RECanInvest Inc.

# RECan Canadian Grocery Market Report Q1 2026

## Executive Summary

Canada's grocery industry is concentrated. Most Canadians buy groceries in stores owned by a handful of grocery giants. In 2025, Canada's three largest grocers—Loblaws, Sobeys, and Metro—collectively reported more than C$117 billion in sales and earned more than C$4.4 billion in profits.

For new players and regional independents, the Canadian grocery industry is tough to break into. The industry's big players operate thousands of stores and are well entrenched in the shopping habits of Canadians. In recent years, industry concentration has increased, and it has become more difficult than ever for businesses to enter, expand, and compete effectively. Furthermore, the price Canadians pay for groceries has been rising fast. Factors such as higher input costs and supply chain disruptions have contributed to recent increases in the price of food. But we have also seen a longer-term trend that pre-dates those events, of Canada's largest grocers increasing the amount they make on food sales. Canada needs solutions to help bring grocery prices in check. More competition is a key part of the answer.

Our recommendations are as follows:

1. **Canada needs a Grocery Innovation Strategy aimed at supporting the emergence of new types of grocery businesses and expanding consumer choice.** There are new businesses that want to disrupt how the industry works, including by selling groceries to Canadians online. Governments at all levels should work together to encourage the emergence of new types of grocery businesses that are willing to take risks to shake things up.
2. **Federal, provincial, and territorial support for the Canadian grocery industry should encourage the growth of independent grocers and the entry of international grocers into the Canadian market.** There are a number of important independent grocers across Canada who already compete against Canada's grocery giants. However, given their relative scale, they face real challenges growing into national competitors. To encourage more competition in the industry, governments should implement policies that support the growth of independents, as well as the entry of international and discount grocers. The entry of new competitors and growth of existing independents would increase competition, empower consumers, and drive businesses to lower prices, improve product quality, and innovate.

# Grocery Market Dynamics

The Canadian grocery market is estimated to be worth roughly C$115 billion to C$120 billion as of 2026

Canada has one of the highest contested and competitive grocery markets internationally

Canada has the highest level of foreign participation in the grocery sector in the G7

Canada is ranked 7$^{th}$ largest market for discount retailers globally

As of April 2026, Canada had 8,936 grocery stores owned by "The Big 5". There are 6,900 grocery stores owned by independents. This number includes supermarkets and other grocery stores. Ontario had the most grocery stores with 5,627

The number of Supermarkets & Grocery Stores in Canada grew 4.2% per year on average over the five years between 2018 and 2023

In 2022, Canada's total discount grocery sales were an estimated C$20 billion. By 2027, Canada's forecasted total discount grocery sales are expected to reach C$23 billion.

Canada is expected to grow at an impressive 4.0% compound annual growth rate (CAGR) from 2022-2027 showing it's a market of strong growth in term of discount retailing.

In 2025, discount retailer/grocer brands ranked among the top 40 most valuable brands in Canada.

On October 30th 2024, Loblaw Companies Limited announced they are willing to eliminate exclusivity clauses in store leases if other grocery retailers agree to do the same.

