

Loblaw follows Walmart in imposing new fees on suppliers to help pay for upgrades

Says new fees necessary to help keep food prices low because suppliers keep pushing to raise what they charge grocers

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Loblaw has told its suppliers that it will charge more fees to get their products on shelves. PHOTO BY DAVID KAWAI/BLOOMBERG FILES

Loblaw Cos. Ltd. has told its suppliers that it will charge more fees to get their products on shelves, escalating an already tense standoff between supermarkets and food producers.

Loblaw, the largest grocery chain in Canada that owns Shoppers Drug Mart, Real Canadian Superstore and No Frills, on Thursday sent letters informing suppliers of the extra fees while also asking them to “keep in mind” that it is investing \$6 billion over the next five years to upgrade its stores and e-commerce operations.

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“We’re asking for your help,” reads one version of the letter, obtained by the Financial Post.

But a prominent industry association, Food, Health & Consumer Products of Canada (FHCP), criticized the fees for appearing to mimic a controversial new fee program from Walmart Canada that riled manufacturers this summer.

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"It's just absolutely ridiculous," FHCP chief executive Michael Graydon said on Thursday. "You've got a lot of multinationals just throwing their hands up and saying, 'Look, you know, I'm not sure Canada is worth the effort from a manufacturing perspective.'"

Loblaw, however, said the new fees were necessary, in part, to help keep food prices low because suppliers keep pushing to raise what they charge grocers.

It's just absolutely ridiculous

MICHAEL GRAYDON, FHCP CHIEF EXECUTIVE

"It's never been more expensive to sell groceries," Loblaw spokesperson Catherine Thomas said. "We are making massive investments, \$6 billion worth, to improve how we do it. But we're also facing significant new costs, including unprecedented cost-increase demands from our suppliers."

Loblaw said it sent several versions of the letter to different suppliers, some with different fee structures, but noted that small manufacturers and farmers would be exempt from the new fees.

"We were fair and thoughtful with our decisions on who got letters and who didn't," Thomas, at Loblaw, said on Thursday. "Put simply: our small suppliers were exempt — they did not receive a letter."

The grocer said it will charge its largest suppliers an extra 1.2 per cent on the cost of goods sold, as well as a customized fee to cover some costs associated with loyalty offers and online promotions.

Loblaw says it's never been more expensive to sell groceries. PHOTO BY COLE BURSTON/BLOOMBERG FILES

"As we face pressures, one option is higher prices for customers, but we don't want to take that approach as Canadians are facing enough financial pressures," Thomas said. "Instead, we're asking primarily our biggest suppliers to help us keep prices low."

Suppliers and supermarkets have for years clashed over fees, but some say the issue may have reached a tipping point, especially after Walmart Canada enraged its suppliers with a new type of charge in July.

The retailer imposed the fees — 1.25 per cent on the cost of goods sold to the retailers, plus an extra five per cent on e-commerce — as a way to offset the cost of a \$3.5-billion investment to modernize its stores and distribution network.

Walmart said the fees were a fair trade-off for suppliers, since the investment would lead to sales growth.

But FHCP warned at the time that Walmart was setting a dangerous precedent in the sector by asking suppliers to help cover the costs of new investments.

Walmart Canada enraged its suppliers with a new type of charge in July. PHOTO BY BRENDAN MCDERMID/REUTERS FILES

“The other retailers aren’t going to sit back,” Graydon said in July.

Days after the Walmart announcement, United Grocers Inc., a national buying group that negotiates supply deals on behalf of Metro Inc., Save-on-Foods, Alimentation Couche-Tard Inc. and other retailers, told its suppliers in a letter that it would expect the same discount that Walmart is imposing on them.

But Loblaw’s letters on Thursday appeared to be the first since Walmart to tie a multi-billion-dollar investment to a request for more fees.

The Canadian Federation of Independent Grocers (CFG) has been fighting escalating fees in the grocery sector, arguing that when big chains squeeze suppliers at the margins they end up spending less with independent grocers.

“There’s a ripple effect,” said Gary Sands, the association’s senior vice-president.

You’re going to see independent grocers go out of business

GARY SANDS, CANADIAN FEDERATION OF INDEPENDENT GROCERS

The CFIG, along with FHCP and other industry associations, used the highly public spat with the supermarkets this summer to ramp up pressure on the government to intervene.

“Somebody in government has to be standing up and saying, ‘This kind of thing can’t continue,’” Sands said. “You’re going to see independent grocers go out of business.”

The groups wanted Ottawa to bring in a code of conduct that would regulate relationships between suppliers and grocers. But the federal government has since clarified that it doesn’t have jurisdiction over the grocery sector and encouraged the provinces to examine the issue.

The Loblaw fees will take effect on Jan. 3.

“Shipments from your company and its subsidiaries on or after January 3, 2021 will be considered acceptance of these program changes,” one letter said.

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