



# **PRICING PERCEPTION ON CANADIAN GROCERY RETAIL INDUSTRY**

Program: (B412) Analytics for Business Decision Making

Course: Business Research

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## PRICING PERCEPTION ON CANADIAN GROCERY RETAIL INDUSTRY

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## EXECUTIVE SUMMARY

In our research, we will embark on a detailed exploration of how consumers formulate their perceptions of prices across various retail banners, specifically concentrating on Metro, a significant entity within the grocery retail market. As a benchmark, we compare Metro with Food Basics, a competitor grocery store. We aim to uncover the intricate dynamics behind consumers' price evaluations by investigating the 'how', 'when', and 'where' of these perceptions' formations. Through comprehensive analysis, we will delve into the strategies and mechanisms that drive satisfaction and contribute to establishing a favorable view of price and value, crucial elements influencing consumer decisions.

Moreover, our study will scrutinize the impact of advertising and promotional strategies, including the use of flyers, on customer expectations regarding prices and their choices of retail outlets. We seek to understand how these marketing initiatives influence consumers' perceptions, preferences, and store selections.

Additionally, our research will explore the potential influence of ethnic, cultural, demographic, and geographic factors on customer price expectations and their decisions regarding store choices. By incorporating these diverse elements into our analysis, we aim to provide a holistic understanding of the multifaceted aspects influencing consumer behaviors in relation to price perceptions and retail preferences.

Furthermore, focusing on Metro's strategies amidst these shifting market dynamics, we aim to uncover insights that will aid Metro in adapting and refining its approaches to better cater to the evolving needs and preferences of today's consumers. Through our findings, we endeavor to offer tailored recommendations to assist Metro and similar entities in navigating these changes effectively while maintaining consumer satisfaction and loyalty.

## INTRODUCTION

The grocery retail landscape has experienced significant fluctuations over time, owing to a myriad of factors ranging from economic conditions to emerging consumer trends. Various shifts in consumer behavior have profoundly impacted the way people shop for groceries. One notable trend is the rapid surge in Online Shopping, evidenced by recent data indicating a substantial increase ranging from 10% to 40% among major grocery store retailers. Consumers have become increasingly health-conscious, resulting in a heightened demand for healthier food choices, a preference for fresh and organic produce, among other options. Moreover, there is a growing awareness regarding the environmental footprint of food choices, prompting a preference for eco-friendly packaging and products sourced through ethical and environmentally responsible means. The adoption of Convenience and Time-Saving Solutions, such as ready-to-eat meal kits and snacks, has gained widespread popularity among consumers.

Despite retailers' efforts to harness technology for enhancing consumer loyalty, be it through online shopping platforms or digital loyalty programs, these endeavors have not significantly mitigated the impact of substantial food inflation, which has surged by 5.90% year over year.

## OBJECTIVES

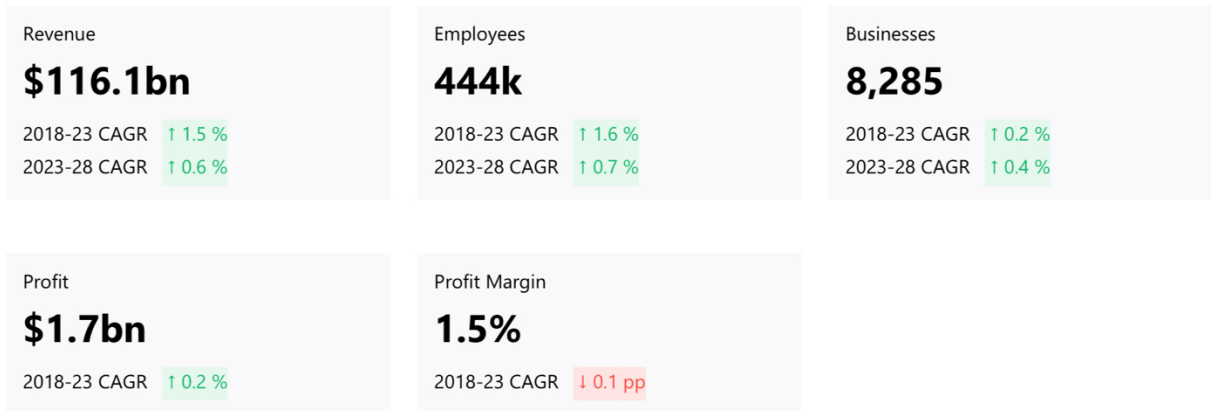
- How, when, and where do consumers form their price perceptions about different retail banners?
- What strategies drive satisfaction and/or have proven effective in creating a favorable perception of price and value?
- How do advertising/promotional strategies and flyers impact customer price expectations and store choices?
- Are there ethnic, cultural, demographic, or geographic factors influencing customer price expectations and store choices?

## INDUSTRY RESEARCH

### Market Overview

The Canadian grocery store industry plays a role, in the nation's food sector by meeting the diverse demands of consumers. It offers a variety of food products, including fruits and vegetables dairy, meats, seafood, and packaged goods.

### Market Size and Growth



As of 2023 the market size, for this industry was reported to be CA\$116.1 billion. Over the five years it is projected to have a Compound Annual Growth Rate (CAGR) of 0.6% with an aim to reach CA\$119.6 billion by 2028. Several factors contributing to this growth include an expanding population increasing per capita income and changing consumer preferences. The grocery store industry in Canada plays a pivotal role in the nation's food retail sector, catering to diverse consumer demands. It offers a wide range of food products, including fresh produce, dairy, meats, seafood, and packaged goods.

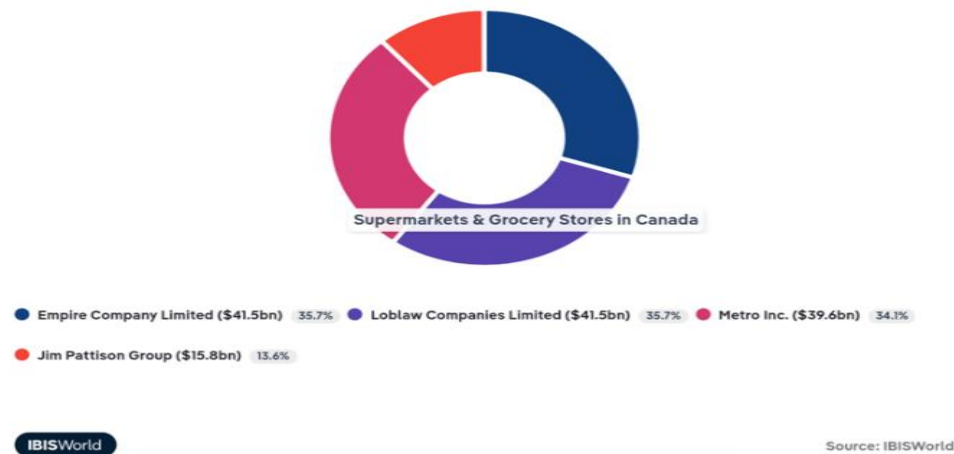
### Key Players and Market Share

Major companies significantly shaping the industry's landscape include:

1. **Empire Company Limited:** With a market share of 35.7% Empire recorded revenue of \$41,480.9 million resulting in a profit of \$2,925.0 million and a profit margin of 7.1%.
2. **Loblaws Companies Limited:** Holding a market share of 35.7% Loblaws reported the revenue and profit figures, as Empire maintaining a profit margin of 7.1%.
3. **Metro Inc.:** With a market share of 34.1% Metro reported revenue totalling \$39,623.3 million. Achieved a profit of \$1,679.7 million resulting in a profit margin of 4.2%.

4. **Jim Pattison Group:** Securing a market share of 13.6% the Jim Pattison Group reported total revenue amounting to \$15,810.0 million. Achieved a profit figure of \$1,163.9 million with an impressive profit margin of 7.4%.

### Major Players



### Industry Structure

The grocery store industry, in Canada is characterized by competition featuring a combination of national players, regional chains, and independent stores. Notably, there has been a rise in discount and NoFrills store formats targeting price consumers. Moreover, market consolidation has been fuelled by mergers and acquisitions like Loblaw's acquisition of Shoppers Drug Mart. Entry barriers primarily revolve around the need for substantial capital, economies of scale, and brand recognition.

### Regulatory Environment

The Canadian grocery store industry operates within a framework that covers aspects such as food safety regulations, labeling requirements, advertising guidelines and trade agreements. These regulations aim to safeguard consumer interests while upholding industry standards. Additionally, they have an impact on the availability and pricing of imported food products based on trade agreements and tariffs. Government policies related to trade import/export regulations as agricultural subsidies further influence the dynamics of the industry.

### Consumer Behaviour

Consumer behaviour within the grocery store market is shaped by factors including evolving demographics changing consumer preferences and the influence of technology. Understanding

these behaviours is crucial, for grocery retailers to adapt their strategies effectively to meet the evolving needs and preferences of consumers. Here are some key aspects of consumer behaviour observed in this market:

1. Precautionary Buying and Stockpiling: As a measure, during the pandemic consumers started buying and storing lasting products due to concerns about potential shortages. This surge in demand led to an increased need for items.
2. Shift from Foodservice to Grocery: With the closure of restaurants and eateries people shifted their spending habits towards buying groceries of dining out. This change benefited retailers in the grocery sector as they experienced a rise, in customer purchases.
3. Multi-Channel Shopping: There has been a rise, in shopping options such as farm shops, direct marketing and Amazon Fresh giving consumers choices.
4. Increasing Power of Buyers: The power of buyers is growing due to the influence of media allowing consumers to express their opinions and impacting the reputation of retailers. This in turn helps consumers make purchasing decisions.
5. Product Differentiation and Price Levels: Specialty retailers focus on offering products at prices catering to specific consumer segments. However, they often face limitations when it comes to volume due, to their niche market targeting.

### Key Factors Driving Current Industry Performance

- Strong Canadian Economy Pre-COVID-19: The Canadian economy was thriving before the COVID 19 hit. In the 2010s people had disposable income businesses where optimistic wages were rising, and consumers felt confident. With increased household income Canadians started spending more on premium and organic foods, which boosted supermarkets and grocery stores revenue.
- COVID-19 Impact - Shifting Consumer Behaviour: The pandemic forced shutdowns and strict social distancing measures, prompting households to spend more time in supermarkets and grocery stores. Families, restricted from other activities, increased their grocery shopping, boosting demand for produce, meat, and other essentials, leading to a surge in industry revenue in 2020.
- Economic Disruptions Impacting Income: After the pandemic subsided and economic recovery began there was a demand for goods and services. However, production capacity could not keep up with this surge in demand. As a result of this imbalance input prices started to rise. Factors like soaring energy prices and transportation disruptions contributed to these input costs. Consequently, supermarkets and grocery stores faced some constraints on their revenue during 2021 and 2022.
- Rising Food Prices Impact on Revenue: Disruptions in the supply chain caused food prices to increase due to costs associated with crop transportation, equipment purchases and land



acquisition. Geopolitical conflicts like the war in Ukraine also played a role by disrupting wheat supply chains further driving up food prices. Despite facing prices, for items consumers continued purchasing them from grocery stores who passed on these elevated costs.

### Economic Factors Impacting Canadian Grocery Stores

1. Inflation Rates: Higher inflation raises operational costs, impacting pricing strategies and potentially leading to increased prices for consumers. Managing prices is crucial while considering consumer behaviour changes.
2. Income Levels: Fluctuations in income directly influence consumer spending on groceries. Higher income levels drive demand for premium products, while economic downturns lead to prioritizing budget-friendly options.
3. Economic Indicators: GDP growth signifies consumer confidence and spending power, impacting grocery sales. Unemployment rates affect non-essential spending, including groceries. Interest rates influence borrowing costs, impacting investment decisions and consumer purchasing power.
4. Currency Fluctuations: Exchange rate changes impact the cost of imported goods. Stronger Canadian dollar lowers import costs and potentially lowers grocery prices, while a weaker currency increases import costs, potentially leading to higher prices. Monitoring and adjusting pricing strategies is essential for competitiveness and profit margins., if the Canadian dollar weakens, it can increase the cost of imports and potentially result in higher prices for consumers. Grocery stores need to monitor currency fluctuations and adjust their pricing strategies accordingly to maintain competitiveness and manage profit margins.

### Sales and Profit Distribution

#### 1. Sales Distribution:

- Empire Company Limited and Loblaws Companies Limited have sales figures generating \$41,480.9 million each in revenue with a market share of 35.7% each.
- Metro Inc. Closely follows with a revenue of \$39,623.3 million capturing a market share of 34.1%.
- Jim Pattison Group has sales as well but at a lower level with \$15,810.0 million, in revenue and a market share of 13.6%.

#### 2. Profit Distribution:

- Empire Company Limited and Loblaws Companies Limited both report profits of \$2,925.0 million each with a profit margin of 7.1%, for both.
- Metro Inc. on the hand reports a lower profit at \$1,679.7 million resulting in a profit margin of 4.2%.

## Companies

Company	Market Share (%) 2023	Revenue (\$m) 2023	Profit (\$m) 2023	Profit Margin (%) 2023
Empire Company Limited	35.7	41,480.9	2,925.0	7.1
Loblaw Companies Limited	35.7	41,480.9	2,925.0	7.1
Metro Inc.	34.1	39,623.3	1,679.7	4.2
Jim Pattison Group	13.6	15,810.0	1,163.9	7.4

- Jim Pattison Group records profits totalling \$1,163.9 million and achieves a profit margin of 7.4%.