# The Rise of Discount Grocery Retailers

- The Canadian market encompasses food sold at food and beverage retailers, such as supermarkets and grocery stores, convenience stores, mass merchandisers, and specialty stores. In 2024, retail sales of food and beverage stores in Canada amounted to more than C$159.5 billion Canadian dollars.
- Kantar's BrandZ Top 40 Most Valuable Canadian Brands ranking shows that discount retailers, including Dollarama, are the top three highest growing brands in the country. Dollarama is also ranked in the top 10 most valuable Canadian Brands for 2025. Food Basics, No Frills and Maxi (a new entrant) are also identified and ranked 40, 37 and 34 respectively.
- Canada's largest Grocery Retailer (Loblaw) opened approximately 50 new stores in 2025 as it continues to focus on value.
- In 2024, the discount grocery channel increased its share of trade by 8%, while conventional grocery's share declined by 1%.
- When it comes to where newcomers prefer to shop, Walmart leads the pack (24%), followed by Costco (20%) and No Frills (12%).
- When consumers are choosing a grocery retailer, price is the number-one factor (78%), followed by discounts and promotions (57%), location (56%), product quality (55%) and availability of products from their home country or other ethnic products (24%).
- Canada's biggest grocers are investing money and space in discount stores like No Frills, Food Basics and FreshCo as shoppers look for ways to save on food.
- Each of the major Canadian grocers has several different store brands, also known as "banners" — from high-end to conventional to discount. Loblaw Cos. Ltd.'s main discount banners are No Frills and Maxi, while Metro Inc. owns Food Basics and Super C, and Empire Co Ltd. owns FreshCo.
- All three Canadian grocers' recent earnings reports have shown sales at discount stores are major drivers of overall sales growth.
- But when it comes to expanding, Loblaw is leading the pack with more than 30 new Maxi and No Frills stores opened last year, through new locations or converting full-service stores into discount, according to the company's annual report.
- "There is a shift to discount, and we see the opportunity that exists for discount stores," said Melanie Singh, president of Loblaw's new "hard discount" division, made up of No Frills and Maxi.
- Metro currently has 247 Super C and Food Basics stores, up from 236 in 2020

## The Loyalty Play

- Not unlike all Canadians, newcomers have embraced loyalty rewards programs, with nearly all belonging to at least one loyalty program," said Harnega. The most popular loyalty program overall is PC Optimum (62%). Rounding out the top five are Costco (45%), Scene+ (44%), Amazon (33%) and Tim Hortons (32%).
- Nearly three quarters of newcomers said they are likely to switch retailers for better loyalty rewards. "This presents a challenge or risk, but also an opportunity for retailers to keep their loyalty programs competitive and attractive,"

## Food retail and key players

- Of the nearly 28,000 food and beverage stores in Canada, over one third were in Ontario. Loblaw Companies Ltd., with over 2,800 stores nationwide, had the largest number of stores among grocery retailers in Canada and generated more than $45 billion Canadian dollars in food sales in 2025. Sobeys Inc. followed with around 1,600 stores and sales reaching just over $30 billion dollars in 2025. Revenues from Costco, Walmart, and Metro were 33, 22, and 21 billion dollars, respectively.

Consumer purchasing behavior

- In terms of food expenditure, Canadians aged 14 to 18 appeared to spend the most, averaging about 4,080 Canadian dollars per year. Supermarkets were the preferred channel when grocery shopping, but recently discount stores have acquired the consumers’ interest especially due to rising food prices. In fact, price emerged as the most important factor when choosing a grocery store .

Online trends in the food retail industry

- E-commerce retail sales have grown steadily in recent years in Canada and are expected to continue their growth path. However, the share of food and beverage sales in total Canadian e-retail sales still accounted for less than five percent of the market in 2025, though it is expected to see a slight increase in the coming years. Third-party grocery delivery services like Instacart emerged as the favored channel for online grocery purchases, but leading retailers' online sites also remained a popular choice, as indicated by their e-commerce net sales.

*Grocery: The grocery segment is competitive across most markets with an emphasis on discount banner expansion in underserved areas. Low vacancy and a lack of development has created a very dynamic environment for expansion, however. In a race for space, second generation space and off-market deals are common. Brands like Loblaws are actively looking to grow their No Frills and Maxi formats and are targeting smaller size stores between 10-20,000 square feet, as well as T&T.

# Public Opinion Survey Results

How often do you buy groceries?

- Everyday: 3%
- 2-3 times per week: 37%
- Once a week: 44%
- Once every two weeks: 11%
- Once a month: 2%
- Less than once a month: 1%
- I do not buy groceries: 2%

The vast majority (81%) of Canadians said they buy groceries one to three times per week.

What stores do you typically go to when buying groceries?

