OPINION

The long takeoff of skyrocketing food prices

Food is more expensive now, but it took decades to get here through the mass consolidation of Canada's grocery stores. Where was our sense of urgency then?

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THE GLOBE AND MAIL
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ILLUSTRATION BY BRANDON CELI

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Most of us walk around thinking we know what things cost, that we could seize the moment and strike when faced with a chance to nab a bargain bouquet of broccoli or a killer deal on ice cream.

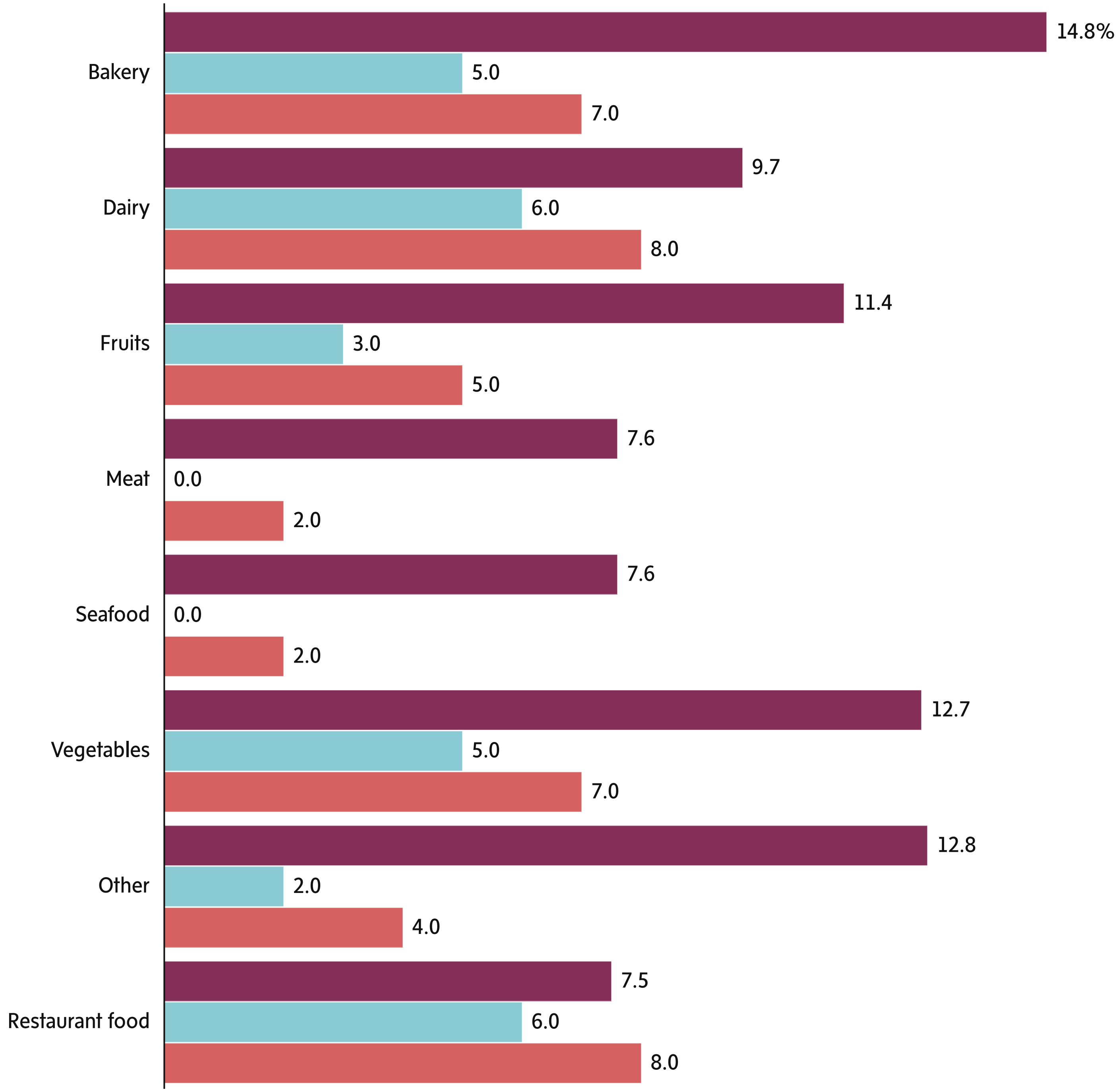
Alas. Study after study show when it comes to pricing, most people shop for groceries with clueless abandon. One famous survey from Ohio State University in 1990 found that 65 per cent of shoppers didn't come close when asked for the price of food at nearby stores. More recently, a 2014 study from Denmark found that patrons couldn't even name the prices of items that they had just pulled off the shelf.

This makes the present moment in Canada all the more unique. Food prices are skyrocketing – and people have noticed. Canadians' eyes have collectively turned toward their grocery bills – and for once, perception and reality match.