Table 1: Canada food & grocery retail market value: \$ billion, 2016–21

Year	\$ billion	C\$ billion	€ billion	% Growth
2016	122.4	153.4	103.4	
2017	127.9	160.4	108.1	4.5%
2018	133.6	167.5	112.9	4.4%
2019	138.0	173.0	116.6	3.3%
2020	153.2	192.1	129.5	11.0%
2021	150.1	188.1	126.8	(2.1%)
CAGR: 2016–21				4.2%

SOURCE: MARKETLINE



## Market Data 2016-21

The Canadian food & grocery retail market exhibited a generally positive upward trend between 2016 and 2020 with steady growth from \$122.4 billion to \$153.4 billion. Notably there was a 11.0% increase in 2020. However, there was a setback in 2021 as the market contracted by 2.1% reaching \$150.1 billion. Despite this dip the compound annual growth rate (CAGR) for the

period of 2016-2021 remained at a 4.2% indicating expansion over time. The value of the market in Euros also showed growth increasing from €103.4 billion in 2016 to €126.8 billion in 2021. In summary while there were fluctuations the Canadian food and grocery retail landscape demonstrated resilience and continuous growth over the five years.

### Market Outlook 2021-26



The future projections for the Canadian food & grocery retail market reveal a promising outlook characterized by consistent growth over the forecast period from 2021 to 2026. It is anticipated that the market will surge from \$150.1 billion, in 2021 to reach \$182.3 billion by 2026 representing an increase of 21.5%. This upward trajectory is supported by a compound growth rate (CAGR) of 4% indicating reliable and predictable expansion.

Based on projections the market value is expected to increase over the coming years reaching a total of \$182.3 billion by 2026. This indicates growth, in the food and grocery retail sector with annual growth rates ranging from 3.0%, to 5.2% showcasing a robust and thriving Canadian food & grocery retail landscape poised for continuous expansion.

## COMPANY RESEARCH

### Overview

Metro incorporation is a well-known manufacturer, retailer and distributor of food and pharmaceutical products. The organization is headquartered in Montreal, Quebec, Canada with a network of 963 food stores and 649 drug stores. The food stores operate under different retail banners including Super C, Metro, Marche Richelieu, Food Basics, Metro Plus, Premiere Moisson and Marche AMI. The banners for drug stores include Metro Pharmacy, Brunet, Jean Coutu and Food Basics Pharmacy brand names. Furthermore, the company reported overall revenues of approximately CAD 18,889 million for the Fiscal Year ended in September 2022 (FY2022). In FY 2022, the organization operating margin was 6.7% in comparison to an operating margin of 6.9% in FY2021. The net margin recorded in FY2021 was 4.5% which was observed the same net margin in FY2021.

### Metro Incorporation Operations

The business operations are divided in two divisions:

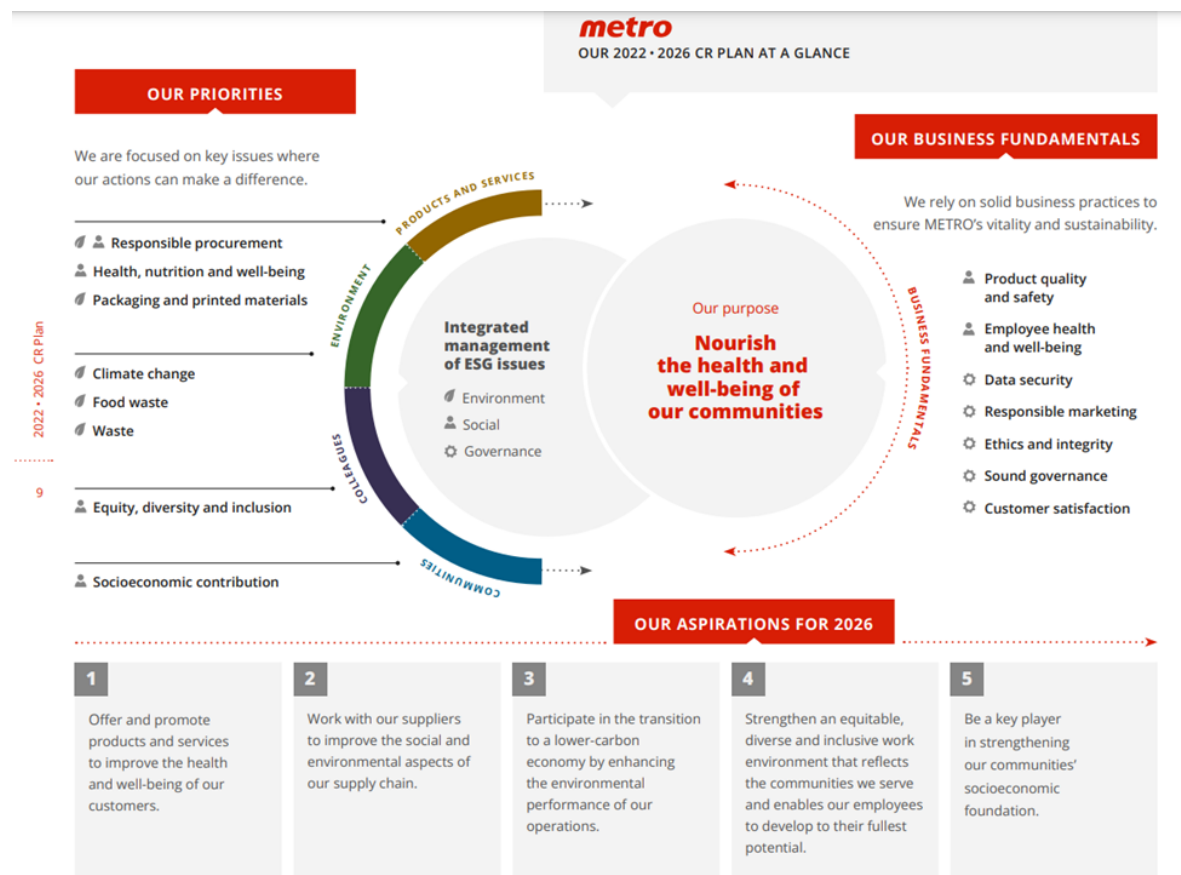
- **Food:** The organization operates 328 supermarkets under Metro Plus and Metro banners, and 237 discount stores under Food Basics and Super C banners. Furthermore, there are 15 stores under Adonis banner which essentially sells fresh and Middle Eastern products. The firm has 23 stores under Premiere Moisson banner that is responsible for selling pastry, bakery and deli products directly to consumers, restaurants and other food chains. In Quebec, Metro operates 53 stores under the Marche Richelieu banner where meat and other baked goods are being sold. Moreover, 307 stores are functional under the Marche AMI banner providing fruits, vegetables, dairy products, bakery goods and dairy products.
- **Pharmacy:** This division manages 418 drugstores under different brand names. However, Metro operates 74 drug stores in Ontario province under the banners of Food Basics and Metro Pharmacy. The food basics pharmacy provides professional services to customers including medical profiles, health reminders, medication, syringe disposal, blood pressure monitoring and drive through services. The organization operates as a franchisor and distributor for 157 different drugstores including Brunet Plus and Clini Plus that are owned by independent pharmacists. In addition to this, Metro via its subsidiary Pro Doc Ltd is involved in the manufacturing of generic drug.

## Business Model of Metro Incorporation

The business model of Metro Incorporation revolves around the following areas:

- **Responsible Procurement:** The ambition is to implement responsible practices within the supply chain network to offer customers products that respect the workers and environment. This long-term task requires continuous monitoring, close collaboration with the suppliers and rigorous implementation programs.
- **Health, Nutrition and Well-being:** The priority is to support customers in their daily actions to care for their health and well-being. This is done by offering value products that meet their aspirations and nutritional needs. Apart from that, Metro aims to continue to play a crucial role in supporting public health through a network of neighborhood stores and pharmacies.
- **Packaging and Printed Materials:** The objective is to optimize the packaging and printed materials to reduce their use, choosing environmentally friendly materials and facilitating their recycling. These practices aim to limit product losses and diminish waste production as much as possible while contributing to the fight against single use plastic.

### 2022-2026 Plan



## SWOT Analysis

Metro Inc. (Metro) is a retailer and distributor of food and pharmaceutical products in Canada. It emphasizes store network and quality. The sustainable financial performance of Metro allows it to manage its money leading to profitability over the long term. However, there are concerns about geographic concentrations as the metro stores are located in those specific areas. If something goes wrong in terms of economic problems or natural disasters it can affect the company. Online retail market in Canada has grown significantly and that is where growth opportunities are likely. On the contrary, intense competition and stringent regulations along with shortage of manpower can affect the company operations.

### Strengths

- Retail Store Network: Having a diversified network of stores provides customers with ease and the freedom to choose the stores nearby and as per their convenience. Also, having a wide network of stores attracts different types of customers who have distinguishing needs and preferences. The table below demonstrates the retail store network and operational stores under various retail banners:

Retail Store Network		
Food Stores	Drugstores	Regions
963	649	Quebec, Ontario and New Brunswick

Stores operational under retail banners	
Retail Banners	Stores
Metro Plus and Metro	328
Adonis	15
Premiere Moisson	23
Marche Richelieu	53
Marche AMI brand	307

Operational Drugstore Network	
Retail Banners	Stores
PJC Jean Coutu, PJC Health and PJC Health & Beauty	418
Food Basics Pharmacy and Metro Pharmacy	74

- **Financial Performance:** Metro has had a strong financial performance that enables the company's capability to provide higher ROI (Returns on Investment) to its shareholders and also increases the ability to allocate required funds for growth initiatives. In FY2019, the organization reported a revenue approximately around CAD 16770 million compared to CAD17,997.5million in previous Fiscal Year 2020 (FY2020).

Overall Financial Performance since 2019		
Fiscal Year	FY2020	FY2021
Revenue	CAD17,997.5million	CAD18,283 million
Annual Growth Rate	7.3%	1.5%
Operating Margin	6.8%	9.4%
Net Profit Margin	4.4%	4.5%

- **Focus on Quality:** Metro Incorporation is focused on enhancing quality products by their robust manufacturing and business processes. It is known for purchasing and selling products that adhere to government's organic standards. The organization purchases from wholesale vendors that meet the industry quality standards. Metro has credible accreditation being a USDA certified organic national grocer sells organic and natural products.

### Weakness

- **Geographic Concentration:** The organization is operating in Canada due to which revenues generated are very limited. As there is dependence on the Canadian Market the company is exposed to economic, social, political, and climatic uncertainty within the region. This causes a reduction in demand for the products thereby preventing customers from coming to Metro stores. This will affect the revenue generation of the company due to the loss of sales.

### Opportunity

The company is currently benefiting from the growing online retail market in Canada. According to research the retail sector has been forecasted to grow at a CAGR of 8.3% to reach US\$34,924.5 million by 2025 from US\$23,407 million in FY2020. Electrical and other electronic products were among the largest segments in the sector that accounted for 40.9% of total value followed by food and grocery (15.5%).

- **Focus on Store Expansion:** The company looks at the store expansion as an opportunity by opening new stores hence more investments in its improvement and renovation programs. The organization opened a new Metro Plus store in February 2022 located in Montreal, Quebec. In FY2021 the organization opened 11 new stores and pharmacies located in Ontario and Quebec. Moreover, Metro Incorporation renovated 17 stores and in March 2021 the company opened a new Metro Plus store in Quebec province.

### Threat

- **Intense Competition:** The company encountered intense competition from both domestic and international retailers such as Walmart, Costco, No Frills and many more. Due to high

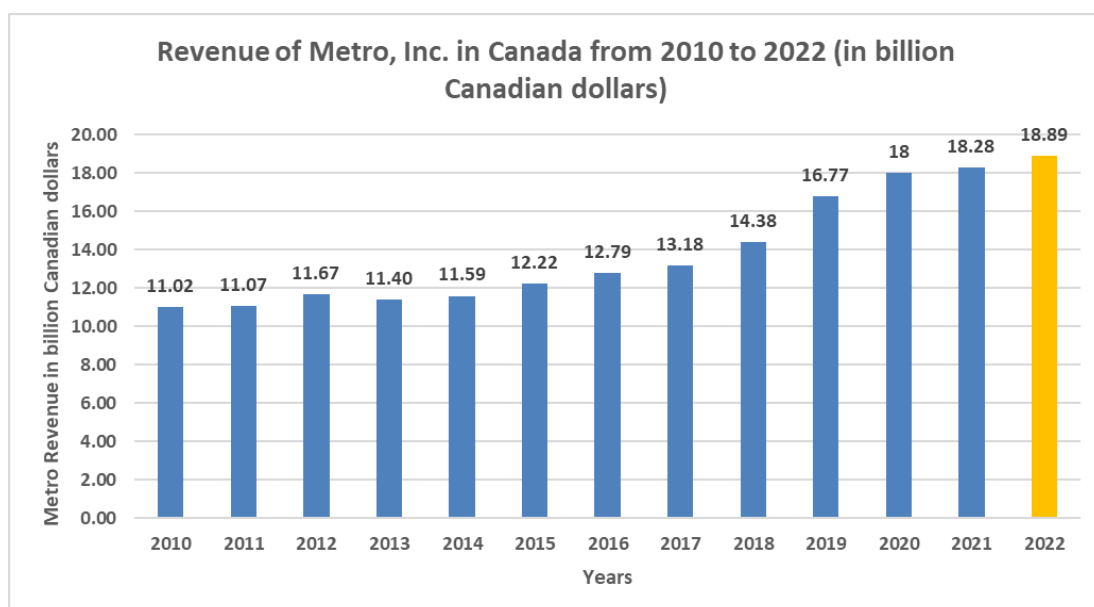
competition in the market the company has to increase the product range where products have to be offered at low prices and sometimes increase promotional expenses that may escalate to more operating costs. Metro main competitors include Empire Co Ltd., Loblaw Companies Ltd., Sobeys Inc., Wal-Mart Canada Corp., and Whole Foods Market Inc. These major competitors may go for acquisitions or joint ventures as part of their expansion and investment programs. Moreover, some of the competitors may have more resources in comparison to Metro Incorporation. This may cause Metro to lose out on certain customers.