- Loblaws and the stores they operate: 49%
- Sobeys and the stores they operate: 28%
- Walmart: 25%
- Metro and the stores they operate: 22%
- Costco: 18%
- Other grocery stores: 28%

About half (49%) of Canadians said they shop at Loblaws or a store they operate.

In the past 3 months, have you bought groceries using the following? [Footnote4]

- Third-party grocery delivery service (e.g. Instacart): 17%
- Order online with curbside pickup: 12%
- Online order with home delivery service from the grocery store: 9%
- Meal prep delivery services (e.g. GoodFood): 8%
- Dark stores or online-only retailers (e.g. Buggy, SPUD): 2%

30% of Canadians said that they have used at least one online option in the past three months.

How often do you visit multiple grocery stores in order to find the best price?

- Never: 21%
- Sometimes: 41%

- Often: 21%
- Very often: 17%

Most Canadians (79%) said that they visit multiple grocery stores to find the best price at least sometimes.

How do you usually get to the grocery store?

- By car: 83%
- On foot: 10%
- By public transit: 5%
- By bike or scooter: 1%
- Other: 1%

Based on the mode of transportation you usually use to get to the grocery store, how many grocery stores are located within 15 minutes of your home?

- None: 5%
- 1-2: 24%
- 3-5: 40%
- 6-10: 22%
- 11+: 5%

Do you have a loyalty card or points card from a grocery store?

- Yes: 75%
- No: 25%

Are you more likely to buy your groceries at a grocery store to which you possess a loyalty or points card?

- Yes, much more likely: 34%
- Yes, somewhat more likely: 28%
- No, not more likely: 38%
- When it comes to **shopping for groceries**, Canadians living in urban areas said they are less likely to visit multiple grocery stores in order to find the best price. Younger Canadians (aged 18-34 years) also said they are more likely than others to have used a third-party service or a grocery store's online service to shop for groceries.
- In terms of **grocery store proximity**, lower-income Canadians (earning less than $40,000 a year) and those living in rural areas said that they are more likely to have fewer than three grocery stores within 15 minutes of their home.

- Survey results also show that **mode of transportation** varies based on certain socio-economic characteristics. Lower-income Canadians and those aged 18-34 years are more likely to walk or use public transit to get to the grocery store.
- **Loyalty or points cards** are more popular among women. Lower income (earning less than $40,000 a year) and younger Canadians (18-34 years) are less likely to have a loyalty or points card from a grocery store. However, of the 75% of Canadians that said they have such a card, immigrants (72%) and those aged 18-34 years (79%) said they were at least somewhat more likely to buy their groceries at a store where they have a loyalty or points card.

- Supermarkets are still the main option for consumers.
- The vast majority of Canadians said that, when it comes to buying groceries, they primarily shop at grocery stores. That might seem obvious, but it's important to test our preconceived notions to see if they are supported by evidence.
- A simple example comes from buying a box of cereal. Of course, you can find options in any grocery store. But you could also get cereal from a number of convenience stores or pharmacies. If we only looked at cereal, we would think that there are many more options available than if we considered a broader basket of groceries.
- This helps us focus our analysis. It tells us that there is something unique about supermarkets that consumers value when doing their weekly shopping. This could be how they price products, or the range of products they offer. Either way, it helps us focus on the competitive options that are most important to Canadians. And Canadians said that they prefer buying groceries in a supermarket format.

### But online options are becoming more important…

- About a third of Canadians said that they have used at least one online option to buy groceries in the past three months. This could represent a change in how some Canadians buy their groceries. In the past—prior to the pandemic—a much smaller percentage of Canadians bought groceries online. Stakeholders told us they expect this number to keep growing.
- For now, supermarkets are still where most Canadians buy their groceries, but that might change.