Canada's Food Price Report, compiled by four Canadian universities, predicted that food prices would rise by 5 per cent to 7 per cent between 2021 and 2022. In actuality, overall prices rose more than 10 per cent, the fastest increase in over 30 years. Meat is up 7.6 per cent year-over-year. Fruit and vegetables are 11.4 and 12.7-per-cent more expensive, respectively; and bakery goods have jumped by 14.8 per cent.

How much will prices increase for different types of groceries in 2023?

Sept. 2022 vs. Sept. 2021, actual   2023, low projection   2023, high projection



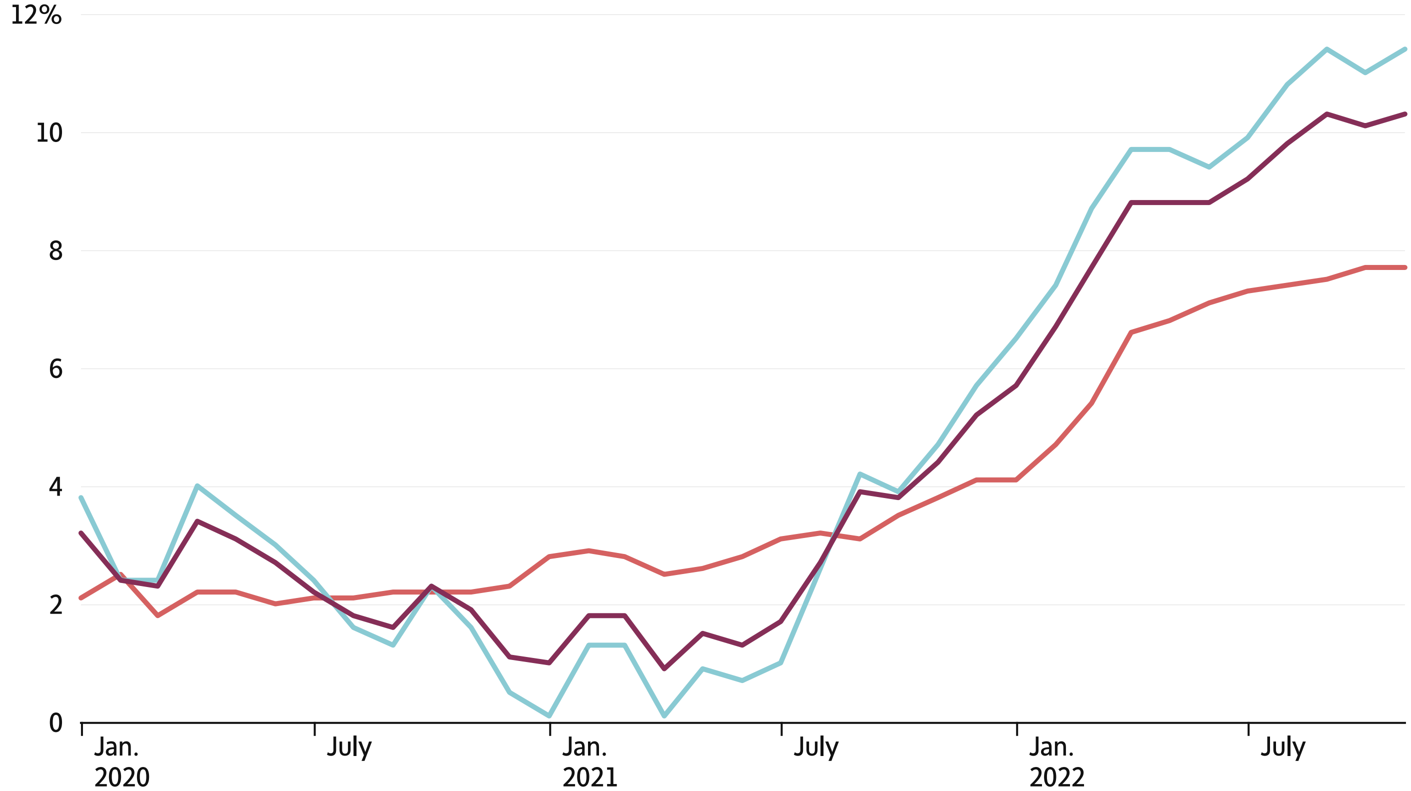
THE GLOBE AND MAIL, SOURCE: CANADA'S FOOD PRICE REPORT, 2023

DATA SHARE

Food consumer price index, year-over-year change

Monthly, not seasonally adjusted. Includes all provinces plus Whitehorse and Yellowknife

