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Increased Competition Brings Changes in Canadian Grocery Market

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Retail Foods

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Report Highlights:

Two large acquisitions have recently been announced in the Canadian grocery sector. The Canadian food and beverage retail market is already heavily consolidated with the top four grocery companies accounting for approximately 71 per cent of total food and beverage retail spending in 2012. Canada's grocery retailers are altering their business plans in response to increased competition from non-traditional retailers and new-to-market competitors.

Market Overview

The Canadian Food and Beverage Retail Market is heavily consolidated. In 2012, the top four grocery companies accounted for approximately 71 per cent of total food and beverage spending in Canada. The table below provides a quick overview of the Canadian market.

Figure 1: Canadian Food and Beverage Retail Market Overview

| | | | | | Change over 2011 |
|--|---|-----------------------|--------------|----------------|------------------------|
| | Retailer | Estimated 2012 Sales | Market Share | Change in Rank | Change in Market Share |
| 1 | Loblaw Cos Ltd. | \$ 32,211,000,000.00 | 30.1% | 0 | 0.22% |
| 2 | Sobeys Inc. | \$ 17,018,000,000.00 | 15.9% | 0 | 0.47% |
| 3 | Costco Canada Inc. * | \$ 14,220,000,000.00 | 13.3% | 1 | 6.64% |
| 4 | Metro Inc. | \$ 12,137,000,000.00 | 11.3% | -1 | 0.47% |
| 5 | Walmart Canada Corp.* | \$ 6,280,000,000.00 | 5.9% | 1 | 0.93% |
| 6 | Canada Safeway | \$ 5,328,000,000.00 | 5.0% | -1 | -1.48% |
| 7 | Co-ops | \$ 3,350,000,000.00 | 3.1% | 0 | -0.05% |
| 8 | Overwaitea Food Group | \$ 2,925,000,000.00 | 2.7% | 0 | 0.00% |
| 9 | Alimentation Couche-Tard* | \$ 1,213,000,000.00 | 1.1% | 0 | 0.04% |
| 10 | North West Company* | \$ 750,000,000.00 | 0.7% | 0 | -0.01% |
| 11 | Shoppers Drug Mart* | \$ 620,000,000.00 | 0.6% | 0 | 0.02% |
| 12 | H.Y. Louie Co. | \$ 595,000,000.00 | 0.6% | 0 | 0.00% |
| | Other retailers | \$ 10,403,900,000.00 | 9.7% | 0 | -7.24% |
| | Total of major retailers | \$ 96,647,000,000.00 | | | |
| | Total spending per StatsCan | \$ 107,050,900,000.00 | | | |
| Notes: | | | | | |
| *Food Only Sales | | | | | |
| Sources: Statistics Canada and Canadian Grocer Who's Who | | | | | |

Increased Competition

Canadian grocery companies face competition from non-traditional sources. For example, in 2012 Costco Canada Inc. surpassed Metro Inc. to become the third largest player in the sector. It is noteworthy that Costco is the only one of the top 12 retailers to gain significant market share. Walmart also rose in the standings, from sixth place to fifth, and is expanding its grocery offerings. Dollar stores and other mass merchandisers are beginning to offer more food and beverage selections as well. In 2013 Target began opening stores in Canada, many of which will have grocery sections. They plan to open 124 stores by the end of the year and their pricing in groceries will get more competitive as they become more established.

Canadian Retailers' Reaction to Competition

In response to the increase in competition, Canadian retailers have been altering their business plans. In June 2013, Empire Company Limited, Sobeys' parent company, announced its plans to buy Canada Safeway Inc. for C\$5.7 billion. This would strengthen Sobeys position as the second largest company in the sector. About one month later, Loblaw announced that it was purchasing Shoppers Drug Mart, Canada's largest pharmacy chain, for C\$12.4 billion. Many of Shoppers' stores are a smaller format than those of Loblaw and are located in more urban areas.

In August 2013, Metro Inc. announced that it is planning to reorganize its Ontario stores. While it will still maintain stores under the Metro banner, fifteen will be converted to the Food Basics discount banner or will be closed. In Quebec, Metro will run Target's in-store pharmacies under their Brunet banner.