### Loyalty programs drive consumer decisions…

- Most of the major grocery retailers have loyalty programs that allow customers to earn points or rewards that can be used to purchase groceries and other products.
- Consumers are encouraged to regularly shop at the same grocery store to earn points faster and benefit from special or targeted offers. In some cases, they may also be able to earn points by shopping at partner stores. As an example, Loblaws' PC Optimum program applies across a large network of stores, including both its supermarkets and Shoppers Drug Mart (or Pharmaprix in Quebec).
- Loyalty programs can bring about lower prices for consumers—either through special offers or by redeeming points for cheaper groceries. They may also drive grocery stores to compete harder to lure customers away from another store that has a particularly strong loyalty program.
- These programs have an important influence on consumer behaviour. Roughly three in five Canadians (61%) reported that they are more likely to shop at a grocery store where they can earn rewards points. We also found that loyalty programs were more popular with women, and more likely to affect the purchasing decisions of immigrants. However, lower-income Canadians (earning less than $40,000 a year) were less likely to have loyalty or points cards.

## The state of the supermarket: Grocery competition in Canada

Key takeaways

- Canada's grocery industry is concentrated. Most Canadians buy groceries from one of five companies: Loblaws, Sobeys, Metro, Costco, and Walmart.
- Some Canadians have access to stores operated by independent grocers. However, this varies a lot depending on where they live.
- Independents face significant barriers in growing to become a competitive threat to the grocery giants.
- Without government support, we should not expect independent grocers to significantly expand in Canada in the near future.
- There is no quick fix to improve the state of competition in the Canadian grocery industry, but there are steps that all levels of government can take to improve the status quo.

### Canada's Grocery Giants

- The largest grocery chains tower over Canada's grocery industry. In 2025, Loblaws, Sobeys, and Metro together reported more than $100 billion in sales. Unlike Loblaws and Sobeys, which have stores across the country, Metro operates only in Ontario and Quebec. But all three companies have over 1,000 stores each, including franchised locations. And, even if you don't shop at a store called Loblaws, Sobeys, or Metro, you may be shopping at another store that they own or are affiliated with.


Figure 1: Stores owned by or affiliated with Loblaws, Sobeys, or Metro

- Costco and Walmart are the next largest grocers in Canada. While both companies have different business models and sell more than just food, they compete with Loblaws, Sobeys, and Metro for grocery sales. The success of Costco and Walmart across Canada has brought more choice to the grocery industry. But with only about 500 stores between them, they are not an option in every community.
- Loblaws, Sobeys, and Metro face less competition from standalone discount grocery chains than we see in some other countries. That's because in Canada, the large grocers also own many of the biggest discount stores: Loblaws owns No Frills and Maxi, Sobeys owns FreshCo, and Metro owns Food Basics and Super C (see Figure 1). This is different from other countries where large grocers compete against lower-priced options like ALDI or Lidl.

- Instead, Canadians looking for more choice may turn to independent grocery stores.

### Independent grocers in Canada

- According to the Canadian Federation of Independent Grocers, there are about 6,900 independent grocery stores in Canada. Many of them are single-store, family-run operations with limited space and less variety than stores operated by the grocery giants. But there are also independent chains with dozens of stores that compete head-to-head with the grocery giants. All of them play an important role in communities across Canada.

- Independent grocers may compete by selling different products than the large retailers. For example, independent grocers focusing on the sale of international foods and other specialty products have found success in many parts of Canada. But they usually don't offer the same breadth of products available in supermarkets owned by the grocery giants.

- Many independents may not be big enough to directly compete with the grocery giants on a national level. But some of the larger independent chains do so on a regional basis. For example, according to the PCO's survey, 23% of British Columbia residents do their shopping at Save-On-Foods, which operates more than 175 stores in Western Canada. However, even the biggest independents face challenges trying to compete against the grocery giants.

### Barriers faced by independent grocers

It is difficult being an independent in Canada today. Here are just some of their concerns:

- **Consolidation makes it tougher for independents and new stores to stay in business.** Many independents are worried that large grocers keep buying up smaller chains like theirs, and that there won't be a future for small stores.

