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THE GLOBE AND MAIL

Some of Canada's smaller grocers noticed that the country's two dominant bread suppliers were raising prices in lockstep, triggering complaints that were passed along to an industry association and then to the Competition Bureau.

The Canadian Federation of Independent Grocers (CFIG) shared the concerns of the small food retailers with the bureau about rising bread prices from George Weston Ltd. and Canada Bread Co. Ltd., which together dominate the packaged bread industry in this country.

"Over the past couple of years, some of our independent small-business grocers have raised concerns with respect to the pricing by Canada Bread and Weston," said Gary Sands, senior vice-president of the CFIG, in an interview Wednesday. "We did not file a complaint ourselves, but we shared these complaints with the bureau."

The Competition Bureau confirmed Tuesday that it is investigating major grocers and suppliers in a criminal probe into alleged price fixing of packaged breads. Weston, which makes such lines as Wonder and Country Harvest, and Canada Bread, which makes Dempster's, Stonemill and others, are two key targets of the inquiry.

The probe is looking into pricing activities dating back to 2001 of the two suppliers and major grocers in Canada – Loblaw Cos. Ltd., Sobeys Inc. and Metro Inc., in that ranking order – along with low-cost giant Wal-Mart Canada Corp. and discounter Giant Tiger, according to information obtained by The Globe and Mail from a search warrant in the investigation.

Canada Bread, owned by Mexican titan Grupo Bimbo, and Weston declined to comment beyond confirming they've been informed of being "included in an industry-wide investigation by the Competition Bureau into pricing conduct dating back to 2001," said Sylvia Sicuso, a spokeswoman for Canada Bread. All the companies said they are co-operating with the investigation.

The grocers also confirmed they are part of the investigation, while Wal-Mart said it is co-operating with the probe. "The Competition Bureau is currently present in our offices pursuant to search warrants regarding pricing related to commercial bread beginning in 2001," said Jacquelin Corrado, a spokeswoman for Sobeys, which is owned by Empire Co. Ltd. of Stellarton, N.S.

Sobeys expects bureau investigators to be in its offices in Stellarton and Mississauga, Ont. for 10 or 11 days, a source familiar with the situation said.

The bread industry has been roiled by major changes as consumers search for food options that are perceived to be healthier, pushing the companies to offer new, innovative products ranging from vegetable-infused breads to gluten-free tortillas.

As result, both producers and retailers "have no doubt challenges to adapt to a new consumer," said Hugh Latif of Hugh Latif & Associates Management Consultants, who has advised suppliers of the major bread producers. "The variety and complexity of bread products are a challenge."

For grocers, bread is a low-margin item that is frequently discounted to attract customers, much like such staples as eggs and milk. With a short shelf life and frequent turnover, bread is an important cash generator. Sales growth is virtually nil to small, however, as consumers eat less bread amid moves to carbohydrate-reduced diets.

At the same time, while the price of a loaf of bread has increased about 50 per cent since 2001 to \$2.80 in September, according to Statistics Canada, the price of wheat – the main ingredient – has risen by just 18 per cent over the same period.

By way of comparison, an index of food prices rose 44 per cent, Statscan said. Amid large global crops since 2012, wheat prices have fallen 43 per cent while bread prices in Canada are down 6 per cent. (All prices are adjusted for inflation.)

The domestic bread-making industry is dominated by Canada Bread, which controls 36 per cent of the market, and Weston, with a 31-per-cent share, according to research firm Ibis World.

"We've got a hyper-concentrated grocery retail segment and we've got a hyper-concentrated bread segment," said Al Mussell, a food industry analyst at Agri-Food Economic Systems in Guelph, Ont.

Still, Kevin Grier, a food industry consultant who cautioned he was unfamiliar with the basis for the competition watchdog's investigation, expressed disbelief that a retailer would risk its reputation by colluding to fix prices of such a small-value item.

"It doesn't make sense," Mr. Grier said. "This is an industry based on trust, and if you lose that, that's more than anything."

Even so, CFG's Mr. Sands said one small grocer in Ontario had been told by Canada Bread and Weston about a 7-cent wholesale price increase in many of the past 10 years. Managers from each of the two suppliers had alerted the independent grocer that the other would ask for the same increase, he said.

"This is the bureau's investigation, not ours," he added. "We have not filed any complaints – so we will await the results of this process."

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