In March 2021 Empire Co Ltd acquired 51% stake in Longo's and Grocery Gateway whereas Whole Foods Market announced to expand the wholesale grocery distribution in partnership with United Natural Foods.

### Sales And Revenue of Metro Incorporation Over The Years

According to Global News Metro Incorporation has reported higher profit and sales in the first quarter amid soaring inflation. There has been a significant increase in profits and a hike of 10% dividend following a period that has seen a substantial increase in food prices.

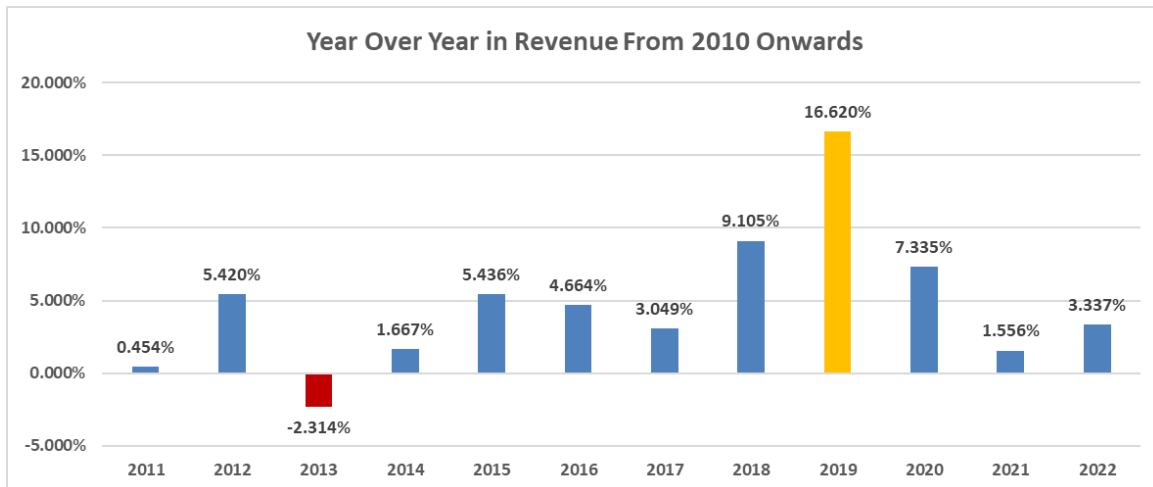
- Revenue of Metro Incorporation: From the period of 2010 to 2022 Metro revenues have increased gradually with the highest recorded revenue of CAD18.89 billion in 2022. This is due to the increase in sales volume and increased customer demand for Metro products. In Fiscal Year 2022 (FY2022) Metro was successful in providing products at affordable rates and competitive prices despite the high inflation environment. Metros diversified business model helped to maintain while providing great value to consumers (Eric La Flèche, President and Chief Executive Officer).





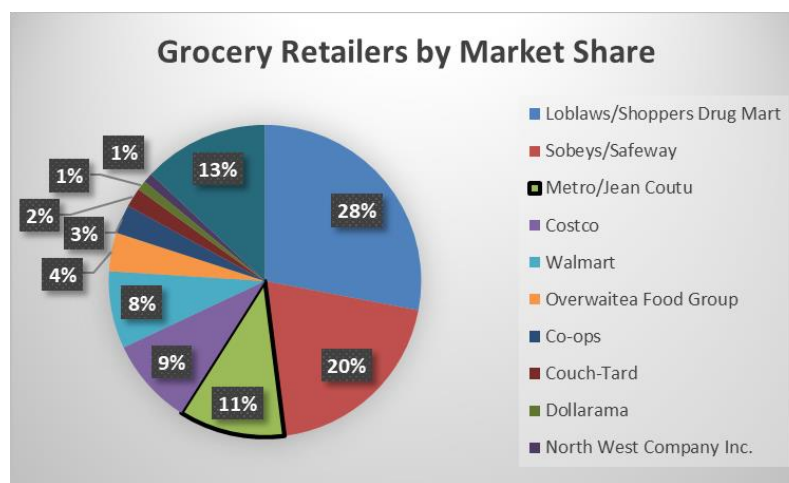
## PRICING PERCEPTION ON CANADIAN GROCERY RETAIL INDUSTRY

- Year Over Year (YOY) Revenue (2010-2022): Keeping the Revenue over the years into consideration, it is essential to understand and analyze the yearly performance of Metro Incorporation.



In 2011, there was a modest positive change of 0.454%, indicating a slight increase compared to the previous year. A substantial increase of 5.42% in 2012 indicated a notable improvement in revenues. However, there was a negative change of -2.314%, indicating a decrease in the metric compared to the previous year. This suggests a potential decline in performance. From 2013 to 2015 the overall revenue significantly increased to 5.436% and then gradually declined till 2018. Moreover, the organization bounced back with a significant increase in revenue till 2019. In FY2019 Metro had the highest revenue of 16.620% which is an increase of approximately 7.515% compared to previous year. From 2020 onwards there has been fluctuations in revenue and the overall revenue has considerably plunged since 2019.

## Leading Grocery Retailers by Market Share



The top 3 leading grocery retailers by market share in Canada are the following:

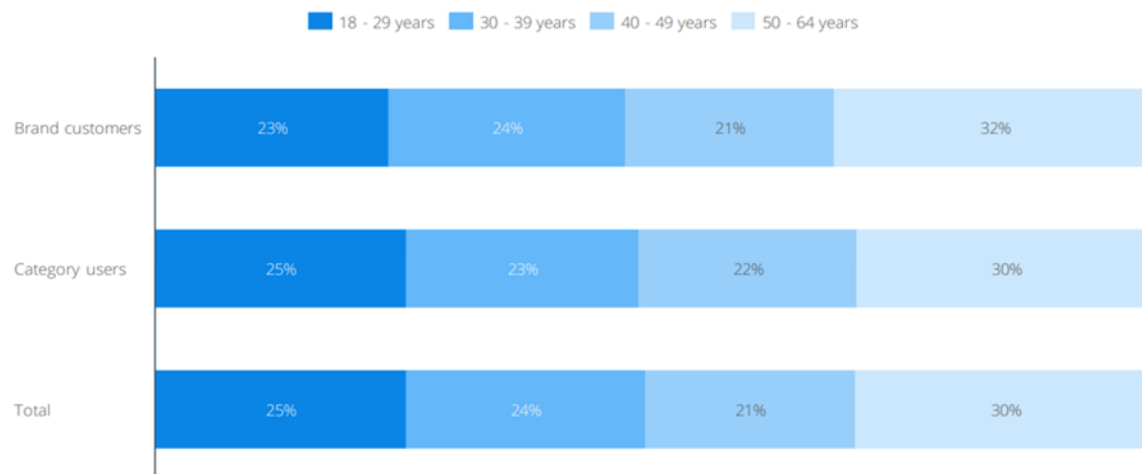
- Loblaws/Shoppers Drug Mart: It has the highest market share among the other retailers with 28% of the total market. This shows that it is a significant player in the grocery retail industry.
- Sobeys: It holds a market share of 20% making it the second largest player in the market. While it may not be dominant as Loblaws it does have a significant portion of the market.
- Metro: It holds a market share of 11% making it the third most player in the market. Metro positioning in the market is notable compared to other grocery retail industries.

### Comparative Study of Demographic by Age of Metro Shoppers

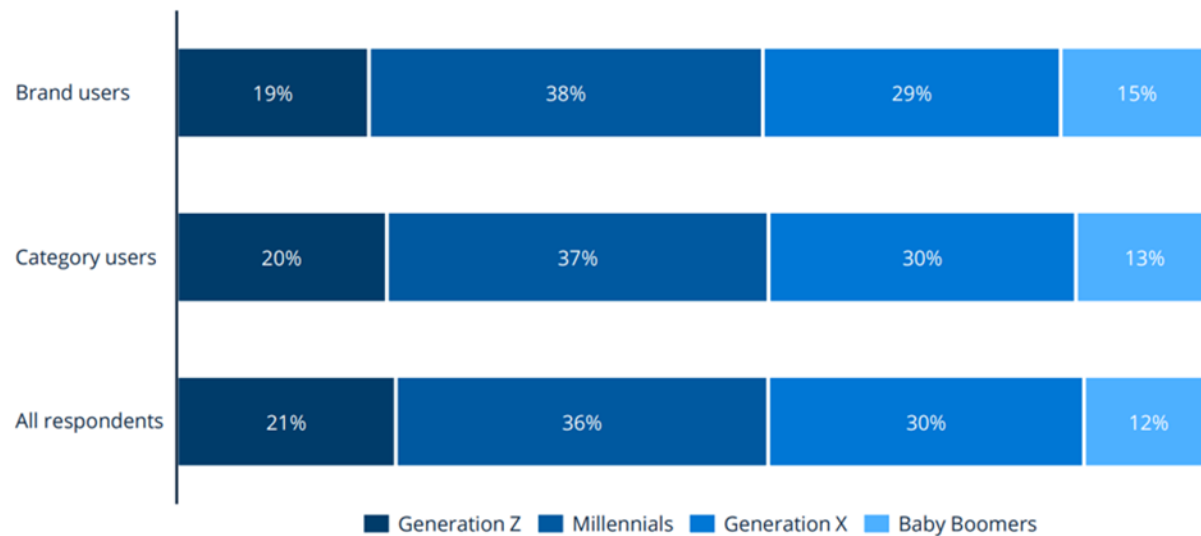
There are two types of users that the research emphasizes which includes the following:

1. **Brand users:** These are the users who typically opt for those specific branded products or services. These are the shoppers that have made a conscious decision to associate themselves with and purchase from those specific brands.
2. **Category users:** These are the shoppers that use products or services regardless of whatever brand, however it should be within a specific category.

#### Age of consumers in Canada (2022)



## Age of consumers in Canada (2023)



## Classification of Age Categories:

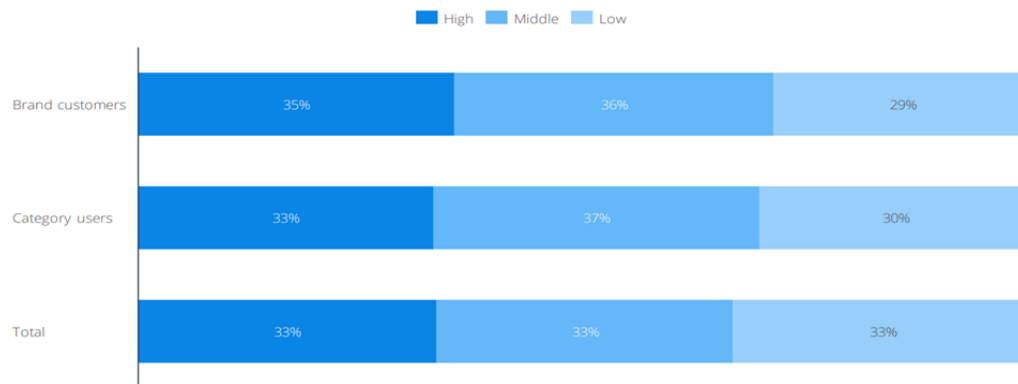
Generations	Born	Current Ages
<b>Gen Z</b>	1997 – 2012	11 – 26
<b>Millennials</b>	1981 – 1996	27 – 42
<b>Gen X</b>	1965 – 1980	43 – 58
<b>Boomers II (a/k/a Generation Jones)*</b>	1955 – 1964	59 – 68
<b>Boomers I*</b>	1946 – 1954	69 – 77

From the research conducted it can be clearly noticed that brand and category users for Generation Z was relatively higher in 2022 compared to the users in 2023. However, in 2023 Millennials were considerably higher by 14% in both the user categories (Brand users and Category users) compared to the users in 2022. Generation X were approximately 8% higher in 2023. Moreover, baby boomers showed a significant decrease in 2023 by almost 17% in comparison to 2022.

