, communities, and the Prince George's County and Maryland economies" (Hoffa).

Figure 8: Community Protest Against Warehouse Closures (White, 2015)

The community has also invested a lot of money in grocery jobs in conjunction with the Teamsters. "In fact, in the late 1990s, cooperation between Safeway, state and county elected officials, and the Teamsters helped bring this brand-new facility to…Maryland. Safeway received $2 million dollars from Maryland taxpayers for building the facility and obtained concessions from its employees over the last 15 years to defray the cost of building this $91 million state-of-the-art distribution center" (Vail). Community members and elected officials rallied around the closures alongside the affected Teamsters in a 2015 rally, and Congressman

Chris Van Hollen spoke out against Cerberus's plan to throw Teamster members out into the cold right before the holiday season, and assured the workers that the community stood in solidarity with them. Congresswoman Donna Edwards also expressed her outrage, saying "to Safeway I want to say… there are thousands of us who are consumers. We understand whose name is on the sign outside this facility. We also understand who built this facility. We know that is was the workers – the members of the unions – who sacrificed in their contracts so that this facility could come online" (White).

Although the community and elected officials are supportive of the displaced employees and are willing to intervene, policymakers are under pressure from their constituents to solve more urgent matters. On such example is the opioid and heroin epidemic in Maryland. "Heroin killed 918 people in the state through the first nine months of 2016, up from 534 in the same period of 2015" (Washington Post). This crisis and others have consumed much of the time and resources of the state government and officials, and Hoffa's appeals to Governor Hogan and the Maryland state legislature have not resulted in any additional funding to keep the warehouse jobs at the union facilities.

Chapter 6

Methods to Align Labor, Capital, and Community

Given that the three groups of stakeholders in this case – ownership, labor, and the community – have goals that often conflict with each other, it seems difficult to come up with a solution that can meet the needs of each group without compromising the positon of the other two. While strikes and labor disputes can help unions obtain leverage in collective bargaining, these activities hurt the company's bottom line and create a negative experience for customers. Though eliminating union positions and closing stores and warehouses creates efficiency and adds financial value to the company, employees and the community suffer when jobs are cut and taxpayer dollars have been invested into now empty warehouses that no longer pay taxes. When consumers benefit from price wars and cheap groceries, the company must pass its losses on to it employees and even owners.

Situations such as these cannot be solved by traditional strategies that are based on the mutual exclusion of the aims and interests of other stakeholders. Although one group may choose to initiate a solution, the cooperation of all three will be necessary to achieve an effective implementation. This chapter proposes three strategies to resolve this issue that can align the goals of labor, capital, and the community as compared to previous efforts made by each category of stakeholder. They include (1) a labor oriented "white knight" or "white squire"; (2) an employee stock ownership plan (ESOP); or (3) strategic corporate research combined with a consumer-driven initiative. Each solution is considered in turn.

Strategy One: Labor Oriented "White Knight" or "White Squire"

This strategy is a twist on the "White Knight" and "White Squire" defenses that are used by companies when threatened with a hostile takeover bid. A white knight is a third party that bids for the same acquisition target as the hostile bidder, primarily to drive up the bidding price to ward off the hostile bidder. Oftentimes, however, the white knight ends up acquiring the target. A white squire, on the other hand, is a third party that acquires a slightly smaller ownership stake or block of shares to prevent the acquirer from purchasing enough shares to force the takeover. With both strategies, it is ideal to find a third party that is friendly to the target company, has common goals or beliefs, and does not intend to replace the current employees and managers of the target company. Initially, the "intention of the white knight strategy is to make sure that the company remains independent but could also be used to play the other two parties against each other to further sweeten the bid" (Zarin and Yang 2011). One common issue with finding a third party to act as a white knight is the difficulty of identifying a suitable bidder, since they often do not present themselves (Weston 2001). For the white squire defense, large institutional investors and "hedge funds and banks [are] suitable white squires due to their ability to move large amount of capital on short notice" (Weston 2001). This could include pension funds, mutual funds, or other organizations with large amounts of capital on hand.

