Could the Ontario Minimum Wage Hike Actually Help Canadian Grocery Stocks?

Description

The Ontario provincial government announced in May that it would hike the minimum wage to $15. It would do this gradually, starting with a hike to $14 in January 2018 and then to $15 in January 2019. This represents the largest minimum wage hike in the history of the province. The initiative did not come without critics, with private sector advocates bemoaning the job losses that could result with companies looking to cut costs.

Grocery companies were chief among the companies who expressed some concern with how the hike would impact operating costs. However, the minimum wage hike could very well be a blessing in disguise for companies looking to modernize in the face of the serious challenge from **Amazon.com, Inc.**

On October 11, **Metro, Inc.** (TSX:MRU) announced that it would cut 280 jobs starting in 2021 as part of a $400 million overhaul of its Ontario distribution network. Metro originally said it would look at automation in August after calculating the operating loss it would sustain following the minimum wage hike.

The minimum wage hike gives the company pretense to accelerate its modernization plans. It will work on operations in Toronto over the next five years and build a new fresh and frozen distribution facility. Metro is interested in building its automated systems and has met with some measure of success with its online shopping option after launching it in Montreal and Quebec City. This will also allow the company to prepare for the challenge coming from Amazon in online food retail.

Loblaw Companies Ltd. (TSX:L) estimated that it would incur a rise in labour expenses by $190 million in 2018 due to the minimum wage hike. In late September, Loblaw announced that it was exploring a partnership with the same-day grocery delivery service Instacart. This is on top of the Click and Collect option that will be included in over 200 stores by the end of 2017.

The move marks another effort to fight against the encroachment of Amazon in the retail food industry. Though there are some questions regarding the willingness of consumers to accept food delivery in the same way they have embraced other forms of retail, grocers are taking action.

Empire Company Limited (TSX:EMP.A) is a Canadian conglomerate with major stakes in food retail. It owns and operates the grocery chain Sobeys. Empire CEO Michael Medline estimated that the minimum wage hike would cost Sobeys $95 million over the next two years if the company did not work fast on a contingency plan. As with the other grocers, that plan involves modernization and a drive to increased automation.

Sobeys also debuted an online shopping operation in Quebec that met with a significant amount of success. The company is well aware of the challenge from Amazon and is also in fierce competition with Metro and Loblaw.

The new Ontario policy has spurred grocers in the province to move quickly to automate and explore e-commerce options. With the threat from Amazon looming, this may turn into a case of adversity making an entity stronger.

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