## Comparative Study of Demographic by Household Income of Metro Shoppers

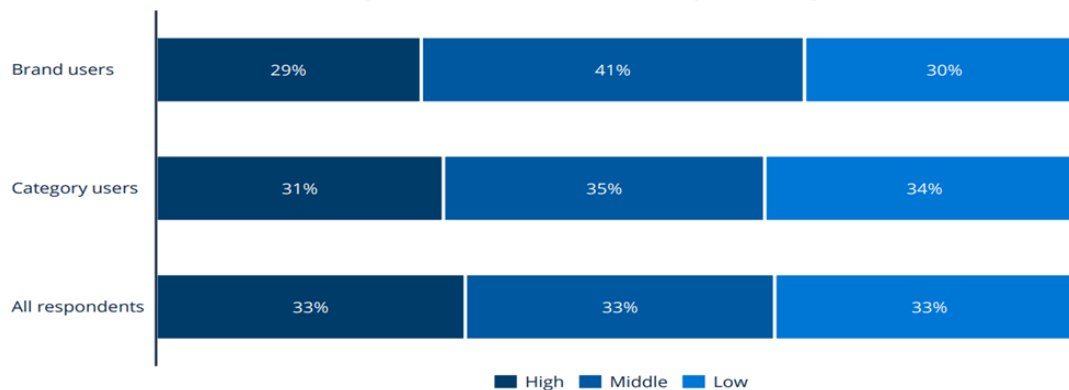
### Household Income of consumers in 2022

Share of consumers in Canada in the low, middle and high thirds of monthly household gross income



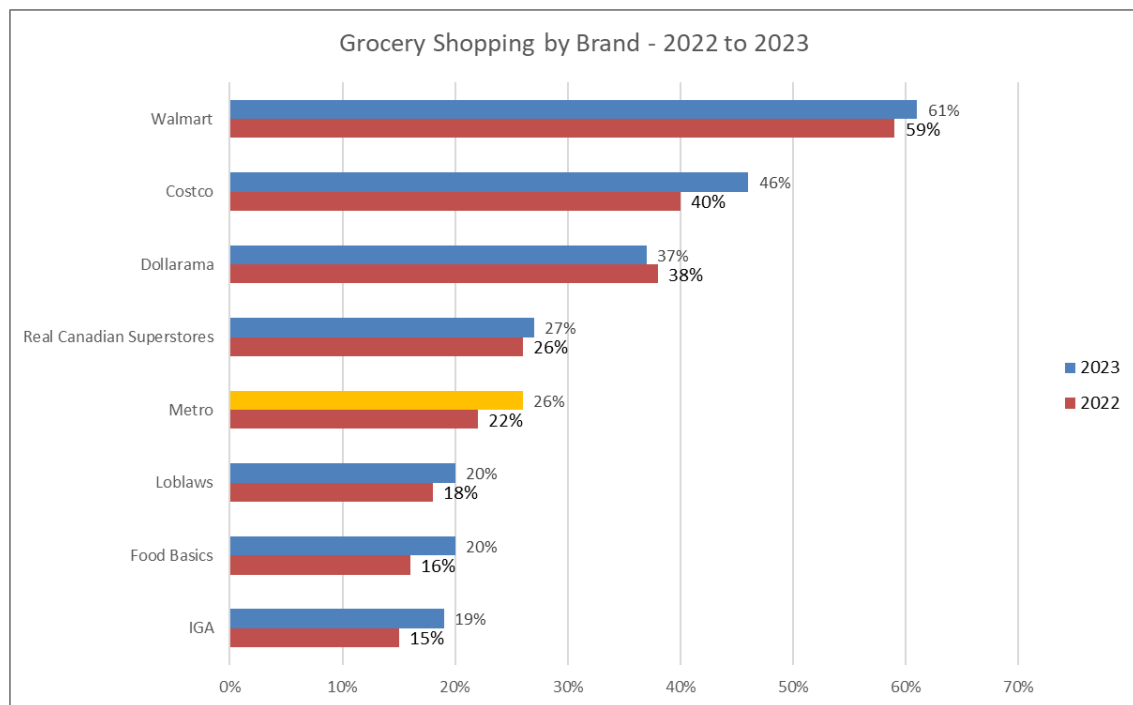
### Household income of consumers in 2023

Share of consumers in Canada in the high, middle, and low thirds of monthly household gross income



From 2022 to 2023 the higher income brand consumers have changed their preferences. The graphs above demonstrate that in 2022 the higher income category was 35% plunging down to 29%. Furthermore, there has been a 5% increase in Middle Household Income shoppers in 2023 followed by almost the same percentage of shoppers in the Low Household Income shoppers. From the Category users there has been a 2% increase in High Household Income Shoppers and Middle-Class Income Shoppers. However, Low Household Income Shoppers has decreased by 4%.

## Comparative Study of Grocery Shopping by Brand In Canada



The graph above demonstrates a comparison of shoppers who considered different grocery brands for their grocery shopping. During 2022 Metro was the 5th most popular brand name for all shoppers; however, in 2023 it became the 6th most popular brand compared to other grocery chains. This clearly depicts that overall households are consuming less along with changing their spending priorities to where they have to shop. A household survey was conducted by Statistics Canada in 2022 where they asked Canadians how they were coping with inflation and higher living costs. Nearly three in four Canadians reported that rising costs were affecting to meet their day-to-day expenses. Two thirds of the Canadians reported big concerns about rising food prices. Due to the inflation many households were actively adjusting their purchasing habits.

## PRICE PERCEPTION & METRO

### Price Perception in Canada: A Review of Influencing Factors Post-COVID-19

This part examines the key factors influencing consumer price perception in Canada, focusing on the post-COVID-19 era. It analyses economic drivers, market trends, and consumer behaviours, highlighting the unique challenges and shifts brought on by the pandemic.

**Economic Drivers** The COVID-19 pandemic led to significant economic upheaval, affecting consumer prices and spending habits. There was a notable downward trend in rent prices and supply shortages in various sectors. Canadian consumers' expectations for inflation reached survey-high levels, reflecting concerns over supply chain issues and the persistence of the pandemic.

**Market Trends** The pandemic has significantly shifted consumer preferences towards health, sustainability, and ethical consumption. Consumers are increasingly concerned about the ethical status of the products they purchase and their sustainability. This trend is more pronounced among certain consumer segments, particularly Generation Z, who show a willingness to pay a premium for clean, natural, and sustainable products. Additionally, the majority of Canadians are adopting more sustainable lifestyles, indicating a growing awareness and commitment to environmental impact. However, there remains a tension between the desire for sustainability and economic constraints, reflecting the complex interplay of values and financial realities post-pandemic.<sup>1</sup>

### How Price Perception Shapes Consumer Behavior and Retail Strategy?

Price perception is a critical factor in the retail sector, influencing consumer behavior and strategic decision-making by retailers. We will explore the multifaceted aspects of price perception, including the strategies employed by retailers, and the contexts in which consumer price perceptions are formed and influenced.

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<sup>1</sup> Tarry, S. (2021, November 1). Consumers in Canada increasingly embracing sustainability as pandemic continues: study. *Retail Insider*. <https://retail-insider.com/retail-insider/2021/11/consumers-in-canada-increasingly-embracing-sustainability-as-pandemic-continues-study/>

## **Strategic Price Perception Management: Balancing Quality, Value, and Consumer Trust in Canadian Retail**

Oliver Wyman's analysis indicates that product assortment significantly impacts price perception. Retailers focusing on basic ('good') products tend to benefit from a more favorable price perception compared to those emphasizing premium ('better' and 'best') products, despite competitive pricing strategies.

Data analytics has become essential in navigating these pricing challenges. Retailers are focusing on understanding consumer behavior shifts, such as the preference for affordable options in staple categories, as indicated by NielsenIQ's insights on the growing popularity of private label products. Bain & Company suggests various tactics for optimizing consumer price perceptions. These include offering lower prices, effective communication of pricing strategies, providing attractive deals, and tailoring the shopping experience to consumer preferences. These methods are instrumental in building consumer trust and loyalty.

McKinsey's perspective underlines that value perception, shaped by the combination of price, quality, and service, is crucial in retail. Consumers assess the overall value they receive, considering not just the price but also the quality of products and the service level. Retailers achieving a balance in these areas often enjoy higher consumer satisfaction and loyalty.

## **Impact of Price Perception on Brand Image and Purchasing Decisions**

A comprehensive literature review in marketing management science reveals the significant influence of price perception and promotion on brand image and purchasing decisions. Positive price perception and effective promotional strategies enhance the brand image, affecting consumers' purchasing decisions. The review also emphasizes the cyclical relationship between brand image and consumer purchasing behavior, highlighting the interconnectedness of these elements. National's 2023 Trends Report: Consumer PR and Brand Communications, emphasizes the growing importance of brand trust alongside price as a key driver for Canadian consumers. It highlights how dependability, quality, purpose, transparency, sustainability, data privacy, authenticity, and social change are now crucial for building brand trust. Especially in the context of inflation, consumers' trust in a brand greatly influences their purchasing decisions.

Price perception in retail is a complex and dynamic field, influenced by various factors, including strategic pricing decisions, product assortment, promotional activities, and brand image. Retailers must adeptly manage these aspects, using data analytics and understanding consumer preferences to create a compelling value proposition. Successfully navigating these elements can lead to enhanced consumer satisfaction, loyalty, and business success. This literature review underscores the importance of price perception as a key determinant in consumer behavior and retail strategy.

## How Global Events and Rising Costs are Changing What Canadians Eat?

### Overview

The economic landscape in Canada has been significantly affected by the COVID-19 pandemic and the Russia-Ukraine war. These events have significantly affected commodity prices and led to substantial disruptions in global supply chains, resulting in high inflation rates. As of January 2023, Canada's food inflation rate reached 10.4%, the highest in nearly four decades. Prices for essential food items, such as fresh produce, baked goods, and dairy products, have risen sharply.<sup>2</sup>

### Demographic and Geographic Factors

The target audience, Canadian consumers concerned about inflation, predominantly comprises Generation X, who make up 35% of these consumers. Furthermore, 55% of this audience is female, and approximately 23% have a technical or vocational education. This concern about inflation is not confined to a specific income bracket, as it affects consumers across all levels. Many in this group reside in couple's households. Geographically, while these consumers are spread across various urban and rural areas, a notable portion resides in large cities.<sup>3</sup>

### Effect of Rapid Inflation on Spending Habits

According to a survey conducted by Kantar Profiles/Mintel in November 2022, only 12% of Canadians reported experiencing 'little to no change' in their spending due to inflation. Furthermore, 48% of respondents indicated a 'moderate change' in their spending patterns, while a notable 33% experienced significant alterations, demonstrating a substantial shift in their spending habits.

### Rising Food Prices and Grocery Sales: How does an increase in competition help lower prices?

According to the 'Grocery Retailing – Canada – 2023' report, despite the rising cost of food, Canadian grocery stores are experiencing increased sales. This could be attributed to various factors, such as changes in consumer buying habits or increased demand. Additionally, while food prices continue to rise, the rate of increase is showing a trend toward slower growth, indicating a potential stabilization in the near future.

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<sup>2</sup> Statista. (July 10, 2023). Food price inflation in Canada - statistics & facts. In *Statista*, from <https://www-statista-com.gbcprx01.georgebrown.ca/topics/9659/food-price-inflation-in-canada/#topicOverview>

<sup>3</sup> Statista. (August 2023). Target audience: Consumers worried about inflation in Canada, from <https://www-statista-com.gbcprx01.georgebrown.ca/study/118272/target-audience-consumers-worried-about-inflation-in-canada/>



The Canadian grocery industry, dominated by major players like Loblaws, Sobeys, and Metro, faces issues of competition and rising prices. In 2022, these companies collectively earned over \$3.6 billion in profits from over \$100 billion in sales, underscoring the industry's high concentration and the significant market power these companies hold. This market dominance makes it challenging for new or independent businesses to enter and thrive in the market. Therefore, greater competition in the Canadian grocery industry is essential. When businesses engage in healthy competition, it not only leads to lower prices for consumers but also fosters a more diverse selection of products and drives increased innovation. This competitive dynamic could be instrumental in moderating grocery prices, ultimately benefiting Canadian consumers.<sup>4</sup>

### **Are Big Grocery Chains Profiting from Inflation?**

The leaders of Canada's major grocery chains testified before a parliamentary committee investigating high food prices. They denied responsibility for the rising food prices, attributing the increase to global factors such as commodity prices and economic inputs affecting the supply chain. Despite reporting high profits, these companies maintained that their profit margins on food-related products remain low, highlighting the complex dynamics of the grocery industry.<sup>5</sup>

Economist Jim Stanford argues that inflation is partly driven by profit-taking by powerful companies in key supply chain positions. He asserts that grocery chains are capitalizing on higher costs, whether they stem from food or non-food items. Considering this, Stanford highlights the importance of greater transparency in pricing and profit margins within the grocery sector, emphasizing its role in understanding the true impact of inflation on both prices and corporate profits.

## **How Household Incomes Shape Canadian Diets and Shopping choices in the Face of Rising Food Costs?**

High-income households may find it easier to absorb cost increases, while low-income families may struggle more significantly. The increased cost of healthy options like fresh vegetables and meats is particularly impactful, potentially leading to varied eating habits and grocery shopping patterns among different income groups. For instance, households with lower incomes might find themselves budgeting more strictly and seeking cost-saving measures more frequently.

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<sup>4</sup> COMPETITION BUREAU RETAIL GROCERY MARKET STUDY REPORT. (2023-06-23). CANADA NEEDS MORE GROCERY COMPETITION, from <https://ised-isde.canada.ca/site/competition-bureau-canada/sites/default/files/attachments/2023/CB-Retail-Grocery-Market-Study-Report-EN-2023-06-23.pdf>

<sup>5</sup> Smith, M. (2023, March 9). It is "false" to suggest grocery chains responsible for high food prices, CEOs tell MPs. CP24. <https://www.cp24.com/news/grocery-ceos-deny-accusations-that-food-price-inflation-is-driven-by-profit-mongering-1.6303772?cache=116>

In both scenarios, the interplay of income and rising food costs in Canada significantly influences dietary choices and shopping behaviors. While high-income households may enjoy greater ease and variety in their food-related decisions, low-income families often face more constraints, necessitating strategic measures to manage their food expenses effectively.