There are two ways unions could take advantage of the white squire and white knight defenses. One would be for the union to actively seek out a labor-friendly white knight and "acquire" the acquisition target. In the Albertsons case, the UFCW and Teamsters unions would seek out another private equity firm that was more sympathetic to union workers to buy

Albertsons from Cerberus. The key to this version of a white knight being successful is the compromised financial position of Cerberus. The excessive leverage, volatile conditions in the grocery industry, variable interest rate debt, and its unrealistic merger synergies would certainly put pressure on Cerberus to accept an offer from another private equity firm. Although more common in Europe than the United Sates, there are a few examples. In addition to the real-estate trusts formed by builders and construction unions, there are a number of pro-labor private equity firms that "have been operating successfully for years…. one investment made by KPS Capital Partners, LP, a nearly $2 billion firm that has focused on buying troubled unionized companies and partnering with labor to fix the problems [often with some degree of employee ownership]. That firm reports having earned excellent returns while saving some 11,000 jobs at the dozens of distressed companies in which it has invested over the years" (Capital Matters 2). Of course, a successful relationship requires transparency about the distressed company's business plan, its finances, and an honest appraisal of what changes need to be made in order to turn the company around and preserve jobs.

If Cerberus would reject a bid from another equity firm to take Albertsons off its books, and decided to go through with their plans for an IPO, there is another way for the unions to use corporate strategies to their advantage without hurting the company's bottom line. This method would be for the union to identify and ally with a white squire that would buy a block of the company's stock. This would be particularly effective during an IPO, especially if the banks that underwrite the shares bear the responsibility of "road-showing" and will get stuck with whatever shares are left over. The white squire could then help promote the union's interests instead.

One suggestion that would seem natural is to have the union act as its own white squire and or use its pension fund to buy shares of the company. However, this type of activity would fall under the purview of numerous federal and state antitrust regulations, and constitutes a prohibited transaction under ERISA. The Department of Justice and the Federal Trade Commission have issued conflicting advisory opinions on the matter. While the FTC felt that corporate-union interlock is not a violation, the DOJ believes that since unions would have an inherent interest in learning and affecting a company's financial or operational decisions that fears of interlocking are valid.

Although the union or its pension fund cannot buy a large block of shares to obtain a board seat, employees could negotiate for a board seat through a CBA. Although it would be unlikely that Cerberus would be willing to agree to such a proposal, it has worked in other industries before. Partnership agreements in the steel and electrical construction that involved board representation have led to management-union cooperation on areas such as public policy and competitive pressure (Appelbaum & Hunter, n.d.). Because unions want to secure more jobs for the employees they represent, and corporations want to make money for their investors, both parties have a common goal of corporate growth. Unfortunately, in the United States, having union seats on a board of directors has long been a source of fear and contention among American business owners. Although some argue that union influence would draw focus away from profitability and thus has no place in strategic corporate decision-making, there are significant advantages that these critics are failing to consider that could increase profitability for their companies.

For example, "Board representation can supplement the collective bargaining system in this situation by fostering a recognition of the mutuality of interests between the union and management. By giving the union more information about the financial health of the company and its long-term prospects, the likelihood of stalemate is reduced and that of good faith bargaining increased. Board representation thus gives management credibility that it would otherwise not have" (Douglas 110). In addition, "it facilitates the participation of employees in the control of their work environment, thereby increasing their productivity. Commentators have argued that the current malaise in American industry, characterized by high absenteeism, labor turnover, and low productivity growth, is due in part to the failure of the enterprise to allow employees more control over the direction of the firm" (Douglas 110).

A labor friendly white knight or a white squire strategy would allow the labor movement to take advantage of methods traditionally used by corporations in order to help promote their interests at the uppermost level of corporations. This would also help to integrate the goals of employees and management, since both groups depend of the company's success. Although these policies are far from some of the legal mandates and codetermination policies in Europe, they could be a significant expansion of worker's voice in strategic corporate decision-making.

Strategy Two: Employee Stock Ownership Plans (ESOPs)

Another strategy that would work to incorporate employee opinion into the company's strategic direction is an employee stock ownership plan. ESOPs are a recent trend that is aimed to promote employee inclusion. These plans are defined contribution retirement plans under ERISA that allows employees to gain ownership in their employer over time. The underlying theory behind ESOPs is that by making employees owner of the company they work for, they will naturally consider what is best for shareholders because they are now shareholders themselves, further strengthening alignment between employees and owners. Shares of the company are used as part of the workers' retirement plan, and can provide huge tax savings for employees by allowing them to avoid capital gains taxes. "The ESOP borrows cash, which it uses to buy company shares or shares from existing owners. The company then makes tax-deductible contributions to the ESOP to repay the loan, meaning both principal and interest are deductible" (Aileron). In addition to incentivizing employees, companies also use ESOPs to generate demand for their stocks.