All food Food from stores Food from restaurants

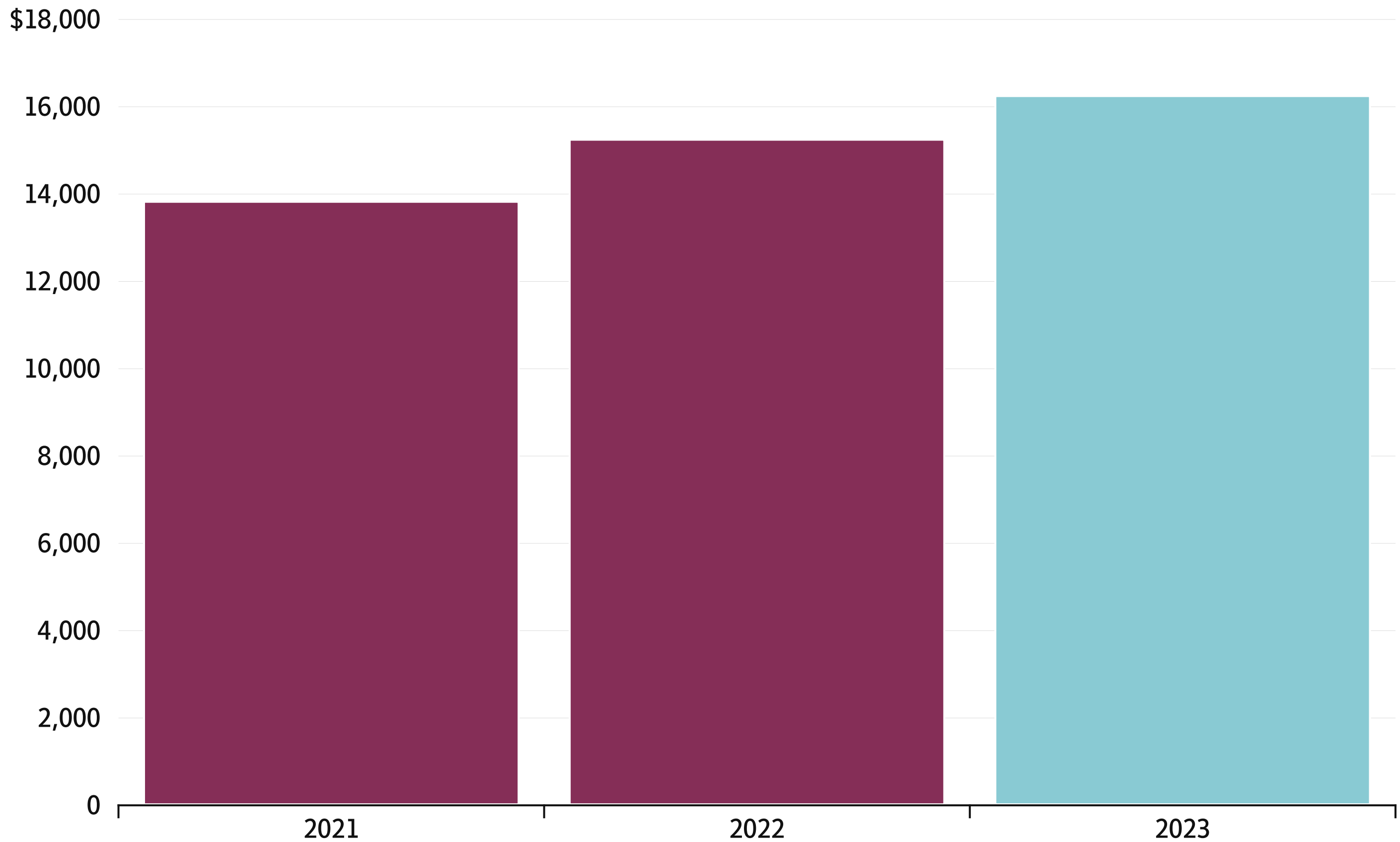


THE GLOBE AND MAIL, SOURCE: STATSCAN

DATA SHARE

Annual grocery costs for a family of four projected to rise in 2023

Assumes a man and woman aged 31-50, a boy aged 14-18 and a girl aged 9-13



THE GLOBE AND MAIL, SOURCE: CANADA'S FOOD PRICE REPORTS FOR 2021, 2022 AND 2023

DATA SHARE

It's no secret that Canadians are outraged by this. Normally staid analysts are suddenly shouting about industry "upheaval," grocery chief executives are experimenting with a new kind of timidity when sharing news of record profits, and the Competition Bureau is sniffing around.

But do we have a right to be angry about these rising prices, or is this just another case of cluelessness? Of shoppers so accustomed to the bounty in their lives that they've been spoiled to expect it no matter what?

The modern grocery store is nothing short of a human-made miracle. The average store has 45,000 different items, a range of options the most powerful monarchs in history couldn't fathom. The quality and consistency of those options grow more perfect every year. And the prices!

Even with this spike, the food in our stores – available to us without any labour, beyond pushing a wheeled cart down a poured-resin floor – accounts for the lowest percentage of the average income in human history.

If we juxtapose that very real miracle with the backdrop of this price hike – a global pandemic; rolling production shutdowns by major trade partners, such as China; a land war in Europe wreaking havoc on fuel and fertilizer markets – perhaps this is simply the bill we deserve.

