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Other grocers follow Walmart's lead signalling they may ask for new fees from suppliers

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After Walmart Canada told suppliers it would raise fees for selling their products on its shelves and online, a group representing other retailers, including Metro Inc., Alimentation Couche-Tard Inc., Dollarama Inc. and others, has sent out a notice saying they expect the same terms.

United Grocers Inc., a procurement organization representing 6,500 food retailers across Canada, or more than 34 per cent of the industry, sent out a letter on Wednesday referring to communication that suppliers recently received from a competitor “requesting major cost reductions through the introduction of new fees.”

Last Friday, Walmart notified suppliers it would tack on new fees on the cost of goods it purchases – 1.25 per cent to aid in “infrastructure development” and 5 per cent for products it sells online, to assist with “e-commerce development.” UGI’s letter did not mention Walmart by name.

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“UGI members will strongly expect from all suppliers to be treated fairly and competitively,” the letter stated. “We do expect to receive any cost reduction you may decide to offer to any competitors.”

Suppliers expressed concerns earlier this week that other retailers would follow Walmart’s lead in implementing new fees. Other big chains UGI represents include Co-op, Save-On-Foods, London Drugs, Longo’s and The North West Co.

“It’s playing out as it has in the past,” said Michael Graydon, chief executive officer of Food & Consumer Products of Canada (FCPC), a trade group representing manufacturers. “I expect we will get similar letters from some of the medium-sized grocers. We probably will not from Loblaws or Sobeys – it will be done in conversation

and not in a public way, but it's my expectation that those conversations will start shortly."

If all retailers follow suit, Mr. Graydon estimated that such fees would represent an impact of more than \$1-billion to manufacturers.

It is understandable that other retailers would ask for equal treatment, said Gary Sands, senior vice-president of public policy for the Canadian Federation of Independent Grocers (CFIG). But smaller independent retailers are concerned that they do not have the leverage that the country's largest grocery chains do to negotiate similar terms. Those retailers operate with profit margins of approximately 1.5 per cent, he said.

"They're going to be paying for this," Mr. Sands said. "The suppliers are going to have to make up those costs – they're tight on margins too. Where is that coming from? Are they going to be increasing their prices to the smaller players? Something's got to give."

UGI president Michael Forgione said in an interview that the organization is not imposing new fees, but is signalling its members' expectations in negotiations.

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"We felt it was prudent to send a note to our suppliers and remind them that we want to be treated fairly, and grow our business through mutual partnership," Mr. Forgione said in an interview.

FCPC's Mr. Graydon said suppliers' profit margins have declined in recent years as retailers have negotiated changes to purchasing agreements – a shift that limits manufacturers' ability to invest in their own infrastructure improvements, innovation and product development.

Both FCPC and CFIG have been advocating for years for a code of conduct that would regulate retailer-vendor relationships, similar to systems that have been implemented in Britain and Australia.

"It should be an issue of concern for government, what the impact of this is on smaller businesses who don't have the leverage of a Walmart," Mr. Sands said.

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