ESOPs can also serve as a deterrent against hostile takeovers and help ensure that employees and corporate culture can survive a transition in ownership. One CEO of a private pharmaceutical company noted that she and her partners "had been approached by many Private Equity Groups and competitors to buy the company and many of them promised that they would keep our culture/staff in place, but we knew that once we sold, things change and there would be nothing we could do to prevent them from doing what they needed to do to meet their goals, which are heavily profit motivated" (Aileron).

In the Albertsons case, an ESOP might have been more useful to employees before Cerberus bought Albertsons in 2006 and in 2015 when Cerberus acquired Safeway. An effective ESOP could have prevented the acquisitions since employee-owners would have been likely to vote against the acquisition. Although the bid by Cerberus was welcomed by Safeway's management, an ESOP could be helpful in other cases when warding off hostile takeovers. An ESOP could potentially be formed after the Albertsons conglomerate goes public, which would force management to take the wishes of employees into consideration before cutting jobs and contracting out work to C&S.

In fact, some supermarket chains, including Wegmans and Publix, have already implemented this idea. Publix is the largest employee-owned company in the world and is one of Fortune magazine's "100 Best Companies to Work For" (Tkaczyk). Today, employees have the option to purchase additional shares of the company beyond what is already allotted to them in their plan. "Whereas other supermarket chains, such as Whole Foods, Safeway, and Haggen, have announced layoffs in recent months, Publix has never laid off an employee in its 86-year history" (Tkaczyk), and that may explain why turnover for Publix employees is under 5%. Publix employees, who today number over 175,000 are extremely happy and loyal. The phenomenon of this fanatic loyalty to the company is nicknamed "bleeding green", and employees remain at the store for decades. Fortune magazine notes that "the average store manager has been with the company for 25.1 years. And 2,428 associates have been with the company for more than 30 years, 205 have worked there more than 40 years, and 13 have been at Publix for more than 45 years" (Tkaczyk).

Previous research has shown that shared capitalism including ESOPs, in which the pay or wealth of employees is directly tied to workplace or firm performance, has a number of positive benefits for organizational performance and shareholder investments. These benefits include enhanced firm performance, reduced employee turnover, increased employee willingness to work hard, and perceived positive relations with the employer (Freeman, Blasi, & Kruse, 2010).

Although ESOPs can help boost profits and employee morale, they can pose some potential complications if a business is not doing well financially. One worry is that by using an ESOP as part or all of employees' retirement plans, the employees are essentially betting their futures on the success of the company. If the company were to go bankrupt, then employees would have no job and no retirement income. This lack of diversification would never be tolerated by a savvy financial investor, so a responsible plan manager would know not to put all the retirement funds into a ESOP plan. But there have been several cases of ESOPs backfiring and leaving employees with nothing.

The most prominent example is Weirton Steel, which became an employee owned company in 1984. For nearly two decades, the steel mill was profitable and saved and extended the life of 8,000 steel mill jobs, but then in 2003 it went bankrupt. Weirton's bankruptcy primarily stemmed from a collapse in steel prices and intense competition that flooded the market with imports, but there were a few lessons that other ESOPs could learn from. The first is that employee ownership does not guarantee employee control. John Russell of Saskatchewan University notes that despite 100% ownership, the employees of Weirton "held only three of the 13 seats on the Board. Moreover, the management-worker hierarchy remained in the workplace, along with a management's 'right to manage clause.' Weirton's workers, though bearing the risk of ownership, thus neither controlled the company strategy nor its operations" (Russell).

The second lesson is that employees must be financially literate for an ESOP to be truly effective. In 1993, "Weirton's management decided to take certain accrued non-retirement [that is, non-pension] costs as a single charge of around $300 million instead of amortizing a smaller amount over several years. Worker-owners were unaware of the availability of the option to amortize. Management's decision eliminated profit sharing for the worker-owners and constrained the union during subsequent wage negotiations" (Russell).

Despite the challenges that ESOPs present, these plans have the potential to serve as long-term solutions to help integrate the goals of employees and owners. These plans could be used in conjunction with either the white knight or white squire strategy described previously. However, the perspective of the community can be somewhat neglected in these two strategies.

Strategy Three: Consumer Initiatives and Strategic Corporate Research

While the first two strategies are focused on aligning labor with capital, the local communities and consumers that are affected by these mergers and labor disputes also have a role to play. Given that traditional labor tactics used to gain bargaining leverage, such as strikes, picketing, and strategic concessions have all failed to prevent layoffs and loss of benefits, the labor movement could certainly use an ally. Consumer advocacy could become a driver in influencing corporate behavior, especially in an industry as competitive and sensitive to customer demands as the grocery industry. Combined with strategic corporate research conducted by unions, consumers could create their own "campaigns" that may put more effective pressure on corporations to alter their decisions regarding employees.