### **Rising Cost of Food**

According to the true cost of food: High grocery prices are not the root issue Article, in 2023, Canadian families are estimated to pay up to \$1,065 more for food compared to the previous year. While the rate of increase in food costs is slowing, this upward trend still represents a significant burden, especially for lower-income families. These figures suggest that the central issue extends beyond the high cost of food alone, highlighting the underlying economic challenges that impede families' ability to afford basic necessities.

### **Inflation and Grocery Prices**

A year-over-year analysis reveals that increases in grocery prices have consistently outpaced consumer inflation since late 2021. Even though food inflation has somewhat eased, the overall prices of many grocery items in 2023 are still 20% higher than in 2021. This persistent rise in grocery prices impacts all households, but it disproportionately affects those with lower incomes, exacerbating economic disparities.

### **Barriers to Healthier Eating for Canadians**

According to the 'Better for You Eating Trends – Canada – 2023' report, a study highlights cost as the primary obstacle to healthier eating among Canadians. It indicates that 52% of consumers who only occasionally eat healthily or not at all perceive high costs as the main barrier. Other notable barriers include a preference for the taste of less healthy foods (41%), difficulties in knowing how to eat healthily (25%), time constraints (20%), and a belief in being healthy enough without focusing on healthy eating (19%). Additionally, 15% of respondents plan to eat healthier in the future but do not see the need for immediate changes in their habits. The study, conducted by Kantar Profiles/Mintel in July 2023, points to significant opportunities for retailers and food manufacturers to assist Canadians in making cost-effective and healthy eating choices.

As food prices increase, consumers, particularly those with limited incomes, are opting for cheaper, less nutritious alternatives. This trend is highlighted by the fact that 47% of Canadians are buying more affordable brands or products in response to inflation. Consequently, 2022 saw a record number of food bank visits, reflecting the growing financial strain. To mitigate these pressures, the report encourages consumers to adopt smart shopping practices. These include using sales flyers, creating budgets, opting for cost-effective food substitutes, and freezing discounted meats.

## Grocery Spending Trends

The McKinsey survey in 2023 highlighted significant changes in consumer grocery shopping behavior. Two-thirds of consumers reported spending more on groceries in 2023 than in the previous year. Notably, nearly 60% of respondents stated that their grocery expenses now consume a larger portion of their income, a trend especially pronounced among those with incomes below \$100,000. The survey also observed a growing preference for online shopping due to its convenience, including time savings and ease of price comparisons. However, it pointed out challenges such as high delivery fees and a lingering preference for in-store shopping experiences.

From Canadian Grocer. (March 1, 2023). Most Canadian consumers are reported to be adjusting their shopping habits in response to rising food prices. The most common strategy, adopted by 47% of respondents, is to buy more discounted or promotional items. Switching to less expensive produce is the next most popular response at 35%. About 23% are reducing their overall produce purchases, while 15% have not changed their purchasing behavior, and 8% have other varied responses.

In PwC Canada's 2023 report, a significant shift in Canadian consumer spending habits is highlighted, primarily driven by inflation and budget constraints. Consumers are increasingly opting for cost-effective alternatives, altering their shopping patterns to cope with rising living costs. This trend has led to a preference for private labels, bulk buying, and promotional deals. Retailers, in response, need to adapt their strategies to address these changing consumer priorities, focusing on offering value for money while balancing competitive pricing. This economic climate is reshaping the retail landscape in Canada, affecting both spending behaviors and pricing strategies.

## BENCHMARK ANALYSIS: COMPARING METRO AND FOOD BASICS

According to Kantar's 2023 analysis in the Grocery Stores category in Canada, the benchmark comparison between Metro and Food Basics reveals:

### Positioning Insights

**Metro:** Being perceived as an 'Over-priced' brand presents a complex challenge for Metro. This perception can often be double-edged; on one hand, it may reflect a premium brand image that appeals to a certain segment of consumers. On the other hand, it risks alienating price-sensitive customers and may compel the brand to resort to frequent price promotions. These promotions, while effective in the short term, can lead to long-term challenges such as brand value dilution and customer loyalty erosion. For Metro, the key will be in balancing the perception of quality and value, ensuring that the premium pricing is justifiable and aligned with the customer's perception of the brand's worth.

**Food Basics:** As a 'Commoditized' brand, Food Basics faces the critical task of differentiating itself in a highly competitive market. The commoditization tag implies that the brand is currently perceived as interchangeable with others, lacking unique attributes or a distinct brand personality. This can lead to an over-reliance on competitive pricing strategies, making it challenging to establish a loyal customer base or to justify a price premium. The path forward for Food Basics involves building a stronger, more distinctive brand identity, one that resonates with its target audience and provides more than just value for money.

### Perceived Price Index Analysis

**Food Basics' Score of 81:** This score is indicative of a brand that is more closely aligned with customer price perceptions. It suggests that consumers view Food Basics as offering reasonable value for the prices they pay. However, while this can be advantageous in attracting cost-conscious consumers, it also raises questions about the brand's ability to move upmarket or to increase prices without adversely affecting customer loyalty.

**Metro's Score of 115:** Metro's higher score in the Perceived Price Index suggests that consumers see its prices as being on the higher end. This could be a testament to a perceived higher quality, exclusivity, or a premium shopping experience. However, the risk here is that if the perceived value does not align with the higher price points, it could lead to reduced customer traffic and potential market share losses, especially to more competitively priced rivals.

## Pricing Power Index Considerations

**Food Basics' Below-Average Score:** Scoring 87 points, below the category average, raises concerns about Food Basics' current brand equity and its ability to support its pricing strategy. This score suggests that the brand might need to rethink its approach to building brand equity - perhaps by enhancing product quality, customer experience, or through effective marketing and brand storytelling.

**Metro's Score of 96:** While Metro's score is closer to the category average, it still indicates a margin for improvement. The brand may need to evaluate the factors contributing to its perceived brand value and adjust its strategies accordingly. This could involve focusing on product innovation, improving customer service, or emphasizing unique selling points that justify its higher price points.

## Profit Risk/Opportunity

**Low Scores for Both Brands:** The score of 1 out of 5 for both brands is a clear indicator of the challenges they face in terms of aligning brand perception with their price levels. It highlights the need for both Metro and Food Basics to invest strategically in their brand-building and marketing efforts. This could involve reevaluating their brand messaging, engaging in targeted marketing campaigns, or even rethinking their product and service offerings to better align with customer expectations and perceptions.

To summarize, both Metro and Food Basics face significant challenges in aligning their pricing strategies with their brand equity and market perceptions, necessitating focused efforts in marketing and brand differentiation.

Combining the key findings from the studies on Metro and Food Basics shoppers in Canada from Statista, we get a comprehensive picture of these consumer segments:

## Brand Usage & Trends

Metro is the sixth, while Food Basics is the ninth most used grocery store in Canada. Metro's shopper share has slightly declined from 23% to 22% between 2022 and 2023. Food Basics experienced a more significant decline from 20% to 16% between 2021 and 2023.

## Demographic Profile

Both stores have a diverse age distribution, with Metro having a slightly higher proportion of male shoppers (54%), while Food Basics has an even gender split. Millennials form a significant portion of Food Basics shoppers (38%), and both stores have a considerable customer base in

large cities. Metro shoppers tend to have a larger share with medium household income, while Food Basics shoppers' income distribution mirrors the general grocery shopper population.

### **Lifestyle & Consumer Attitudes**

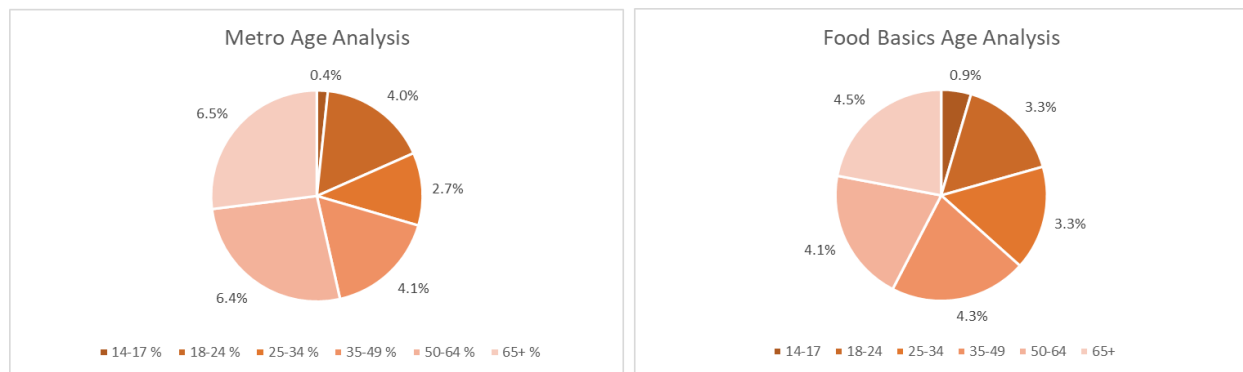
Common interests among shoppers at both stores include sports, fitness, and cooking. Unique to Metro shoppers is a high interest in history, while Food Basics shoppers prioritize family and parenting. Environmental concerns are significant for Metro shoppers, with 31% trying to avoid plastic packaging. Food Basics shoppers show a notable trend towards eating less meat (30%). A significant portion of both groups are early adopters of new products, with Metro at 15% and Food Basics at 13%.

### **Marketing Touchpoints**

Both Metro and Food Basics shoppers are active in digital spaces, with Metro shoppers favoring tablets and Food Basics shoppers using smart speakers more frequently. Both groups interact with companies on social media more than average grocery store shoppers and recall seeing digital ads, particularly in online stores, more often than others. Metro shoppers recall online store ads and TV ads more often, while Food Basics shoppers also note out-of-home advertising. This combined profile suggests that both Metro and Food Basics cater to a technologically savvy, environmentally conscious demographic, with slight differences in priorities and interests. Their online engagement and responsiveness to digital advertising present opportunities for targeted marketing strategies.

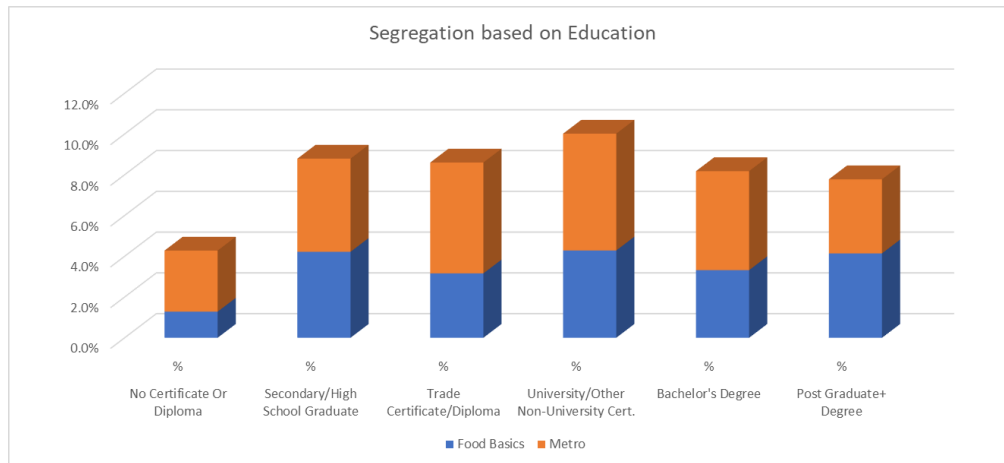
## VIVIDATA ANALYSIS: METRO VS FOOD BASICS

As the world underwent a great transformation during the Pandemic, it presented an opportunity for grocery stores such as Metro and Food Basics to rise above the competition and emerge as the most prominent competitors in the Canadian grocery market. However, the giants are competitive with one another, so which of the two is leading in the market? To find the answer to the question, the Analyst team of Metro set out to decode the preferences shaping grocery store choices across age groups, education levels, and income brackets. They have the vision to use the information to improve the chances of Metro emerging victorious in the never-ending battle.

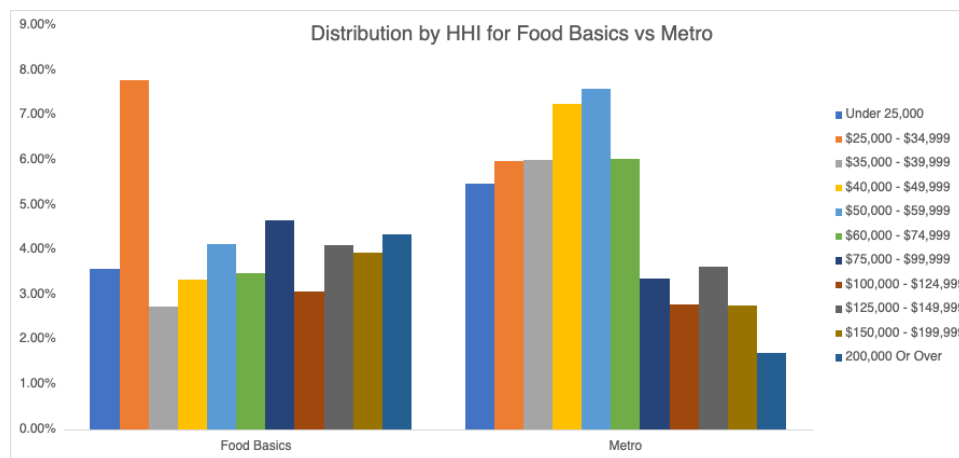


The analysts wanted to understand which age group should be targeted for their upcoming promotions and they set down and let the data unfold the story for them. They discovered that young teens preferred Food Basics as they found affordability in the store which aligned with their limited spending budget. Whereas young professionals in the age range of 18-24, favoured Metro for its central location and elegant in-store shopping experience. In a different age bracket of 25-34, where individuals constantly juggle to navigate the balance between quality and affordability, they found their sweet spot at Food Basics. However, when they investigated the individuals belonging to the age range of 35-49, they discovered that these individuals equally preferred Metro and Food Basics and thus might be the ideal group for their upcoming marketing promotions. As they investigated the age group of 50-60 and 65+ they found that older people appreciated the familiarity and straightforward pricing at Food Basics.