As economic factors drive up global food prices, supermarket chains are passing more costs onto consumers.

SPENCER PLATT/GETTY IMAGES

Before we get any further along, I just want to be clear: I believe many grocers are profiting from inflation. Full stop. Costs may have increased, but the fact remains that profit margins are up, right alongside profits themselves. This indicates that grocers aren't simply passing along new supply chain costs to consumers – they are using the inflationary fog of the pandemic to reset prices.

CEOs will babble endlessly about corporate efficiencies and synergies; they will despair that price hikes are out of their control; and Canadian grocers do need to account for the actions of marketing boards in determining prices for dairy, eggs and other staples. But the data here are clear. Economist David Macdonald from the Canadian Centre for Policy Alternatives doesn't mince words: "Margins in the grocery industry rose substantially since the start of the pandemic. … This comes right from Statistics Canada, which compels data from big companies across [the] industry." Indeed, Mr. Macdonald's research shows prepandemic margins ranged around 2.5 per cent, but in 2021 these shot up to 6 per cent, an all-time high since this data collection began.

If you listen to corporate grocery giants talk among themselves, this isn't particularly hidden. Rodney McMullen, CEO of Kroger, the third-largest grocer in the United States, told investors in December: "A little bit of inflation is always good in our business." In an October call with investors, Ramon Laguarta, CEO of PepsiCo, said his team had been "courageous" in raising price points over the summer.

North of the border, Canada's best-known grocery executive, Loblaw Companies Ltd. CEO Galen Weston Jr., has publicly taken a different approach, announcing a price freeze for 1,500 products under the company's private No Name label in October (fellow grocery giant Metro Inc. announced similar freezes as well). But the move did little to quell negative public sentiment. After all, the price freezes were temporary and accompanied by the news that first-quarter profits at Loblaw had risen 40 per cent from the previous year, largely because of the popularity of discount products, including those under its No Name-brand label.

For the Canadian public, Mr. Weston's claim that price increases were "maddeningly" beyond his control rang hollow, especially since his company has the most grocery-market power in the country. (Canadians have justifiably been less inclined to give retailers the benefit of the doubt in recent years, given the discovery of a 14-year-long bread price-fixing scandal, which became public in 2017 and for which investigations and legal action are still continuing.)

But put the rhetoric aside. Corporations charging more money (gasp) just because they can? It's a tale as old as free-market capitalism. It's the way things are supposed to work. Those profits could be reinvested or used to pioneer new services. When we look closer at the grocery industry, however, and begin to understand the nuances of its model, another picture develops – one that raises existential questions for grocers, consumers and capitalists alike. Questions such as: Are these profits sustaining innovation or forestalling it? And is a market still free if it is intent on devouring itself?

A general store in Westminster, Md., between 1895 and 1910. In their heyday in the 19th century, retailers like these were important sources of food and household items for a North American population that was much more rural than today's.

LIBRARY OF CONGRESS

In the early 20th century, the supermarket didn't exist. This was the era of the general store, a retail space that occupied about two-thirds the size of the present-day convenience store, selling boots, nails, patent medicine, and yes, some food – dried fruit in barrels, crackers, flour. Fresh produce was strictly seasonal, quality was spotty, and there was no touching the goods. Instead, you handed your order list to a clerk who filled it for you.

But changes were afoot, led by a revolution in packaging. Over the preceding century, advances in war (as in, the literal advances of troops) led to technological breakthroughs, necessary for supplying food to soldiers on the front. Tinning came of age in the Napoleonic Wars and cheap paper bags began to supplant expensive cotton sacks during the American Civil War. Where once heavy barrels acted as a barrier to trade, mass production of cardboard boxes flooded the supply chain in the 1890s. As these cheaper shipping alternatives started to tumble off of factory production lines, retail was set to undergo a massive shift.

For the first time, customers were asked to choose. What was once sold in anonymous bulk was now separated into individual containers, each stamped with a logo and given a name. Individualized packaging created a little seal of trust, preventing greedy store owners from using a shoddy scale or mice from nibbling. Shopping was set to become a far more personalized act – an exercise in selection, a chance to tell the world something about yourself based on your purchases.

Then, a final innovation – not a breakthrough in technology or materials so much as a big shift in mindset. A new business model so ubiquitous in our present-day lives, we might be inclined to dismiss it as obvious. But with its creation, retail would never be the same.

In 1929, Michael Cullen, a lifelong grocer who had started out sweeping floors and worked his way up to becoming manager of a mid-sized chain in Illinois, saw the future. He wanted to make everything bigger, in order to also make everything cheaper.

He began with the store's footprint. At that time, a typical grocer occupied 500 to 600 square feet of retail space. Mr. Cullen planned his "super" markets to be between 5,000 and 6,000 square feet. If one supermarket could replace 10 individual stores, the potential savings in construction would be enormous. A larger store, which he purposely moved off Main Street, meant cheaper real estate and lower warehousing costs, both of which saved money.

