Bread Price-Fixing Scandal Implicates 7 Companies in Industry-Wide Scheme

Description

More details came out about the bread price-fixing scandal on Wednesday, with more grocers being implicated. Late last year, we learned that **Loblaw Companies Ltd.** (TSX:L) was involved in an "industry-wide" price-fixing scheme that lasted for over a decade. **George Weston Limited** (TSX:WN) and Loblaw together came forward to alert the authorities when the price-fixing scheme was uncovered, and in return both companies have received immunity.

On Wednesday, it was revealed just how many companies were allegedly involved. In addition to Loblaw and George Weston, Giant Tiger, Sobeys, **Metro, Inc.** (TSX:MRU), Canada Bread Company Ltd. and **Wal-Mart Stores Inc.** (NYSE:WMT) are said to have been involved in the scandal as well. However, besides Loblaw and George Weston, we've yet to see any other company come forward and admit any wrongdoing.

It is unclear when the price fixing ended

The Competition Bureau, which is looking into the investigation, believes that the price fixing may have been active until as late as November 2017. It believes that prices were raised no less than 15 times between 2001 and 2016. The average increase was a 10-cent hike to consumers, with an increase of seven cents for the wholesaler, leaving three cents to be pocketed by retailers.

Where do we go from here?

While Sobeys, Giant Tiger, and Metro continued to reaffirm their innocence, Loblaw and George Weston are the only companies that appear to be safe in this scandal, at least for now.

The Competition Bureau believes that the companies committed indictable offences, and that charges could be laid against those involved.

It could be a bad year for retail stocks

This year is already shaping up to be a bad one for grocers and retailers alike. Not only will minimum wage hikes chip away at bottom lines for many companies that have a big presence in Ontario, but legal uncertainty around price fixing will only make investors more hesitant to buy retail stocks. While fines and legal costs could erode profitability even further, we've also seen what a bad image can do to a company's stock, as investors of **Home Capital Group Inc.** know all too well how long it can take to repair a damaged reputation.

Although Loblaw has immunity from the investigation, it too is facing some big problems this year. In addition to being heavily impacted by rising minimum wages, it has a legal battle of its own with the CRA over allegations that the grocer used an off-shore bank account to avoid paying taxes.

Should investors avoid retail stocks?

Given all the added costs and uncertainty we're seeing in retail lately, it might be a good idea for investors to look elsewhere in order to secure strong returns. Retailers are more vulnerable than ever, especially with **Amazon.com, Inc.** lurking in the shadows and threatening to steal market share at a moment's notice.

It's going to be a struggle for Canadian retailers to stay competitive and turn a profit, and in the long term the stocks present a lot of uncertainty and risk for investors.

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2. TSX:L (Loblaw Companies Limited)
3. TSX:MRU (Metro Inc.)
4. TSX:WN (George Weston Limited)

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