Strategic corporate research goes beyond the usual "smear campaigns" that have been prevalent over the past few decades. Instead of merely digging up dirt on a company and waiting for public support to come flooding in, strategic corporate research seeks to identify the key external and internal factors that influence a corporation. Tom Juravich, one of the leading authorities on strategic corporate research, developed the following framework for conducting such research.

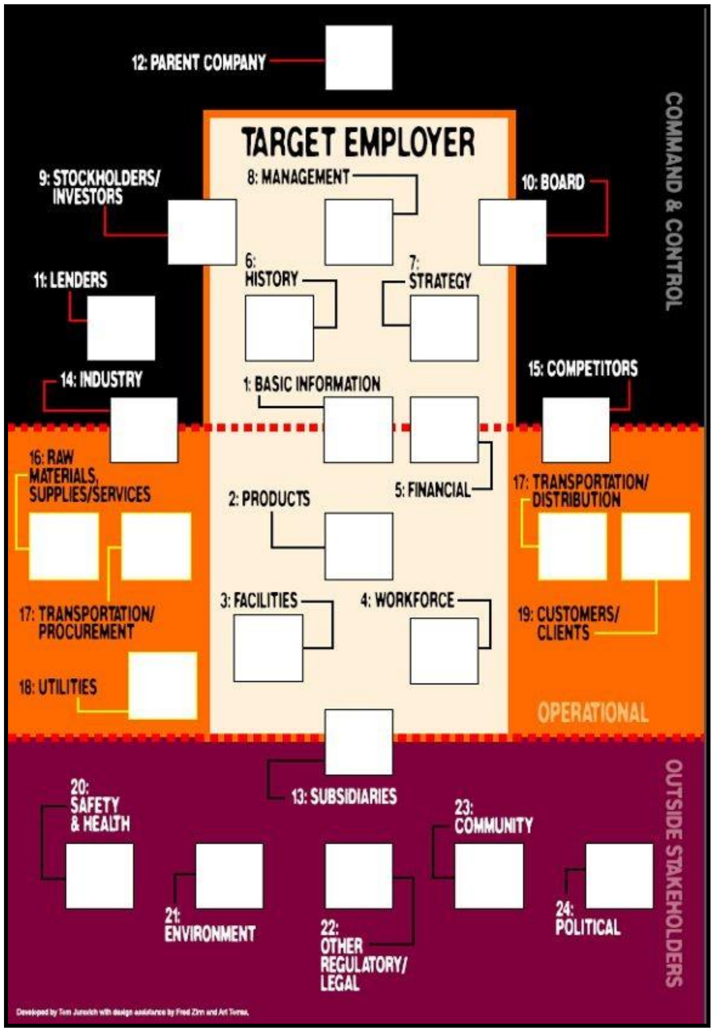

Figure 9: Corporate Strategic Research Model (Juravich, 2017)

Figure 9 makes a distinction between the different types of activities that corporations engage in and what relationships are found at those levels. The first level, command and control seeks to uncover who the key decisionmakers are for the corporation, whether it be direct control through ownership and management or indirect leverage through lenders. The next level, operational, analyzes the relationships with those groups that have a day-today impact on the company’s operations, such as suppliers, employees, or customers. The final level, outside stakeholders, evaluates the company’s connection to other groups more external to the organization, such as regulatory agencies or the community. This framework helps researchers identify a corporation's most vulnerable pressure points in order to create campaigns that will have maximum impact and to avoid wasting time on stakeholders that have no real influence or decision-making ability.