A bigger store would also need more inventory, which meant he could save when negotiating with suppliers over bulk buys. To top it off, Mr. Cullen embraced “self-service” – the then-edgy practice of allowing customers to inspect and touch the goods themselves, filling their own baskets instead of having additional staff do it for them.

And then, Mr. Cullen did something remarkable, something nobody had ever done before: He bundled up all these savings and passed them directly on to his customers.

In his original business plan, Mr. Cullen wrote: “It would be a riot! … Weekdays would be Saturdays, rainy days would be sunny days. I would have to call the police and let the public in so many at a time. I would lead them out of the high-priced houses of bondage into the low prices of the house of the promised land.”

As you’ve likely surmised, this wasn’t simply goodwill. Mr. Cullen wanted his clientele to be delirious with opportunity, creating a feedback loop in which lower prices led to more purchases. It was a conscious shift from a model that valued high margins to one that valued high volume. He believed he could whip his customers into a frenzy, and that frenzy would increase profits.

If anything, Mr. Cullen undersold himself. His first store, the King Kullen – ”The World’s Greatest Price Wrecker” – opened in August, 1930, in the Queens borough of New York, to immediate and astounding success. People drove from 100 miles away to tour it out of disbelief. Lines stretched for blocks. Customers reported feeling dizzy and faint as they shopped in its expanse. Mr. Cullen did very little advertising in the traditional sense, instead taking out a full-page newspaper ad that just listed prices.

In 1930, there was exactly one store like this. Five years later, there were thousands. Today, every grocery store shares King Kullen’s DNA.

The only question left was how far the model could go. The original King Kullen, with its vertiginous customers, was 6,000 square feet. By 1940, the average grocery store had grown to 9,000 square feet. By 1950, that became 20,000 square feet. Today, our big boxes can easily exceed 200,000 square feet of real estate.

But when sizing up by square feet reached its limit, grocers had to find a new way of growing bigger. The model demanded it. Rather than stretch the physical size of their stores, they started sizing up through mergers, gobbling up the competition.

Modern supermarkets such as this one in Ottawa can reach cavernous proportions, a legacy of the King Cullen stores of the early 20th century.

PATRICK DOYLE/REUTERS

The King Kullen DNA can also be found in the modern grocery retailer's approach to pricing. In the Cullen model, a chain must establish its "mix" – that is, a unique assortment of margins that allow it to carve out a profit while still making the customer feel like they are saving money. The mix is a battle over perception, not facts, that continues to this day. Grocers know that consumers don't have a firm grasp of specific prices, so instead, they care deeply about "price perception" – how a shopper feels about the value they are getting from a given store. Shaping this perception is everything.

Some retailers lean into decor and service to justify premium prices – sparkling heaps of produce, kale perfectly misted via machine until the dew gleams like jewels. Others keep things bare, more warehouse than grocer, nakedly displaying the pallets the food rode in on until their store becomes a symbol of just how many cost savings they pass on to you, the customer.

Listen to Mr. Cullen's description of the mix: "When the great crowd of people comes to buy all those low-priced and 5-per-cent [margin] items, I would have them surrounded with 15-per-cent, 20-per-cent, and in some cases, 25-per-cent items. In other words, I would afford to sell a can of milk at cost if I could sell a can of peas and make two cents, and so on all through the grocery line."

In our present day, this mix has grown increasingly sophisticated. Margins vary across stores in a dizzying manner. There are intuitive ideas, such as surrounding low-margin or even negative-margin goods (called "loss leaders") with high-margin products to try and boost sales of their neighbours. But there are also subtleties. Perhaps you create a high-quality, low-margin, private-label product and place it next to a well-known brand that gives you a much higher margin. Suddenly, in comparison to the generic-looking private-label item, the name brand seems better and reasonably priced. Or perhaps the retailer shifts sizes – did you really notice that bunch of cilantro was an eighth of an ounce smaller?

Or maybe it is a matter of meticulous selection. A store for foodies might take a relatively obscure but distinctive product line, such as mushrooms, and blow it out – offering not just cremini, oyster and portobello, but hen of the woods, porcini, morels and enoki, too. It's a significant operating expense – sourcing and handling all those mushrooms is a loss leader in a different fashion – but to the right customer, the display alone might signal all the right reasons to return.

Then there is simply identifying the products that speak to your customers. Grocers spend a lot of time thinking about how the Loblaws-shopping dad is distinct from the Sobeys, SuperValu or Marché Adonis man. If you look on the shelves in Toronto today, the No Frills shopper will find a 440-gram box of Shreddies cereal for $4.29, while their counterpart at Loblaws will pay $5.49 for the same product in the same city. Loblaws hopes the customer will casually toss the box into their cart, oblivious to their loss, while No Frills is hoping their shopper has noticed a bargain and will come back for more.