- **Many independents have to buy groceries from their competitors.** Unlike the grocery giants, most independents are not big enough to have their own warehouses or to buy directly from suppliers. Instead, many of them buy the grocery products they sell from the likes of Loblaws and Sobeys, which in addition to their retail stores, also have large wholesale businesses.  This dependency makes it more difficult for them to compete on price.

- **Large grocers are paid by suppliers to put their products on shelves.** Independent stores generally aren't, and that can put them at a disadvantage.

- **Finding access to real estate is challenging.** Grocery stores generally require a large, accessible space with lots of parking. Many of the locations that could support a new grocery store are already controlled by the grocery giants.

## Conclusion

For many Canadians, their main grocery options are supermarkets operated by Canada's grocery giants: Loblaws, Sobeys, Metro, Costco, and Walmart. Some Canadians may have independent options, depending on where they live, but many of these options are limited in their product selection, store locations, and other important competitive aspects. Independents play an important role in communities across Canada, but without government support, we should not expect them to significantly expand in the near future.

## A history of grocery mergers in Canada

When the *Competition Act* was introduced in 1986, there were at least eight large grocery chains across Canada. Each was owned by a different company.

### Figure 2: Comparison of Canada's retail grocery landscape in 1986 and 2025

- Description for Figure 2

Today, we are down to five large chains that operate in Canada:

- Loblaws;
- Sobeys;
- Metro;
- Costco; and
- Walmart.

Five of the large chains that were around in 1986 were bought by their competitors (see Figure 3):

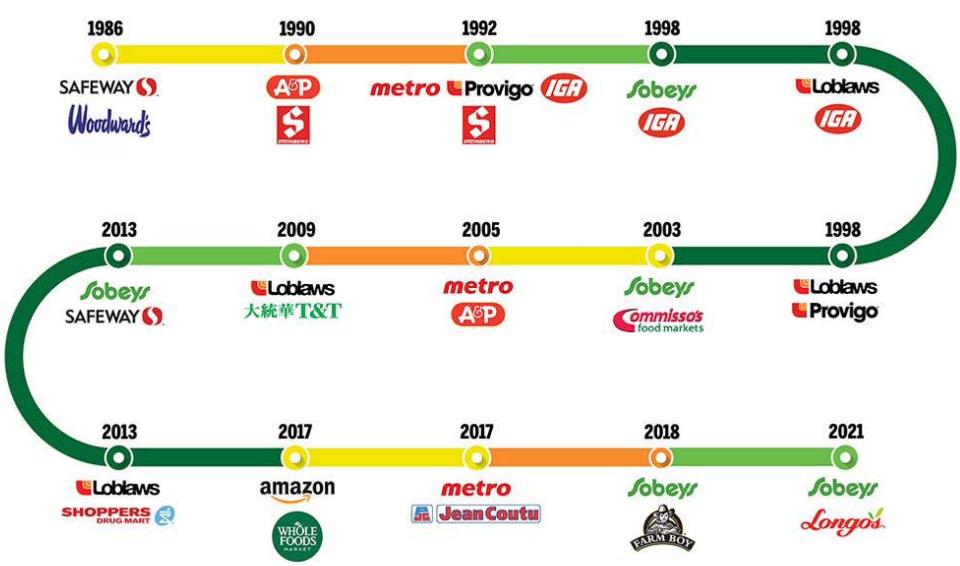
- Steinberg's stores were sold to A&P, Metro, Provigo, and IGA;
- Provigo's stores were sold to Loblaws;
- IGA's stores were sold to Sobeys and Loblaws;
- A&P's stores were sold to Metro; and
- Safeway's stores were sold to Sobeys.

Two new large chains, Costco and Walmart, have entered or expanded during that time. But generally, there are fewer grocers today than there used to be.

### So, how did we get here?

Figure 3 shows some of the more notable grocery mergers since 1986.

