



Loblaw Companies Ltd. Admits to Price Fixing: What Does This Mean for Investors?

Description

Loblaw Companies Ltd. ([TSX:L](#)) and other grocery chains were involved in a price-fixing scheme that lasted over 14 years. When the company learned about the scheme in 2015, which involved setting certain bread prices, it reported the issue to the Competition Bureau and has cooperated fully with the investigation since.

This could just be the beginning, and we could see other companies implicated in the investigation as it progresses. However, **Metro, Inc.** ([TSX:MRU](#)) claimed that it was in compliance with the Competition Act, and the company does not believe it will be impacted by these developments.

Sobeys, which is owned by **Empire Company Limited** ([TSX:EMP.A](#)), was also dismissive of Loblaw's claim that it was an industry-wide problem, calling it a "reckless assertion."

Loblaw offers to appease customers with \$25 gift cards to those impacted

After 14 years of ripping off its customers off, Loblaw believes that a \$25 gift card will make up for its dishonesty. It's a tacky public relations move in an attempt to convince customers that the company is genuinely sorry.

What's interesting is that the company knew about the price-fixing back in 2015 and has only now offered its customers compensation for the scandal, after the information has become public.

If the company was genuinely sorry for its claim, it should have done something much sooner and certainly offer more than \$25, as Loblaw likely benefited far more than the +\$100 million charge it expects to incur as a result of the gift cards.

Should investors be concerned?

Loblaw claims that it has tighter controls in place to prevent this from happening again, but for it to take 14 years to discover the scheme should raise some eyebrows. Bread is a small fraction of what Loblaw sells, and investors may be wondering if there are other items that could have been or still are being

artificially inflated in price.

The company didn't have a strong [Q3](#), and this certainly won't help next quarter's performance.

Did the company save itself to get an edge on its competition?

Loblaw was given immunity as a result of the company coming forward with the price-fixing information. If the grocer knew that its competitors would be implicated in this, it could turn out to be a big public relations win for Loblaw.

If this truly was an industry-wide scandal, we could see other big names get thrown in the mix, and months from now Loblaw might be seen as the good guys by having flagged the issue.

I'm a bit skeptical about the company's motives on this one, especially since it likely made out really well in the scheme and is only paying a nominal amount to customers while potentially throwing a grenade at other conspirators.

What does this mean for investors?

Investors may be wise to stay away from not only Loblaw but other grocers that might be caught up in this. It's a concerning problem, not only because of the price fixing that happened, but because it might be just a symptom of a highly competitive industry where employees are willing to stretch the limits to meet aggressive targets.

[Minimum wage hikes](#) might put even more pressure on companies to find ways to stretch their sales.

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2. TSX:L (Loblaw Companies Limited)
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Date

2025/08/18

Date Created

2017/12/20

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