In every case of creating the mix, retailers draw from the vast streams of data collected by their loyalty programs and satisfaction surveys, to project increasingly targeted value propositions to their customers.

This “war of pennies” can be hard for us to grasp as consumers. The experience in these stores is so similar – the same aisles, price tags, deli counters and checkouts – that it’s easy to believe their pricing strategies operate similarly as well. But in fact, each is engaged in its own unique strategy to entice customers. In a healthy food ecosystem, with strong competition, this means different chains will have different configurations of buyers, different areas of food expertise, different relationships with suppliers, different ethical values that underlie their structures.

But all of this is lost in consolidation. Once a critical mass of retailers have merged, Canada is left with an ecosystem defined by the illusion of choice rather than any genuine innovation.

1953: A woman shops at a newly opened Dominion ‘mammoth market’ in Etobicoke. Dominion, whose first store opened in Toronto in 1919, embraced the supermarket model in the 1950s as it expanded to other provinces for the first time.

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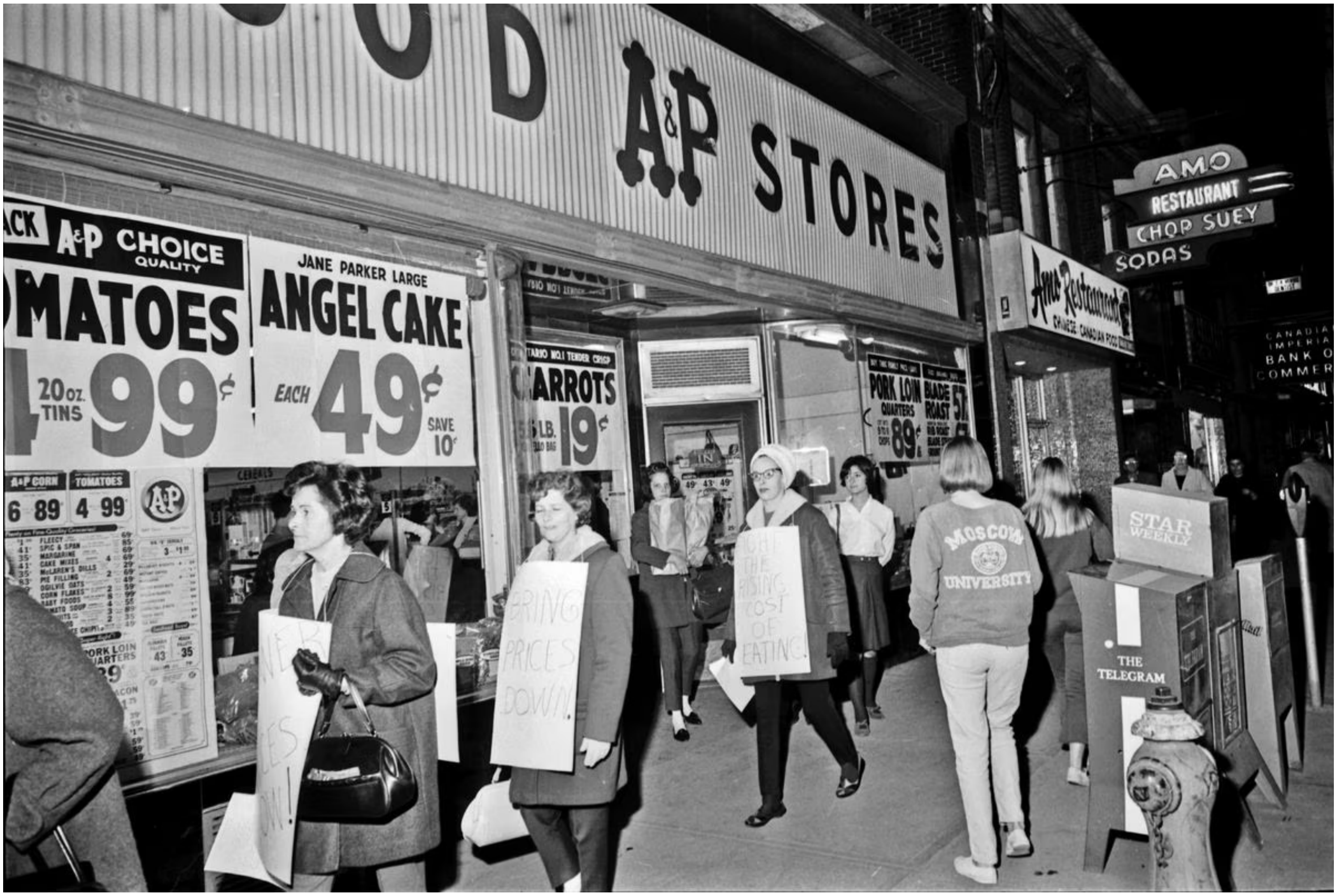

1966: Housewives picket for lower food prices at an A&P supermarket in Toronto. Women across North America organized similar actions and boycotts that year, accusing supermarket executives of price fixing and wasteful supply chains.

