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Metro to trim payments to suppliers in effort to lower prices

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The battle between major grocers and their suppliers over pricing will escalate on Monday when Metro Inc. starts reducing by 1 per cent the amount it pays its suppliers.

Montreal-based Metro becomes the latest supermarket retailer to push its suppliers for breaks, taking the lead from Loblaw Cos. Ltd., the industry's top player, which in September began to pay its vendors 1.45-per-cent less in a bid, it said, to lower consumer prices.

Metro executives say they need the support of the retailer's suppliers to reduce prices on store shelves. The executives say Metro, the country's third-largest grocer, has introduced several projects aimed at generating savings or more sales for suppliers, such as electronic payment to the suppliers, a "revenue simplification program" and a new e-commerce initiative.

"Please be informed that starting Dec. 5, 2016, we will reduce 1 per cent from the cost of your products," says a letter, dated Oct. 12, sent to suppliers from Pierre Charron and Eric Cote, two vice-presidents in Metro's grocery division.

"This contribution will help our mutual customers to benefit from competitive prices while retaining them and improving their shopping experience."

Grocers are grappling with deflation and its effects on the bottom line as retailers cut prices to respond to cautious consumers who are searching for better deals. As a result, all retailers feel the pressure to moderate their prices, many with the help of their suppliers.

Amid the jostling, grocers feel the heat of the Competition Bureau's investigation into Loblaw's pricing practices with its suppliers. The bureau this fall stepped up its inquiry, which was launched when Loblaw made its \$12.4-billion takeover of Shoppers Drug Mart in 2014. Several months earlier, Sobeys Inc., the country's No. 2 grocer, acquired rival Safeway Canada for \$5.8-billion.

Michael Graydon, chief executive officer of Food and Consumer Products Canada, the country's major supplier group, said Metro's latest letter to vendors is "unfortunate."

"This is the continued result of a consolidated retail environment that has resulted in the retailers putting huge pressure on the manufacturers to improve the retailers' profitability," he said.

He said there is no guarantee the cost demands will translate into reduced prices for consumers. "One of the consequences of these actions will be lost jobs and plant closures in the food manufacturing sector in Canada."

At a time when Canadian food manufacturing should be a growth industry, he said, the companies struggle to invest in innovation. "The ability to grow this industry is going to be increasingly difficult."

This week, Oreo maker Mondelez said it will close its cookie and cracker factory in Montreal by the end of 2017, shedding 454 jobs. The company has five other Canadian factories.

"It is troublesome for vendors," said Sylvain Charlebois, dean of the management faculty at Dalhousie University in Halifax. "We all need to be worried about our food processing capacity in Canada."

He said the heavy corporate concentration in the Canadian grocery sector has given the key players a lot of clout with suppliers. Until new food-retail players arrive in Canada, such as European discounters Aldi or Lidl which have turned the European grocery industry on its head, the situation here will not change, Mr. Charlebois predicted.

But his team at Dalhousie will release a report next week that forecasts food prices will rise again next year mainly as a result of a weakened Canadian dollar, taking some pressure off the grocers, he said.

In October, food prices fell 0.7 per cent from a year earlier, the first year-over-year drop since January, 2000, Statistics Canada data show. Since March of this year, food prices have declined every month except one from the previous month, slipping 0.4 per cent in October, according to Statscan.

Eric La Fleche, chief executive officer of Metro, said last month it has good relations with its suppliers.

"We will make sure that ... our cost position remains competitive with our competitors," he told an analyst conference call. "So, we have private discussions with our suppliers, one on one, and we'll come to solutions that are mutually beneficial and at the same time making sure we get the right cost, so that we can invest in our pricing and be competitive in the market."

About a year ago, Metro started to cut prices selectively and Loblaw this year followed suit. Both grocers posted strong results in their latest fiscal quarters. Metro reported a 10-per-cent increase in its fourth-quarter profit to \$145-million. A Metro spokeswoman would not comment on Thursday.

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