## PRICING PERCEPTION ON CANADIAN GROCERY RETAIL INDUSTRY



Expanding their research parameters, the team of analysts delved into how education levels influence store preferences. Food Basics, seemed to be the go-to grocery store for a mix of educational backgrounds, and thus emerging as a reliable choice for high school graduates as well as advanced degree holders alike. At the same time, a quite opposite trend is observed for Metro, where it positioned itself as an elegant, upscale establishment, thus attracting the population with higher educational qualifications.

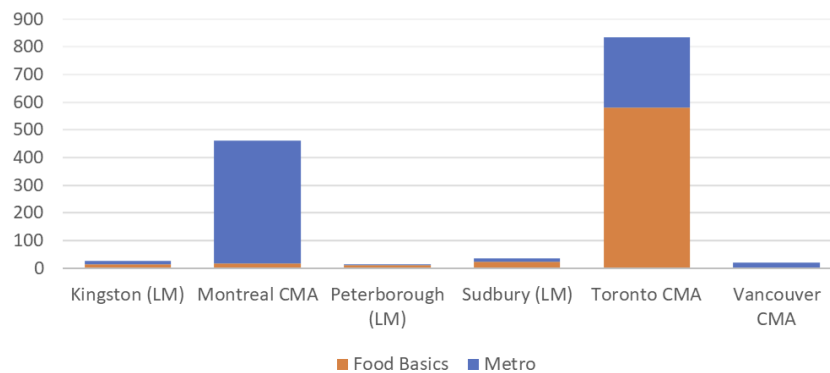


The analysts understand that household income significantly contributes to the decision-making process when choosing a grocery store. Aware of the image of Metro and Food Basics in the mind of the general population they hypothesized people with higher household incomes would prefer Metro, whereas for individuals with lower household incomes, Food Basics would be the go-to grocery store. On analysing the data, they found this to be indeed true. With majority of individuals from a lower-income bracket, consistently choosing Food Basics for its affordability. Whereas Metro's attraction brings in customers mainly from high and middle-income consumers.



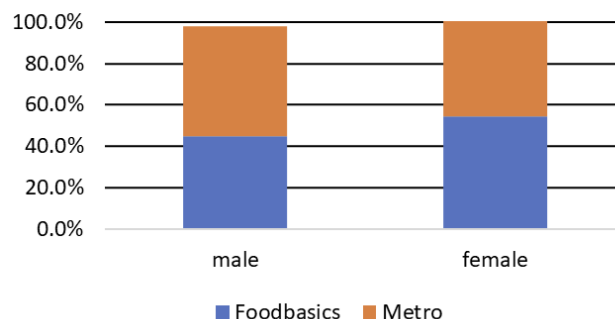
Thus, they discovered that Food Basic is a centre for customers from varied income ranges, as opposed to Metro which appeals to customers with relatively high incomes.

### FOOD BASICS METRO POPULARITY PER MARKET



The analyst team guided by the dataset, decided to analyse different consumer experiences in different territories/areas of Canada. They discovered most of the population that resided in downtown Montreal opted for Metro for their grocery needs, meanwhile, citizens residing in suburban Toronto preferred Food Basics and chose it as a practical choice for their family. Hence, the analyst team concluded that Metro is prominently preferred in urban cities like Montreal and parts of Toronto, whereas Food Basics maintained huge customer base with a smaller market share in major metropolitan areas.

### Market share by Gender

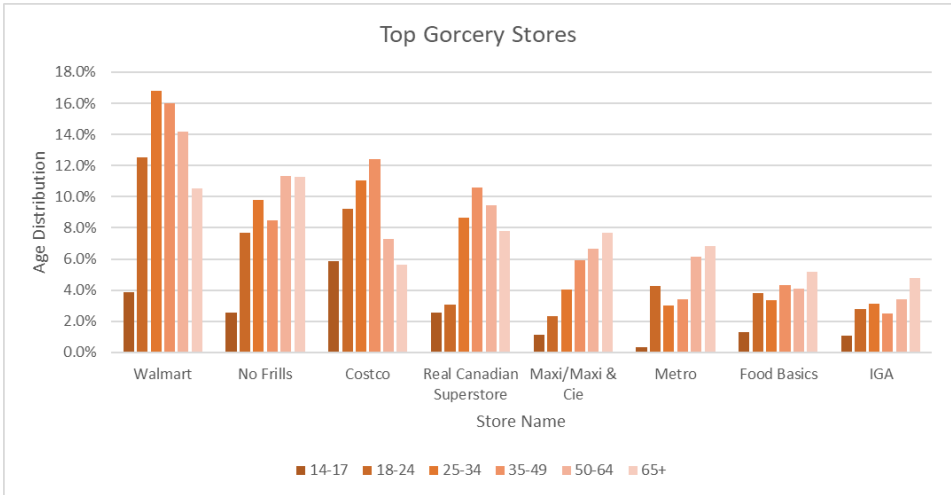


On the analysis of the gender demographics, the analysts discovered that both stores attracted a balanced proportion of male and female consumers across varied. The lack of gender-based preference highlights the universal appeal of both Metro and Food Basics.

## VIVIDATA ANALYSIS: INDUSTRY

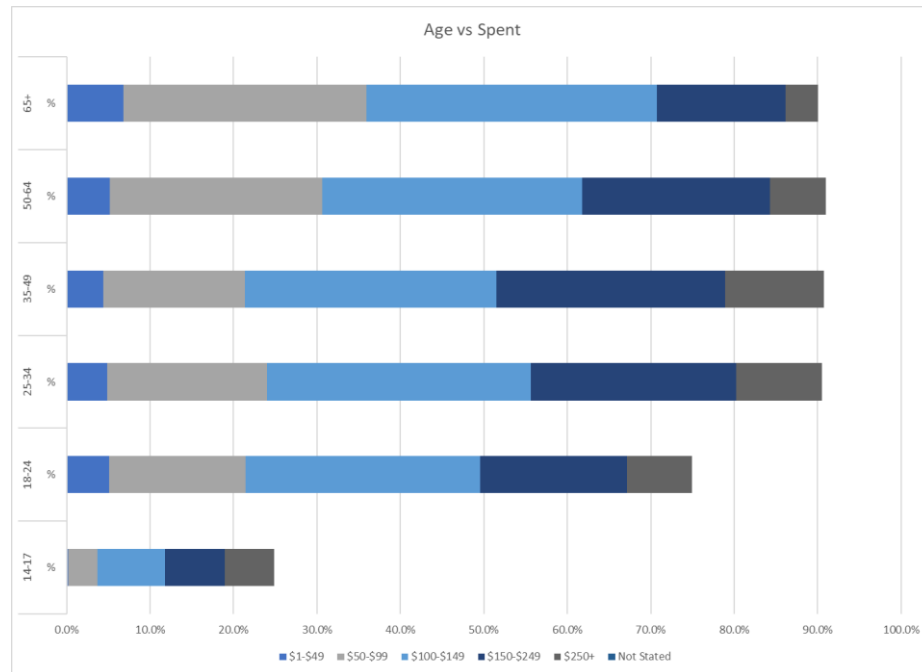
In ever ever-changing landscape of grocery shopping preferences, es, a group of people will contribute amazing insights and stories. Everyone has a unique combination of age, gender, income, education, and regional influences.

First let us meet Jessica, who is a 40-year-old data analyst, and her husband John, as they are navigating through the aisles of Costco, drawn by its extensive offerings that accommodate their family’s hearty appetites and varied demands. Whereas, on the other side we have James, a 30-year-old single shopper, who chooses Walmart preferring the cost-effective and variety of products available at Walmart. At the same time in the shopping landscape, we have John, who is a retiree in his late 60s, and he finds comfort shopping for this grocery needs at Metro, as he appreciates the closeness of the store to his home and the fact that they specialize in products catering to seniors.

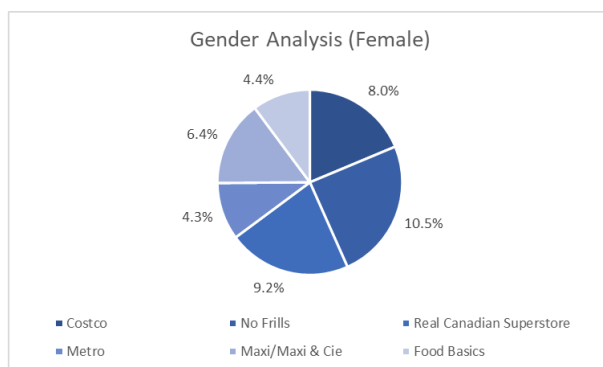
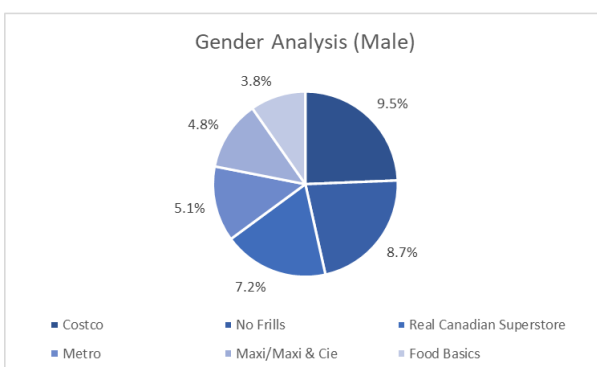


Jessica, being the curious data analyst, went on to examine Vividata trends, for the grocery store preference. In her analysis, she found that Costco emerges as a hub for the 35-49 age group, which in fact mirrored Jessica's age. She discovered that Walmart dominated the 18-34 and 35-49 age groups, which actually aligns with James's age group and preference. In contrast, to these trends, she discovered that Metro held a firm grip over the 50-64 and 65+ age groups, which is reflected in John's choice. At the same time well-renowned stores like Safeway, Loblaws, and IGA are the go-to of people from all age groups, and thus, drawing customers from various age brackets.

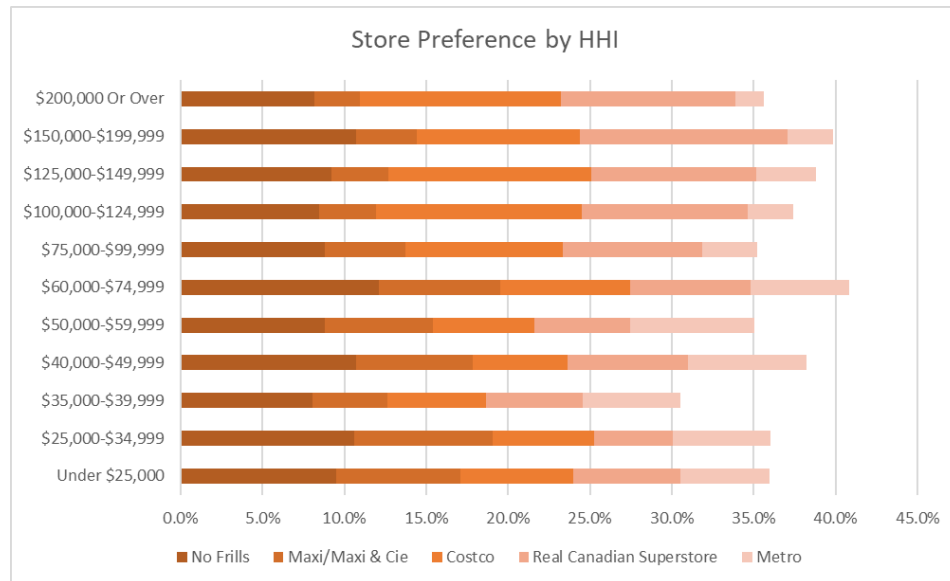
## PRICING PERCEPTION ON CANADIAN GROCERY RETAIL INDUSTRY



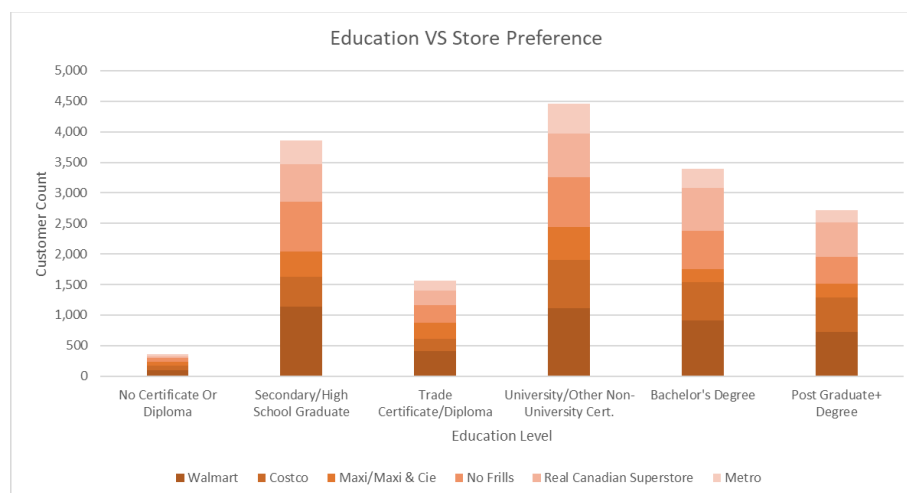
Jesscia wanted to understand how spending patterns change across different age groups as she believed that this information could be of utmost importance when analysing the profit and sales trends of the various grocery stores. Examining the spending patterns resulted in quite an exciting discovery, as she discovered that older age groups tend to allocate more weekly expenditures. This also means that the store which has a high number of older age groups visiting them would have higher sales and profit numbers even with a low number of customers. At the same time, on analysing the gender inclinations, she discovered that Walmart emerges as the top pick for both the genders men and women, thus surpassing all the competitors in the market, especially Metro's appeal, which showed a slight inclination towards male shoppers.



