# Grocery Stores Are Still in Denial About What’s Coming Their Way

## Description

**Empire Company Limited** (TSX:EMP.A) released its quarterly results earlier this month, and although the company’s profits nearly doubled last year’s tally, that trend isn’t likely to continue.



At first glance, investors might be pleased with the results and that the company that owns Sobeys has been able to perform well in a time when many retailers have been struggling. Many companies have been forced to look at whatever means possible to pad their bottom lines just to stay afloat, and even then, it could just be a matter of time before it’s time to consider closing shop.

Empire’s “Project Sunrise” is one way that the company has been able to find some increased profitability as the restructuring initiative is expected to save the company as much as $500 million, which Empire said it is still on track to accomplish.

**Same-store sales up just 1%**

Although the company’s top line was up over $6 billion and showed strong growth from a year ago, same-store sales were up just 1.3%.

The grocer hinted that is not interested in a pricing war with a store like **Walmart**, which would just erode the company’s overall profitability. Instead, the company claimed that its “disciplined pricing strategies” helped enable Sobeys to achieve strong sales growth in the past year.

**Why grocers will have to compete on price**

Whether Empire wants to admit it or not, pricing will be an inevitable battleground — not just for retailers, but grocery stores as well. When **Amazon.com, Inc.** acquired Whole Foods last year, that set the stage for a looming battle for Canadian companies to compete head on not only with Walmart, but now Amazon as well.

While many consumers can be convinced that Sobeys offers high-quality and better products, challenging economic conditions will force many people to consider their budgets as well. In a rising interest rate environment, housing costs will increase, and that will put more strain on the wallets of homeowners.

In addition, tariffs and uncertainties related to NAFTA could result in higher costs for many consumers as well. And although rising minimum wages will be a welcome boost for some workers, it'll result in job losses for others.

**Pricing scandal does not help**

Charging customers higher prices also isn't a popular move right now either, given the recent price-fixing scandal that **Loblaw Companies Ltd.** recently alerted lawmakers to. The scandal itself will present a lot of uncertainty, and those involved could be saddled with some hefty fines along with other consequences.

**Bottom line**

Rising competition and economic headwinds make investing in brick-and-mortar stores very unappealing in today's economy. At the very least, investors would be better off to wait and see what happens with the investigations into the price-fixing scandal, as that could have an adverse effect on Empire's share price, depending on the outcome.

In the short term, Empire had a strong quarter, and if it can build on those results, then that will generate strong returns for investors. However, I'm not optimistic that will be the case, and there are simply much better options out there, where investors would be exposing themselves to less risk.



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