Figure 3: Timeline of notable grocery mergers, 1986-present



Domestic grocer margins

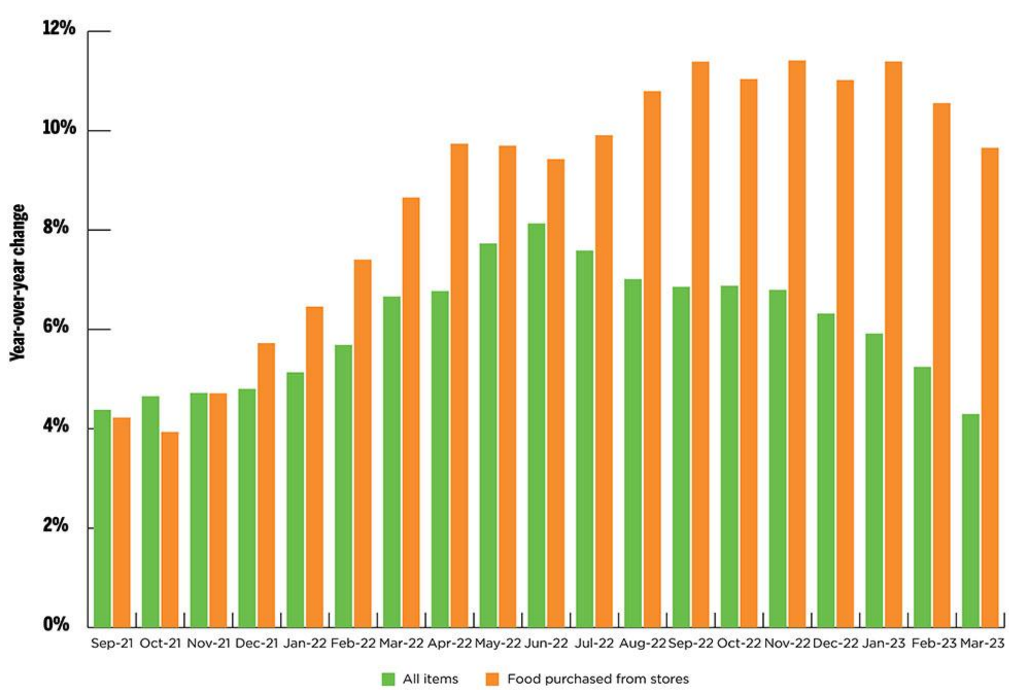
**Key takeaways**

- The Canadian grocery industry is concentrated. Many wonder whether a lack of competition is the reason why grocery prices are increasing at the fastest rate in more than 40 years.
- Recently, food prices have increased rapidly. However, increasing prices are not always indicative of a competition problem. Prices might go up, for example, when it costs grocers more to buy the food that they sell. And we heard that grocers' costs have gone up.
- Instead of looking at prices, gross profit margins can provide a clearer signal. These margins subtract the costs that grocers incur to buy products and show how much a grocer makes on each dollar of sales.
- We saw Canada's largest grocers' food gross margins generally increase by a modest yet meaningful amount over the last five years. This longer-term trend pre-dates the supply chain disruptions faced during the pandemic and the current inflationary period.
- The fact that Canada's largest grocers have generally been able to increase these margins—however modestly—is a sign that there is room for more competition in Canada's grocery industry.

Canadians are seeing grocery prices increase at the fastest rate in more than 40 years. Many wonder whether a lack of competition is the reason why.

Figure 4 shows that food prices in Canada have increased faster than general inflation between December 2021 and March 2023.

Figure 4: Change in Food Prices vs. Consumer Price Index, monthly from September 2021 to March 2023



### Canadian grocers sell more than just groceries

Before looking at margins, it is important to recognize that Canadian grocers sell more than just food. For example, Loblaws owns Shoppers Drug Mart, and Metro owns Jean Coutu—both of which operate hundreds of pharmacies across Canada (see Figure 1).

This means that the margin and profit data publicly reported by Canada's big grocers include the sales of other products, such as pharmaceutical and beauty products. In many cases, grocers have pointed to increased sales of these non-food products as the reason for their higher profits. Accordingly, if we are focused on understanding the possible links between grocery competition and food inflation, then sales of non-food products should be removed before evaluating financial data from the big grocers' public reports.

