What Impact Will Minimum Wage Increases Have on These Grocers' Bottom Lines?

Description

Minimum wage increases have been in the news regularly this year. Ontario's minimum wage will increase to $15 per hour on January 1, 2018. Alberta's minimum wage will also increase to $15 later in 2018. This will affect all businesses that have minimum wage employees. And it will have a domino effect, because all employees will be looking for wage hikes — not just those on the bottom rungs. Much attention has been paid to small- and medium-sized businesses that might have trouble absorbing these costs, but how will it affect large grocery chains? The grocery market has long been known for slim margins, so minimum wage increases are bound to have an outsized effect on these companies.

Let's take a look at two of the country's largest grocery retailers to see how they plan to handle the change.

Loblaw Companies Ltd. (TSX:L), founded in 1919, operates over 1,050 grocery stores and 1,250 Shoppers Drug Mart locations. The company is doing well in 2017. For the most recent quarter, its net income grew by 129.60% to $0.90 per share, but its profit margin is only 2.66%. This margin is comparable to other players in the industry due to slim grocery margins.

Loblaw expects wage costs to go up by approximately $190 million next year. The company recently stated that it would offset minimum wage increases by "increasingly digitizing manual invoice jobs and rolling out more self-checkouts," particularly at its Shoppers Drug Mart locations. Essentially, the company will use technology to reduce the number of people it employs to help it get around the new wage laws.

Metro, Inc. (TSX:MRU), founded in 1947, operates more than 600 stores in Quebec in Ontario, so it will also be affected by the Ontario minimum wage hike. For the most recent quarter, its net income grew by 8.28% to $0.78 per share. Its profit margin is 4.62%, making it one of the best in its industry at turning revenue into profit. This is still a slim margin, so Metro also needs a strategy for dealing with wage increases.

Metro stated this week that it plans to use more “automation, technology and cost-cutting measures,” but it didn’t get specific about its plans. The company did warn that these measures may not be able to stop the company from needing to hike prices for consumers to offset the costs. Metro estimates the wage changes will increase labour costs by about $45 million next year.

Bottom line for investors

Do these wage hikes mean you should shy away from either company? While the wage hikes are significant, trust Loblaw and Metro to do what they need to in order to keep their businesses profitable. These are large companies that can afford to invest in new technologies and will raise prices if needed to offset costs. The wage hikes will affect every player in the industry, so it’s not as if other competitors will avoid the problem. If grocery prices end up increasing because of the wage hike, they will likely increase across the board. Loblaw’s and Metro’s bottom lines may hurt in the short term while the grocers adjust, but adjust they will.

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