Effects of Proposed Mergers

The table below provides an overview of the market should both proposed mergers go through:

Figure 2: Canadian Food and Beverage Retail Market after proposed mergers

| | | Estimated 2012 Sales | Share |
|-----------|---|-----------------------------|---------------|
| 1 | Loblaw Cos Ltd./Shoppers Drug Mart* | \$ 32,831,000,000.00 | 30.67% |
| 2 | Sobeys Inc./Canada Safeway | \$ 22,346,000,000.00 | 20.87% |
| 3 | Costco Canada Inc. * | \$ 14,220,000,000.00 | 13.28% |
| 4 | Metro Inc. | \$ 12,137,000,000.00 | 11.34% |
| 5 | Walmart Canada Corp.* | \$ 6,280,000,000.00 | 5.87% |
| 6 | Co-ops | \$ 3,350,000,000.00 | 3.13% |
| 7 | Overwaitea Food Group | \$ 2,925,000,000.00 | 2.73% |
| 8 | Alimentation Couche-Tard* | \$ 1,213,000,000.00 | 1.13% |
| 9 | North West Company* | \$ 750,000,000.00 | 0.70% |
| 10 | H.Y. Louie Co. | \$ 595,000,000.00 | 0.56% |
| | | \$ 96,647,000,000.00 | |
| | Total spending per StatsCan | \$ 107,050,900,000.00 | |

Notes:

*Food Only Sales

Both of these mergers are still under consideration by Canada's Competition Bureau. The evaluation process for each could take up to five months. Though both are expected to pass, there has been some speculation by experts that Sobeys may be required to divest some of its assets in Alberta. While Ontario will remain the largest and most competitive market, Sobeys merger with Safeway would give it three times the number of stores that Loblaw, the number two competitor, would have in Alberta. The table below outlines the distribution of retail outlets for the major retailers at the end of 2012, prior to either merger:

Figure 3: Distribution of retail outlets prior to mergers

| | B.C. & Territories | Prairies | Ontario | Quebec | Atlantic | Total |
|---|--------------------|----------|---------|--------|----------|-------|
| Canada Safeway | 75 | 193 | 14 | | | 282 |
| Costco | 14 | 18 | 26 | 18 | 6 | 82 |
| Loblaw Companies Ltd. | 97 | 271 | 488 | 398 | 161 | 1415 |
| Metro | 0 | 0 | 265 | 1131 | 0 | 1396 |
| Sobeys | 28 | 153 | 425 | 754 | 287 | 1647 |
| Shoppers Drug Mart | 150 | 213 | 620 | 176 | 112 | 1271 |
| Note: Number of stores includes franchised, corporate and affiliates | | | | | | |

Sobeys is based in Eastern Canada and that is where the majority of its stores are still located. The acquisition of Safeway stores will strengthen Sobeys presence in Western Canada significantly. The following table provides an overview of the balance of stores after both mergers. Please note that these numbers are based on the end of 2012 and do not account for any store openings in 2013 or any closings that may be mandated by the Competition Bureau.

Figure 4: Distribution of retail outlets after mergers

| | B.C. & Territories | Prairies | Ontario | Quebec | Atlantic | Total |
|---|--------------------|----------|---------|--------|----------|-------|
| Loblaw Companies/Shoppers Drug Mart | 247 | 484 | 1108 | 574 | 273 | 2686 |
| Sobeys/Canada Safeway | 103 | 346 | 439 | 754 | 287 | 1929 |
| Metro | 0 | 0 | 265 | 1131 | 0 | 1396 |
| Costco | 14 | 18 | 26 | 18 | 6 | 82 |
| Note: Number of stores includes franchised, corporate and affiliates | | | | | | |

Further consolidation of the Canadian food retail market can make it difficult for U.S. products, particularly those not currently sold in Canada; to gain access to the buyers they need to get their products on the shelf. In addition, it is expected that the retail chains will begin to make more demands on suppliers in order to cut costs.