JAMES LEWCUN/THE GLOBE AND MAIL

2011: Shoppers line up for Loblaw president Galen Weston Jr.'s autograph at the launch of a new supermarket at Maple Leaf Gardens, the Toronto landmark his company bought in 2004.

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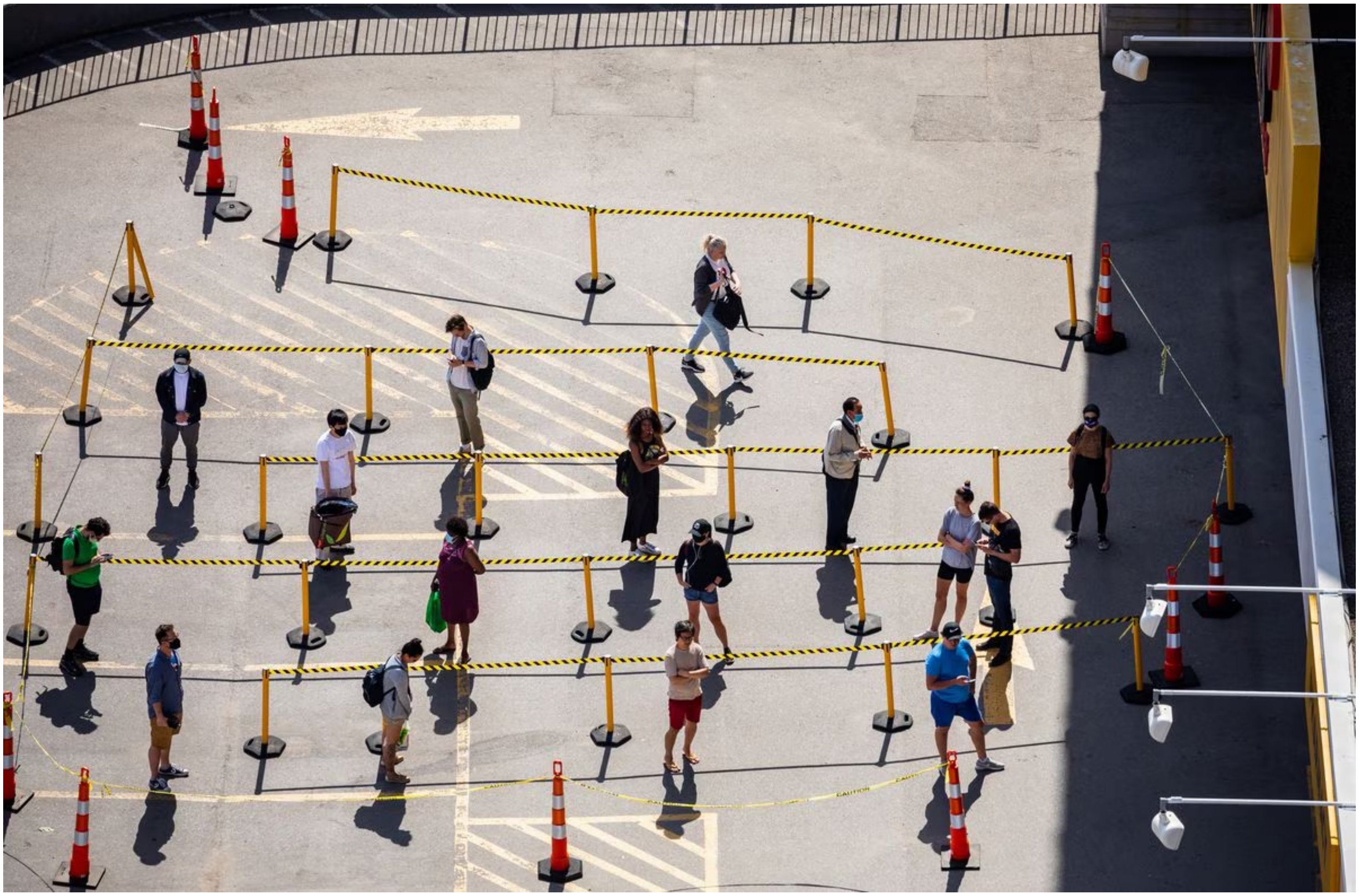

2020: Customers form a physically distanced line at a Toronto grocery store in the early months of the COVID-19 pandemic, a profitable era for grocery-store magnates.

MELISSA TAIT/THE GLOBE AND MAIL

In Canada today, the five largest grocery chains control nearly 80 per cent of the national market. This level of concentration outstrips even the United States, where the grocery sector has experienced a similar, albeit lower, level of consolidation. Yes, the birthplace of Amazon and Walmart does, in fact, have a less consolidated grocery sector than its neighbour to the North.