However, grocers do not publish food-only financial results. That's why, in this study, we examine each of Canada's five major grocers' food gross margins and other relevant information.

### Canadian grocers' food gross margins increased by a modest yet meaningful amount

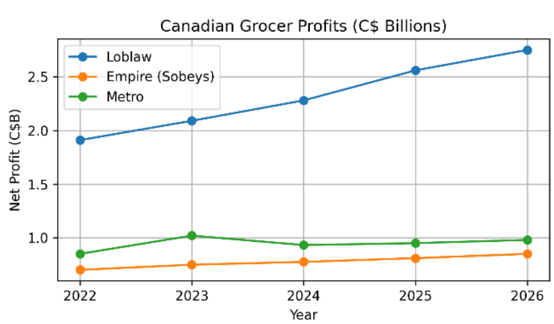
Canadian grocers' food gross margins have generally increased over the last five years by a **modest yet meaningful** amount. This longer-term trend pre-dates the supply chain disruptions faced during the pandemic and the current inflationary period.

Breaking that down, we have found that grocers have increased the percentage of profit they earned on food products in a way that is:

- Modest:
  - Margins generally increased by one or two percentage points since 2017.
  - This is roughly equivalent to $1-2 on each $100 that Canadians spend on groceries.
- Meaningful:
  - The Canadian grocery industry is a low-margin business. Grocers make relatively little on each item but make their profits in volume.
  - That means that even small changes in margins can be meaningful.

Modest but meaningful margin changes can cause big changes in profits when food inflation is high. As grocery prices have increased, so have grocers' profits. The profits of Canada's three largest grocers have risen appreciably over the past four years. Figure 5 shows that these profits have collectively grown from $3.46 billion in 2022 to $4.58 billion in 2026.

Figure 5: Profits of Canada's three largest grocers, annually between 2022-2026



- Description for Figure 5
- **Source:** Annual Reports of Loblaw Companies Limited, Empire Company Limited, and METRO INC. for 2022-2026.

**Note:** Annual profits are based on the companies' fiscal years, which differ from company to company, and do not necessarily align with the calendar year (January–December).

Higher profits result from higher revenues relative to costs. Revenues can increase because of higher prices, higher volumes, or both. Margins help show whether changes in the difference between prices and costs are contributing to higher profits.

Grocers are earning only modestly more in food gross margin, but even small increases can matter for Canadians. Usually, when we talk about margins, we express them as the percent of each dollar spent that ends up available for the grocers to keep. But thinking of margins this way can create a bit of an illusion. Table 1 shows how, even when a grocer's margin stays the same, an increase in the cost they incur to buy food products can increase profits.

Consider a grocer selling a can of soup. If a grocer is paying $1 for that can, and selling it to you for $1.20, they are making a 20% margin. They earn $0.20 per can of soup sold.

Now, what happens if the grocer's cost for that can of soup goes up to $1.10, and they apply that same 20% margin? The price of that can of soup now goes up to $1.32. The grocer still makes a 20% margin, but now they get $0.22 cents to put toward their profit. When its costs rise, a business does not need to increase its margin in order to increase its profit. High rates of food inflation can significantly increase grocers' profits even if their gross margins remain constant or increase only modestly.

Table 1: Higher costs generate higher profits when margins remain constant

| | Lower Cost | Higher Cost |
|---|---|---|
| Grocer's Cost | $1.00 | $1.10 |
| Grocer's Margin | 20% | 20% |
| Retail Price | $1.20 | $1.32 |
| Grocer's Profit | $0.20 | $0.22 |

What do modestly increasing margins tell us about competitive dynamics?

When an industry is very competitive, businesses will not usually be able to increase their margins. The fact that Canada's largest grocers have generally been able to do so over the last five years—however modestly—is a sign that there is room for more competition in Canada's grocery industry. Additional grocery competition would help cap grocery price inflation.

