

“We looked at financial reports from major grocers in both Canada and the United States. If “greedflation” exists, the available data suggests grocers are not responsible.”

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Dealing with “greedflation” - Part II

Higher food prices are everywhere, and with those, accusations of “greedflation” are widespread. But being in Canada, unlike the United States, competition and consumer protection are not always taken seriously, which is why consumers have every right to be concerned about collusion or abuse of power in the food industry. The investigation looking into the bread price fixing scheme at Loblaws, which occurred between 2001 and 2015, is still ongoing. Loblaws and Weston Bakeries admitted to participating in a so-called bread cartel, and gave away \$25 gift cards as compensation to customers, but there have been no other consequences or repercussions since. In the U.S., people have paid fines or have gone to jail for similar actions. When prices go up now, it’s only natural for consumers to be skeptical as to why.

With food inflation at almost 10%, everyone is on high alert. We have been hearing of “record this” and “record that” in the media when talking about “greedflation” and grocers. But when we actually look at the numbers of publicly traded companies across North America, finding actual evidence of profiteering is challenging, based on the available data.

Let’s start with Canada. Variations in the gross margins of our top grocers have been minimal since 2017. Indeed, revenues have increased dramatically, but so have the costs of goods sold. Loblaws, Metro and Empire/Sobeys have all posted modest changes in the last five complete fiscal years. Since the start of the pandemic, while revenues did go up, gross margins have remained relatively consistent throughout.

Top Canadian Grocers’ Gross Margin Differences (2018-2021)

Year	LOBLAWS	METRO	EMPIRE/SOBEYS
2018	3.57%	-0.24%	1.64%
2019	1.05%	*	-0.70%
2020	-1.26%	*	3.11%
2021	3.76%	0.44%	2.08%
Total 2021/2020	2.50%	0.44%	5.19%

**2019 and 2020 were -58.99% and 146.91%, respectively, caused by an irregularly low gross margin in 2019 likely due to the acquisition of Jean Coutu.*

Canada is home to just two national grocers, Loblaws and Empire/Sobeys. Metro is only in the East. Walmart and Costco are grocers, but the majority of revenues are not food-related. Many Canadians believe that the U.S. food distribution landscape is far different and is more competitive. Some consumers suspect collusion and perhaps more power given to grocers in our country due to oligopolistic powers. As we did with the Canadian numbers, we looked into financial statements of some of the top grocers in the United States. The gross margins appear to be quite similar to those in Canada.

Top U.S. Grocers Gross Margin Differences (2018-2021)

Year	Walmart	Costco	NorthWest	Oragin	Kroger	Albertsons	Ahold Delhaize	Publix
2018	-1.08%	-2.06%	2.16%	-4.97%	-1.51%	2.22%	-0.95%	-0.53%
2019	-1.08%	-0.28%	6.05%	-4.42%	1.81%	0.94%	1.25%	0.68%
2020	-1.63%	0.83%	-0.28%	1.23%	5.66%	3.98%	0.96%	1.82%
2021	0.57%	-1.54%	3.49%	6.25%	-5.63%	-1.59%	1.54%	-1.32%
Total 2021/2020	-1.06%	-0.71%	3.21%	7.48%	0.03%	2.39%	2.50%	0.50%

In the U.S., Walmart is the top grocer. We also included in our evaluation other publicly traded companies: Costco, NorthWest, Oragin, Kroger, Albertsons, Ahold Delhaize and Publix. Most of them are regional players but do provide American consumers with more choices, and more competition. However, since 2017, with one or two exceptions, the gross margins in the U.S. have not varied more or less than those observed in Canada. It may look counterintuitive, but the numbers are not pointing to commercial abuse towards consumers.

But claiming “greedflation” does not exist in the food industry would be overstating the fact that the public does not have enough evidence. We know very little of what is going on in food processing, transportation, and at other companies who participate in the food industry. A proper investigation led by the Competition Bureau of Canada would shed some light on practices in the industry. The White House in the United States did just that in the meat industry, only a few months ago. It helped the American public better understand the functionality of the industry and which companies have more power and influence in the marketplace.

But again, there is little evidence to suggest grocers in Canada and the United States are colluding or taking advantage of the current food inflationary wave the western world is experiencing. The publicly available data is inconclusive at best.

Accusing the industry of colluding or profiteering is easy. The conversation on “greedflation” becomes more interesting when we ask ourselves how much is too much where profits are concerned. Unlike in other industries, higher prices in the food industry equate to lower food affordability, which is a basic necessity. People have every right to be concerned, but we also need to have a conversation about profits in the food industry. Many Canadians, unlike Americans, are somewhat less comfortable with the capitalistic nature of our economy. Some claim food prices in certain food categories should be regulated. Market failures, which would be the worst case scenario for both the industry and consumers, do occur. Some reassurance would serve the public well.

As we learned recently, Canada’s food inflation appears to have peaked in June, or perhaps earlier. From an industry perspective, less volatility will allow for better planning, more promotions, more loss-leading, and of course, lower prices in some categories. Food prices are still expected to continue to rise until the end of this year, but at a much slower pace. We expect the general inflation rate to soon outpace food inflation for the first time in many months. The trip to the grocery store will lead to fewer cases of sticker shock as we continue to enjoy the summer and upcoming fall seasons.