"In the U.S., there is a fundamental movement to block monopolies and oligopolies. In Canada, we haven't empowered our policy makers in the same way. The Competition Bureau just doesn't have the authority," Sylvain Charlebois, director of the Agri-Food Analytics Lab at Dalhousie University, said in an interview.

Prof. Charlebois details a ruthless winnowing in the sector over the past 30 years. Loblaw buys Provigo in Quebec; Metro acquires A&P in Ontario; Sobeys acquires

Safeway out west. The Canadian grocery landscape, once defined by independents and healthy competition, is now home to a handful of behemoths.

"This was the birth of an oligopoly and nobody in Canada blinked an eye. It was barely news," Prof. Charlebois said.

If it was hard for policy makers to see this transition taking shape, the situation is even more opaque for the customer on the street. The behemoths operate stores under diverse banners and folksy names – Pete's Frootique (Sobeys), Foodland (also Sobeys), Your Independent Grocer (ironically, Loblaw) – projecting an illusion of diversity that no longer exists.

Each merger does produce cost savings. But corporate "synergies" (often code for layoffs) also mean that Canadian retail food purchasers, category managers and warehouse engineers have to stretch operations to cover an ever greater number of products.

A single buyer might have oversight of tens of thousands of items. In this market structure, maintaining food expertise for any single category becomes economically impossible. Much less, say, understanding the supply chain of a single item well enough to judge its operational ethics.

Workers pick, wash and inspect apples this past fall at a packing and storage facility in Belding, Mich.
CARLOS OSORIO/THE ASSOCIATED PRESS

Similarly, this consolidation distorts grocers' natural relationships with farmers, food producers and manufacturers. In a healthy market, retailers and suppliers exist as mutually dependent partners. In the current system, that relationship can become lopsided.

Suppliers who depend on a grocer's volume, who have invested in expanding their capacity to provide it, might find themselves squeezed if future orders shrink. This doesn't stop buyers from asking for cost reductions from one year to the next, and with increasingly fewer independent retailers to turn to, the supplier must figure out a way to comply.

The reality is that almost all of these cuts come from just two places: labour and environmental sustainability. And so wages are thinned, jobs outsourced, sea walls demolished, fish stocks reduced.

Overseas – where we have little visibility into supply chains – the pressure rackets up to true levels of horror. Demands to cut costs at the checkout are passed down the line, from retailer to shipper to manufacturer to labourer.

My own reporting on seafood suppliers in Thailand found the abuse of workers to be rampant in the industry, with unpaid wages representing only the tip of the iceberg. In fact, the industry operates as more of a modern-day slave trade, in which Thai traders buy the freedom of imprisoned men from Myanmar and place them in indentured servitude on shrimp boats.

In a consolidated market, the incentive to pass along savings to customers vanishes. Economic research shows that in markets with less competition, cost cuts usually serve to feed shareholder profits, as opposed to delivering lower prices for customers. Grocery analyst Errol Schweizer, a former vice-president at Whole Foods, calls this process "a reverse Robin Hood" operation, wherein giant, consolidated chains pull money out of the pockets of their most vulnerable customers.

Doug Lovsin, president of Freson Bros. in Alberta (one of the larger independent grocers left in Canada), sees the losses resulting from consolidation in clear terms: "Do you know where innovation in grocery comes from? It comes from being cornered and in survival mode and learning how to serve your community. ... We have some suppliers who understand our importance in the ecosystem. They know we feel cornered by the big guys," he said. "For us, survival has meant returning to the craft. Now we are the only grocer in our area that breaks carcass," meaning they butcher their own meat on site. Freson Bros. also uses its own sourdough starter to make bread products, another present-day rarity for grocery chains. "We had to improve," he said.

Now we can see our current dilemma. Michael Cullen's great innovation – using size to cut costs to fuel sales – is a miracle for the consumer when applied to a single chain. But it breaks down when applied to the entire sector. Grocers are caught in a model that forces them to merge for their own financial health. It is the easiest and most logical way to survive. But this kills the very competition that keeps the system healthy. Innovation is literally eaten up. Worse, excellence is reduced to cost savings. Everyone – very much including the firms at the top – finds themselves in a race to the bottom, and we've reached a point where going lower is incompatible with human dignity and respect for our world.

This current moment of rising prices may indeed have jolted us to attention. But the alarms signalling a systemic failure have been ringing for decades. We might have to hold two simultaneous truths: Rock-bottom prices are not a sign of a healthy and flourishing system; and their sudden increase is not a correction.

Instead, this recent inflation has offered a rare glimpse into how much the grocery landscape has changed, and how much that change has enabled greed, with little benefit passed on to the average consumer. The only question left is whether we listen to this alarm, or press snooze once again.

ILLUSTRATION BY BRANDON CELI

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Editorial: The conspiracy to inflate food prices is real. It’s time to rethink supply management