

THE NEWSLETTER OF THE BDO RETAIL AND CONSUMER PRODUCT PRACTICE

CONSUMER BUSINESS COMPASS



WHAT THE WALGREENS-DUANE READE DEAL SIGNALS FOR M&A

Look for more acquisitions in retail as private equity seeks to exit and companies with cash look to take advantage of bargain prices



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In late February, Walgreens ([WAG](#)), the country's largest drug-store chain, announced its \$1.1 billion plan to acquire Duane Reade, the New York metro area's largest and most iconic drug chain. The news had New Yorkers wondering about the fate of the familiar brand and sparked debate on Wall Street about the current deal market.

But when the dust settled, it became clear that this is one of the more strategic deals the retail sector has seen, with both Walgreens

and Duane Reade investors and customers standing to reap long-term benefits. For one, Walgreens will learn how to manage its loyalty-card program better and increase its private-label brands, which provide cost savings to customers and a return for investors. In return, Walgreens will help Duane Reade boost its health-care services and pharmaceutical offerings, an area where Duane Reade has struggled for years.

This deal also signals the end of an 18-month dealmaking drought in the retail sector, which has been the hardest hit by the recession. With credit lines dried up and consumer sentiment way down, many businesses found it challenging to keep doors open and shelves stocked, much less to reap profits.

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February retail industry sales increased 1.0% seasonally adjusted over January and 1.7% unadjusted year-over-year.

Source: NRF

According to the NRF, merchants and their shoppers pay more than \$48 billion in credit card swipe fees each year.

Average sales per square foot at American malls, a closely watched measure of retailers' productivity, peaked in 2007 at \$454, **according to research firm Green Street Advisors Inc.** By the end of 2009, the average had fallen to \$401, wiping out five years of progress.

Of retailers surveyed, 92% say their company has been a victim of organized retail crime in the last 12 months.

Source: NRF Annual Report

Import cargo volume at the nation's major retail container ports will be 25% higher during the first half of 2010 compared with the same period a year ago. **Source: Port Tracker report**

Only about one-tenth of 1% of the 3.3 billion coupons redeemed in 2009 were fakes, **according to NCH Marketing Services Inc., a coupon clearing house.** But the number of fraudulent redemptions increased by 14% from 2008.

Wal-Mart Stores Inc. plans to cut 20 million metric tons of greenhouse-gas emissions by 2015, which is equivalent to taking more than 3.8 million cars off the road.

In the past five years, the use of ZIP code specific circular retail advertising has grown by 15%. **Source: Retail Horizons 2010**