Applying the model to Albertsons and Cerberus, a researcher would compose the following picture:

A Strategic Profile of Albertsons

COMMAND & CONTROL

Cerberus Capital leads consortium that owns and controls Albertsons
Post-merger strategy focuses on expanding customer base and cutting jobs
Lenders are Goldman Sachs, Credit Suisse, Citigroup, and Bank of America Merill Lynch (S-1 Filing)
Grocery industry is struggling to grow organically and retain customers
Price wars and intense marketing strategies dominate competitive landscape

OPERATIONAL

Grocery wholesale and distribution are targeted for cost reductions
C&S threatens union presence and job security in warehousing and logistics operations
In-store positions may eliminated due to changes in technology
Implementation of Safeway's customer loyalty program in all Albertsons's stores
Labor disputes hurt both workers and company's bottom line

OUTSIDE STAKEHOLDERS

Safeway and Albertsons employ many in local communities
Communities have poured millions of taxpayer dollars into new grocery stores
Local and state politicians under pressure from constituents to keep jobs in community
Regulatory concerns over rapid pace of M&A activity and market concentration

Figure 10: Strategic Corporate Findings

The next step would be for the community, consumers, or perhaps even politicians to use this information to apply pressure to the most critical decision makers. As demonstrated in

Chapter 5, the local communities are more than willing to show their support and get involved. Consumer initiatives, strengthened by the findings produced by strategic corporate research, could be extremely successful in persuading companies to alter their practices.

Although there are several strategies that could be aligned with labor's efforts, social media campaigns are the frontrunner for such consumer-driven actions. They are easy to design and implement, and have high visibility. Forbes notes that "in the coming years, if not sooner, social media will become a powerful tool that consumers will aggressively use to influence business attitudes and force companies into greater social responsibility" (Mainwaring). One example of just how effective research-backed consumer activism can be is the social media campaign against Nestlé's use of Indonesian palm oil in its Kit-Kat products. The organization Greenpeace concluded from its research that due to the high demand for palm oil from Nestlé, palm oil companies were illegally chopping down parts of the Indonesian rain forest. After creating a video, consumers and activists took to Facebook and other social media sites to protest the company's implicit support of deforestation. The campaign was extremely successful, with Nestlé promising its customers that it would stop using palm oil in its candy and only use certified sustainable oils in the future.

Another example of how customers, employees, and community activists can influence decisions of investors and corporate boards can be found in the fight for control of Market Basket. After the ousting of CEO Arthur T. Demoulas, Market Basket's employees, managers, and customers joined forces to demand the reinstatement of the former CEO to his former position. By boycotting the store, the enterprise began to lose as much as $10,000,000 a day (Gittleson). Through a community-based campaign, combined with social media, employees and the community forced the board to reinstate CEO Arthur T. Demoulas, allow a buyout to proceed, and enable a reconfiguration of the board of directors. Since then, the company has thrived despite the debt taken on to enable the buyout of opposing forces vying for control of the company (Ross).

Clearly, combining strategic corporate research with consumer activism can bring labor and affected communities together to influence corporate decisions.

Chapter 7

Conclusion and Suggestions for Further Research

Further research on the three strategies that this paper advocates would be recommended so that companies and employees can avoid many of the pitfalls that others have fallen into. The first strategy this paper suggests needs to be researched further. To be sure, there are abundant examples found in Europe, where laws give unions a prominent voice in boardrooms, but there are some examples in the United States as well. Greater attention to the activities and profitability of pro-labor private equity firms could increase positive visibility of labor's influence on corporate decisions. Labor and union organizations will need to work together with investors to determine how to reduce risk and create positive return for investors in the enterprise. Regarding the second and third strategies proposed in this paper, additional empirical research would be useful in order to determine which methods would have the highest probability of success. Meta-analysis on ESOP implementation and outcomes would help determine in what industries or situations employee ownership is most promising. A survey of social media campaigns and the specific actions that resulted from them would provide insight as to the effectiveness of consumer initiatives.

Aligning the interests of labor, capital, and the community will be critical as corporations become increasingly integrated into the global economy and local communities. As M&A activity continues to increase in the post-2008 period, new strategies such as labor-driven "white knights" or "white squires", ESOPs, and consumer initiatives will prove to be essential to ensuring that the needs of all three stakeholder groups are met.

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ACADEMIC VITA

Academic Vita of Nicole Payne
nap5217@psu.edu

Education

Majors in Finance (BS) and Labor and Employment Relations (BA)
Minor in History
Honors in Finance and Labor and Employment Relations

Thesis Title: The Safeway Story: Aligning Labor, Capital, And Community

Thesis Supervisor: Paul Whitehead

Work Experience

Bates White, LLC Washington, DC
5/30/2016 – 8/5/2016
Summer Consultant

- Applied legal obligations of mortgage servicers to a fraudulent misrepresentation case
- Constructed financial models to calculate economic damages and insurance claims
- Analyzed mortgage and home loan data using Stata 14 software to create a predictive model

- Wrote and prepared an expert report under the guidance of a testifying expert witness in a mock antitrust team case
- Presented economic rebuttal to mediation panel