## PRICING PERCEPTION ON CANADIAN GROCERY RETAIL INDUSTRY



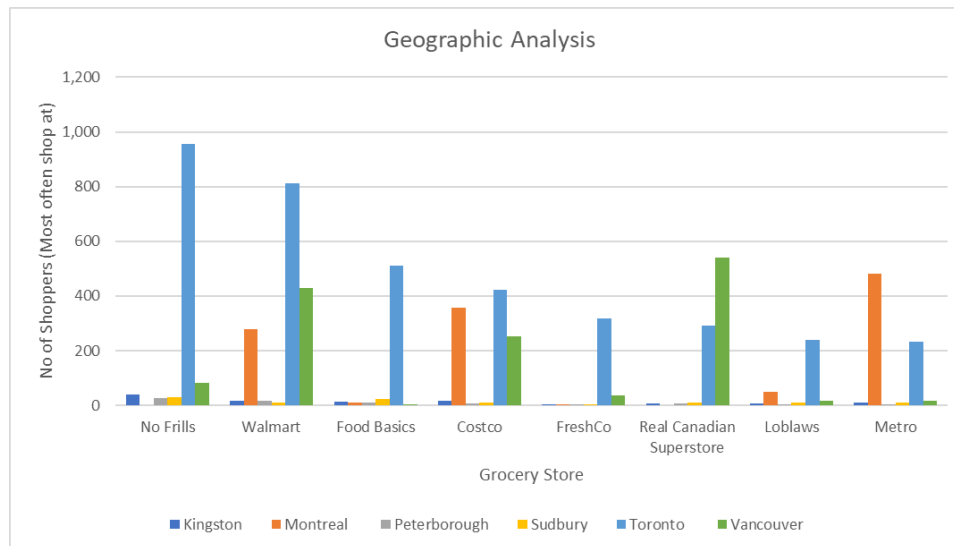
Jessica while having a discussion with her team about grocery store preferences, discovered that there might be a potential trend in the choices in terms of household income. She found that within her team, No Frills attracts lower-income individuals like Sarah, while Chris, a data analyst with 2+ years of experience and with a substantial income, finds his go-to store to be at Costco. When she analysed a larger dataset, she discovered the trend within her team follows the entire income category and is reflected in their grocery store preferences. The grocery store choices become reflections of not just personal preferences but also economic realities and community dynamics.



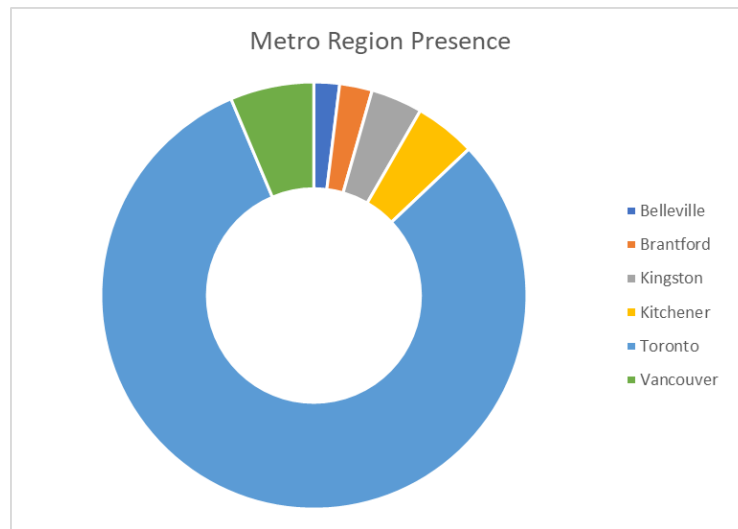
Educational backgrounds, shaped many decisions that individuals make throughout their lifetime, but does it also impact their grocery shopping patterns? Jessica analysed the data within

## PRICING PERCEPTION ON CANADIAN GROCERY RETAIL INDUSTRY

the Vividata and found that grocery store preferences and educational level do have a correlation. She found that Walmart is the preferred choice for people who hold bachelor's and postgraduate degrees, whereas, at the same time, No Frills is the preferred choice for she secondary/high school graduates. Existing patterns can be seen at Metro which caters to those with trade certificates/diplomas, crafting a mosaic of educational diversity.

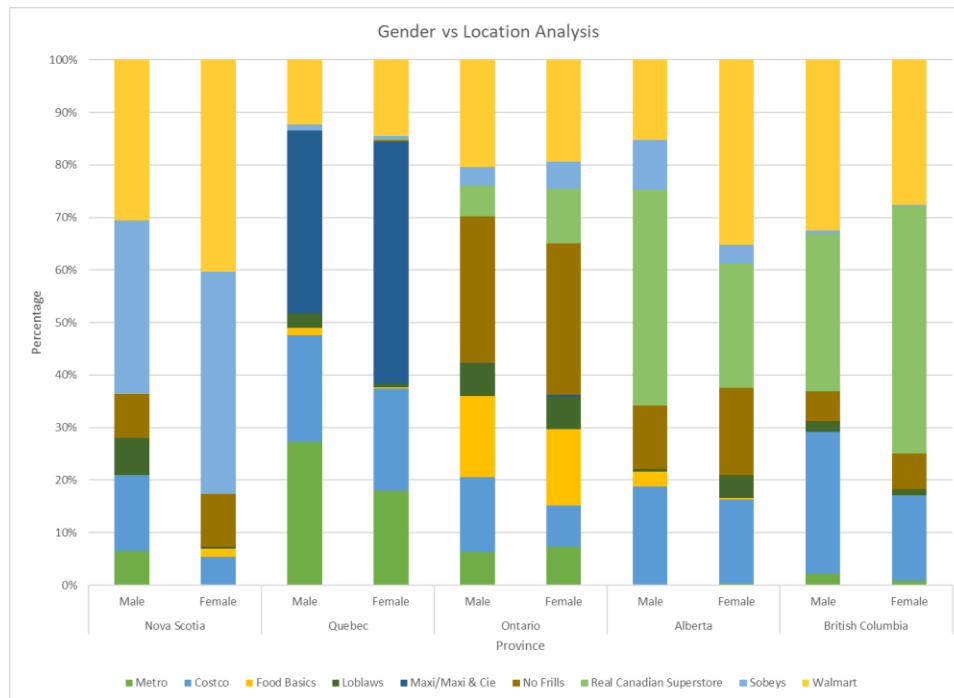


Jessica understands that each city or location has a different grocery demand among the individuals living there. Jessica discovered that in Toronto, No Frills and Walmart are the top choices of shoppers as they cater to the city's budget-conscious citizens. However, in Vancouver, Costco the bulk-buying famous giant seems to be dominant in the market, overshadowing Walmart. Kingston a relatively small city, leans towards local charm with No Frills dominating the grocery market, while in Montreal the area abundant in culture, prefers Metro for its diverse and international shopping experience.



## PRICING PERCEPTION ON CANADIAN GROCERY RETAIL INDUSTRY

Jessica decides to zoom in on the analysis of the specific grocery stores, Maxi/Maxi & Cie in Quebec illustrates the significant difference amongst the genders with, male and female customers. However, Costco seems to have maintained a harmonious gender distribution across several provinces in terms of its shoppers, emphasizing its broad appeal. At the same time in Ontario, Food Basics seems to thrive, with a higher percentage of female customers as compared to that of male's customers. Metro showcases a nuanced picture, with changing gender distributions for different provinces.



In the journey through grocery stores of the Canadian market, each shopper becomes a central figure an important decision and impact maker, and their combined choices pave the path to the stories and trends across different demographics. The supermarket goes beyond its physical existence, transforming into a vital community centre that not only accommodates diverse preferences but also reflects the essence of human diversity.

## ANALYSIS OF PROMOTIONAL CHALLENGES AND STRATEGIES

### Overview of Promotional Challenges faced by Metro Incorporation

**Competitive Pressure:** The shoppers are finding ways to save, making frequent brand shifts to look for items that offer better prices at different grocery stores. This causes limited purchases leading to smaller basket size and a possibility of higher traffic of consumers.

**Demographic Shifts:** As the demographic trends are changing the demand for groceries like international items, natural or organic products and meat-free proteins will increase overtime. This is due to the diversity in the Canadian dynamic environment. Grocery retailers like Metro has to ensure that the needs and product availability is ensured for its consumers.

**Digital Innovations:** After the Covid-19 the dynamics of retail industry has evolved and gradually consumers are preferring online platforms. It is a challenge for Metro to provide a great user experience when it comes to using Metro App. Another challenge is incorporating Artificial Intelligence which requires a higher CAPEX (Capital Expenditure) but a great customer experience. This essentially involves cardless payments or purchasing.

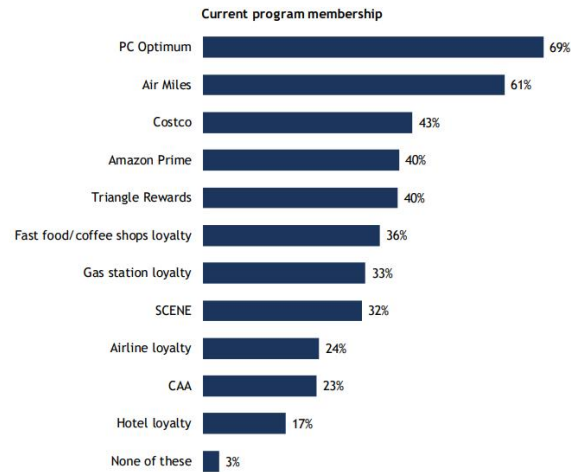
To counter these challenges Metro has improved in many areas such as promotional offers on bulk items, improved packaging of various categories of products. Store ambiance of Metro has also been up to the mark but the area where the organization must focus and improve their services are as follows:

- **Loyalty Programs**

According to the research conducted by Kantar and Mintel 7 in 10 consumers belong to PC optimum and 6 in 10 consumers belong to Air Miles. The dominance of PC optimum is quite wide compared to Air Miles. In the grocery retail industry PC optimum is available across Loblaw banners however Air Miles is used by Sobeys, Metro, Foodland and IGA. The graph below shows the program membership of the loyalty programs.

## PRICING PERCEPTION ON CANADIAN GROCERY RETAIL INDUSTRY

*"Which of the following are you currently a member of? Please select all that apply."*



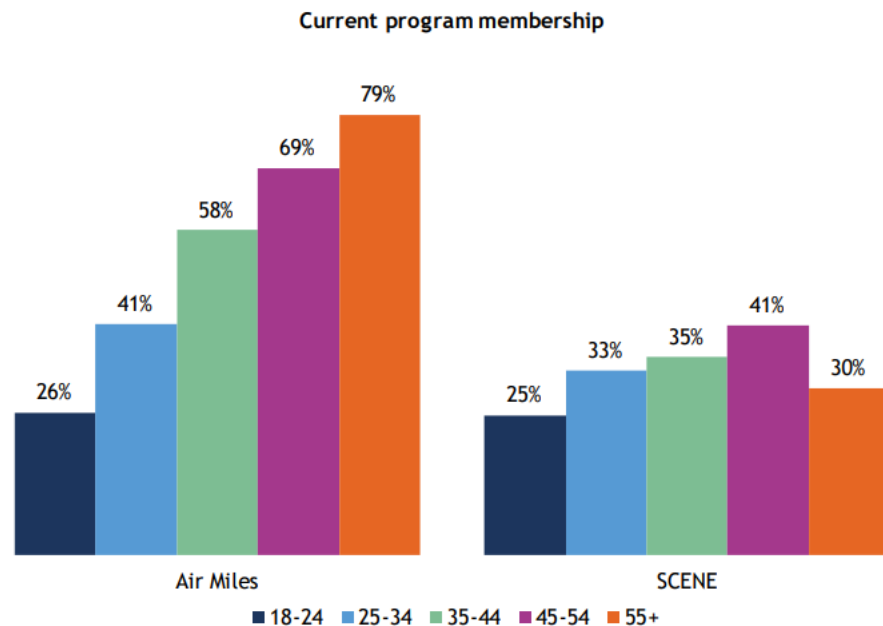
Base: 1,500 internet users aged 18+

Source: Kantar Profiles/Mintel, October 2021

### Percentage of Canadians Preferring Loyalty Programs

The bar chart below demonstrates the percentage of Canadians who prioritize loyalty programs across different age groups.

*"Which of the following are you currently a member of? Please select all that apply."*



Base: 1,500 internet users aged 18+

Source: Kantar Profiles/Mintel, October 2021



It is essential to be noted that Metro highest consumer base lies in the age bracket of 55+ followed by age group within 45-54. By introducing Air Miles Metro has increased its customer base significantly and it can be clearly analyzed that across all the age groups Air Miles is the most dominant compared to SCENE. However, despite incorporating Air Miles Metro was not successful in acquiring middle aged groups rather these sort of loyalty programs only benefits those higher household income levels who are essentially in the age bracket of 45 – 55+ years.

