



## Investing in Canadian Grocery Retailers? Here's What to Know

### Description

People have to eat. That's why investing in food retailers offers some form of stability to a stock portfolio. However, the fight for market share and customer loyalty is an ongoing battle for supermarkets. Here's what to look for in Canadian grocery retailers to position yourself for better returns.

### Strategies in the important Ontario market

**Metro** ([TSX: MRU](#)) has 600-plus food stores under a number of names (Metro, Metro Plus, GP, Super C, and Food Basics). It also has more than 250 drugstores under several banners. Metro is the leading grocery chain in Quebec having almost 34% market share. In Ontario, Metro is third and fighting to build its position in the province.

Metro reorganized its Ontario grocery retail network, closing some Metro stores and converting others to the Food Basics "discount" format. The objective of this reorganization? Cost containment in the ultra-competitive Ontario market. The reorganization helped contribute to a sales increase for the period ended March 15, 2014.

### Expansion and efficiency via acquisition or investment

**Empire Company** ([TSX: EMP-A](#)) operates in the food retailing arena through its wholly owned Sobeys supermarkets. As of February 1, 2014, it had over 1,500 retail stores. Empire recently completed its acquisition of Canada Safeway, which brought it 213 full service grocery stores and 10 liquor stores.

In 2012, Empire acquired from Shell Canada 236 retail gas locations and associated convenience store operations. This acquisition is a complement to Empire's convenience store division. **Loblaws** ([TSX: L](#)) recently acquired Shoppers Drug Mart, adding 2,300 stores and approximately 1,800 pharmacies to its corporate shopping cart.

Metro has not had the acquisition opportunities of its competitors. Mr. Michael Van Aelst of TD Securities noted that Metro could counterbalance increasing competitive pressures through investing in an automated distribution centre or IT to enhance efficiencies.

### **A commitment to value pricing**

To lure customers in will require a commitment to some form of value pricing. In 2013, Loblaw attained growth in sales and tonnage in the discount division, which was led by its fresh categories. The challenge here is garnering significantly greater volume without compromising margins too much.

**Bank of Montreal** retailing analyst Mr. Peter Sklar stated in a recent report, "...we believe it is possible that the Canadian grocers could experience an EBITDAR margin decline of 100 basis points below current forecasts over the next two years." EBITDAR represents earnings before interest, taxes, depreciation, amortization and rent costs.

### **A focus on the millennials**

While it shouldn't be the sole focus of the industry, an emphasis on "millennial" shoppers (the 18-34 age group) is vital to sales growth. Why? As reported in 2012 by SymphonyIRI's Times & Trends, "Many millennials are having difficulty making ends meet. They have turned to cooking to create experiences that they may have paid for in a restaurant in a different economic landscape."

For supermarkets, this is an opportunity to engage millennials with the products needed to enhance cook-at-home projects. This does not forgo some high-end pricing however. Millennials will pay more for products they deem worthy of the extra cost.

Supermarkets can take a lesson from the wine industry, which offers luxury-priced varietals that millennials value highly and are willing to pay for. There is margin opportunity here for grocery retailers with high-end artisanal products for home cooking.

### **A focus on aggressive marketing & merchandising**

Metro noted recently that for the period ended March 15, 2014, merchandising strategies and investments allowed it to increase sales. Q2 2014 sales were \$2.6 billion in comparison to \$2.5 billion the year prior. This represents an increase of 1.7%. Same-store sales increased 1.0%.

Loblaw said it would expand its PC Plus digital loyalty program to build customer loyalty through marketing on an individualized basis. The company is also working to build its PC Financial services business. This includes introducing a newly designed in-store customer service pavilion. Loblaw also reorganized the general merchandise in 29 stores to present an improved selection in apparel, beauty, home, and kids' categories.

### **Foolish bottom line**

Initiatives around pricing, merchandising, and expansion opportunities are on the plates of Canadian food retailers. Building market share while maintaining profits is the challenge. The aforementioned target marketing concerning millennials can help. Supermarket chains focusing on the above fundamentals in today's retail environment stand the best chance for growth.

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. TSX:L (Loblaw Companies Limited)
2. TSX:MRU (Metro Inc.)

### Category

1. Investing

### Date

2025/09/22

### Date Created

2014/04/17

### Author

mugulini

default watermark

default watermark