### Analysis of the current loyalty program (MOI) of Metro Incorporation against PC optimum:

- **MOI:** Officially launched on May 25,2023 the moi program offers the following advantages to its customers:
  - Points – 1 point for every dollar spent on the purchases at participating banners. The points are increased with the help of coupons across grocery items, beauty products and health products.
  - Rewards – For every 500 points there is \$4 reward which redeemable for any product within the Metro stores.
  - Partnership with RBC : In this program a consumer has to apply for this offer where 3000 points are awarded however there is no annual fees but additional fees is applicable along with interests.
- **PC optimum**

The table below demonstrates all PC optimum program benefits. It can be clearly observed that this program has more benefits compared to MOI program. Its services are widely available at grocery stores such as Loblaw, Real Canadian, No Frills and others. It is important to understand that PC optimum has been the most preferred program by Canadians across all the age groups. This is because consumers earn 15 points per dollar and MOI offers 1 point per dollar. The amount of bonus points PC optimum is higher compared to the MOI program. Furthermore, PC optimum is catering the needs of a consumer by providing services in the participating Mobil and gas bar stations which is a USP (Unique Selling Proposition) specially when it comes to middle aged groups. MOI program does not offer these programs.



## PC OPTIMUM PROGRAM BENEFITS

PC Optimum Program Benefit	Shoppers Drug Mart/ Pharmaprix, beautyboutique.ca	Grocery Stores: Such as Loblaw, No Frills, Real Canadian Superstore, Maxi, Provigo, Click & Collect, joefresh.ca, etc.	Participating Mobil and gas bar stations	PC Financial Mastercard®
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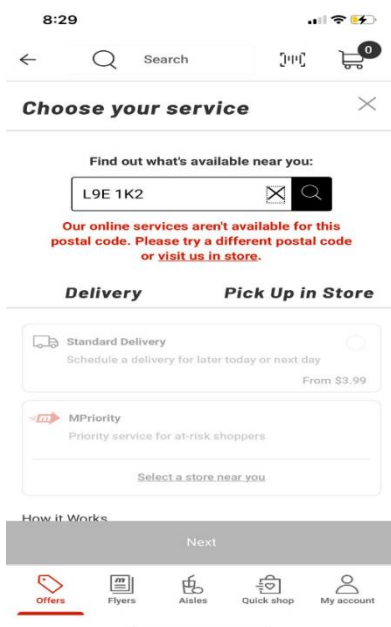
## EARN

Base earning: earn point per \$1 spent on eligible products	✓ 15 points per \$1		✓ Varies by province	✓ Points per \$ spent varies by card
Product bonus points (e.g. Get 1000 points on shampoo)	✓	✓		✓
20x the Points Events	✓			
Bonus Points Events (e.g. Spend \$100 get 15,000 points or get 25,000 points when you spend \$250 in store)	✓	✓	✓	✓
Personalized offers	✓	✓	✓	✓

## REWARDS

Every 10,000 points is like \$10 of free stuff	✓	✓	N/A	✓
Spend your Points Events (e.g. Spend 10,000 points for \$15 of free stuff, Redeem 50,000 points)	✓	✓	N/A	✓

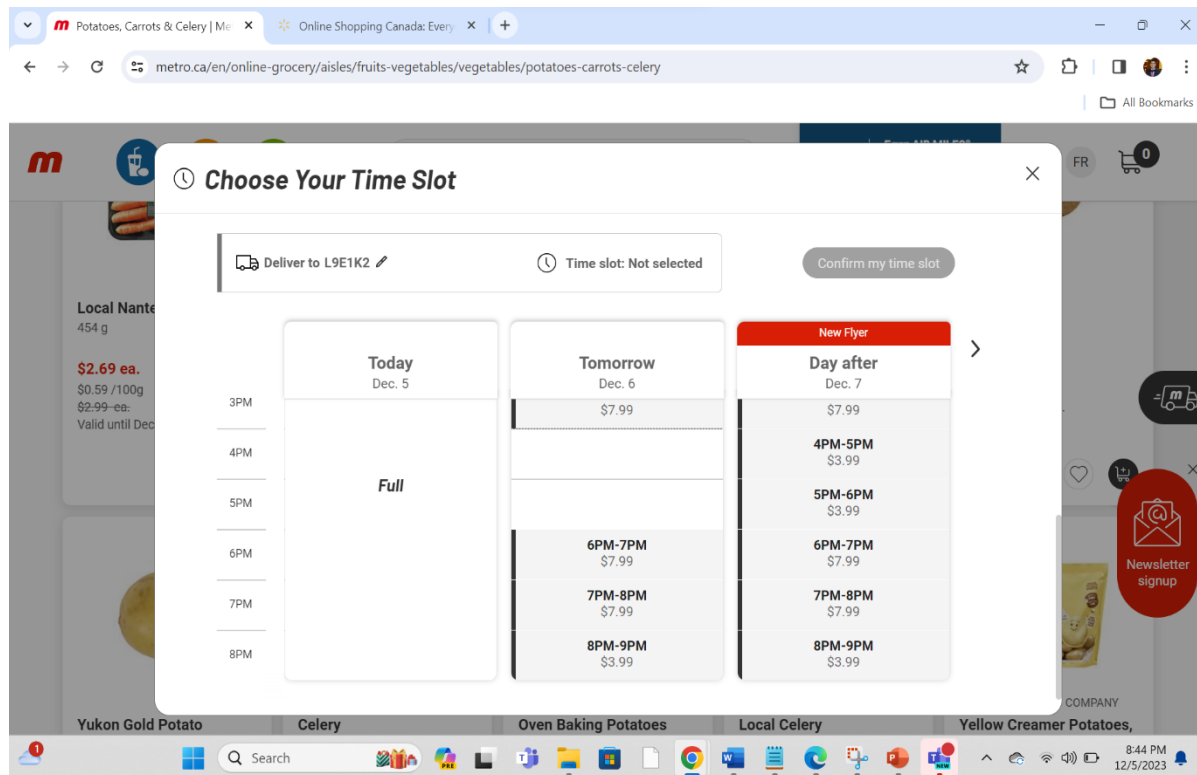
## Metro Application Experience



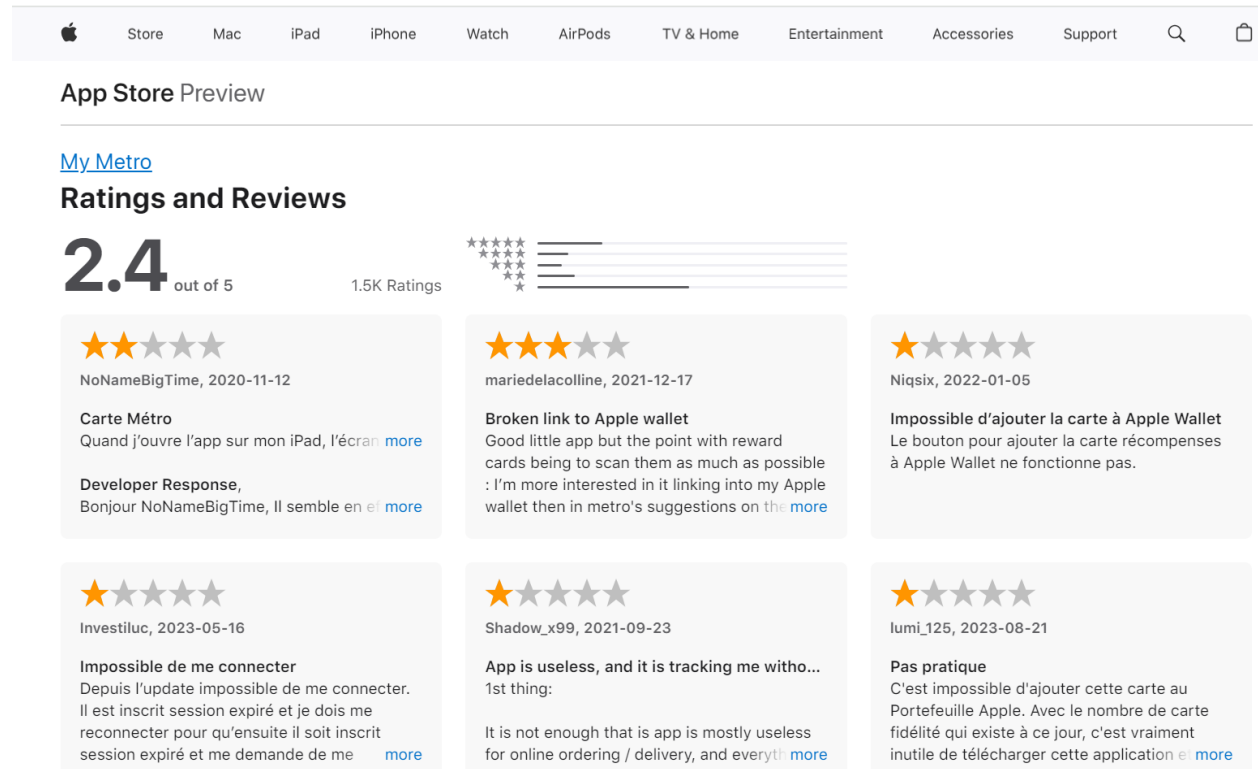
After Covid many grocery retailers have gone digital. The digital applications such websites and mobile applications has provided ease to consumers shopping experience. Metro also has its online presence with its mobile application as well as Metro website. However the response of its digital presence has been negative. To understand our team of analyst decided to test the mobile application. Here are the following results:

A member of our team is residing in Milton Area so he decided to shop using Metro application. The registration process of creating an account was very smooth. After creating the account he added the items to the cart for about 45 minutes and then he proceeded to the checkout section. When he entered the postal code as it can be observed from the image there is a notification mentioning the online services is not available for this particular postal code.

As a consumer and a new customer, it was a frustrating experience where a consumer's time was not valued and the coverage is restricted in the Milton area. It is to be noted that there is a Metro store at Milton but yet Metro failed to cater the needs of its customer. Then our approach was to analyze the website experience of Metro and below are the following results:



The result was the same as a new consumer who spent time again adding products to the cart but at the time of checkout the online delivery service is full. So, then a new consumer shifts towards a competitor group which is a big loss for Metro. This is one of the reasons why customer acquisition is a challenge for Metro as they really need to expand their coverage and provide best online services. Moreover, the ratings of Metro application is 2.4 which is quite low and should be alarming for the organization to better improve their services. The diagram below illustrates Metro app ratings:



To further delve into the analysis of reviews our team of analysts noticed that mostly Metro French customers have provided 1-star rating. This also depicts that the French customers of Metro are not satisfied with the online experience and this can be a huge loss for the Metro Incorporation as Quebec is one of the regions where Metro earns huge profits and that is where the organization started its journey.

## CONCLUSION AND RECOMMENDATIONS

Metro, a major participant in the Canadian grocery industry, is negotiating a market characterized by changing consumer tastes, demographic shifts, and the constantly changing influence of outside forces. The aforementioned recommendations are designed to target specific areas where Metro can strengthen its competitive advantage and promote long-term growth.

### **Loyalty Program Enhancement:**

Metro has a great chance to expand its customer base and increase engagement through the MOI loyalty program. Metro's program can be strategically enhanced by benchmarking against the more popular PC Optimum. This entails establishing fresh alliances, raising point totals, and adding extra perks designed with particular age groups in mind. Using special offers within the loyalty program to target the 45–54 age group, where Metro has a sizable customer base, might be a wise strategic move.

### **Enhancing Digital Presence:**

The analysis shows that Metro's digital presence has problems with coverage and user experience. It is critical to enhance the Metro application's functionality and user interface and to extend online services to presently unserved areas like Milton. In an age where digital convenience is becoming more and more important, it can be beneficial to address the issues brought up by customer reviews and improve the entire online shopping experience in order to draw in new clients and keep hold of current ones.

### **Targeted Marketing Strategies:**

One way to implement targeted marketing strategies is to gain an understanding of the distinct preferences of Metro and Food Basics customers. Metro can leverage its appeal to consumers who care about the environment by emphasizing its efforts to use less plastic packaging. Food Basics can concentrate on its dedication to providing meatless options at the same time, in line with the 30% of consumers who are interested in cutting back on their meat intake. Marketing messages can be tailored to appeal to the unique customer base of each store in order to increase brand loyalty and draw in similar customers.

### **Regional Customization:**

Metro's success depends on its ability to identify the regional differences in grocery preferences. Optimizing market penetration can be achieved by customizing offerings and promotions to the unique needs and characteristics of each region. Stressing Metro's multicultural and international shopping experience in culturally dense places like Montreal, while presenting Food Basics as a sensible and reasonably priced option in suburban Toronto, is in line with each group's subtle preferences.

In conclusion, Metro must contend with both internal and external obstacles in Canada's fiercely competitive grocery industry. Important areas for improvement are the loyalty program, digital presence, and regional customization. By focusing on these areas, Metro can draw in new clients while also keeping its current clientele, particularly middle-aged demographics. The grocery industry is dynamic, and long-term success depends on adjusting to shifting consumer tastes and technological advancements. In the ever-changing grocery retail landscape, the company's ability to improve customer experience and remain aware of market dynamics will be crucial to maintaining its position.

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