Property controls

## Key takeaways

- Property controls limit how real estate can be used by competing grocers.
- Such controls can harm competition by making it difficult—or even impossible—for businesses to open up new grocery stores.

A property control limits how a person can use a property. They are clauses typically found in a legal agreement like a lease or a deed that transfers title. For example, in the case of a shopping centre, property controls often limit the kind of store that can open there. These controls are also sometimes called restrictive covenants.

### How do property controls affect grocery competition?

Property controls reduce competition from other food retailers and make it harder for new grocery stores to open. They do this in two ways:

### When a store is sold:

- When a grocery store is being sold, the seller of that store may want to stop a new owner from using that location to operate a competing grocery store.
- The grocer may want to do this if they are relocating to another location nearby, as doing so would limit the number of other grocers they have to compete against.
- Property controls typically apply not just to new owners of a property, but to future owners as well. They can stay in place for a very long time, stopping new grocery stores from opening in communities.

### When a grocer signs a lease:

- When a grocery store is opening in a location with other tenants, like a mall, it may ask the landlord to limit other stores from selling similar products.
- This ensures that the grocer will not face competition from other tenants and may provide it with the certainty it is looking for prior to making an investment in a new store.
- A landlord may agree to this kind of property control because grocery stores attract significant numbers of customers, and because they may be unsure whether the grocer will agree to sign a lease otherwise.

### What effect do property controls have on grocery competition?

- **Property controls reduce consumer choice.** Some Canadian businesses have been unable to open stores because of property controls.
- **Property controls can be very broad**. They can exclude businesses even if they don't compete directly with a grocery store, like bakeries and other specialty food stores.
- **Property controls have the biggest effect on Canadians who have the fewest options.** 24% of Canadians said that there are only one or two grocery stores within 15 minutes of their home. For those who walk, the proportion is 39%. Lower-income Canadians (earning less than $40,000 a year) are more likely than others to have fewer stores in proximity to their home. For these Canadians, if a local grocery store is closed and property controls prevent new ones from opening in their community, it may leave them

without easy access to a supermarket. This is not a theoretical problem—examples of "food deserts" have been documented across Canada.

- **Other countries have recognized the harmful effects of property controls.** Australia, New Zealand, and the United Kingdom are just three examples of countries that have taken action against property controls due to their limitations on competition in the grocery industry.

### Conclusion on property controls

Location, location, location. It's the golden rule of real estate. While it may seem simple enough to suggest that a retailer look for other locations, there is often only a certain amount of prime real estate in a given area. When that prime real estate is restricted through a property control, new grocers may not be able to open. This limits competition from new grocers and can deny consumers the benefits that competition brings about: lower prices, greater choice, and increased levels of innovation.

***Note – On October 30th 2024, Loblaw Companies Limited announced they are willing to eliminate exclusivity clauses in store leases if other grocery retailers agree to do the same. Eliminating exclusivity clauses would benefit consumers and smaller grocers' by increasing local competition and would also make it easier for new supermarkets to open.**

## Online grocery: The new supermarket?

### Key takeaways

- A growing number of Canadians are turning to online sources to buy food.
- Sometimes, these online services are operated or controlled by Canada's grocery giants. When that is true, these services may increase convenience, but do not necessarily increase competition.
- The online grocery segment is still developing, and new options are emerging. Truly independent online grocers could positively increase grocery competition in Canada.

The way Canadians buy their groceries is changing. Shopping at a local supermarket used to be the only way to get groceries, but this is no longer the case.

More and more Canadians now purchase their groceries online. Though online grocery options are still relatively new, they are gaining traction. The COVID-19 pandemic saw the rise of alternatives to in-store shopping.

Online shopping is still only a relatively small portion of Canada's total grocery sales. But this is likely to change. The nation's grocery giants, as well as other companies, are investing significant amounts of money into their online business models. And Canadians seem to enjoy the online shopping experience: nearly 30% of Canadians have recently bought groceries online.

Online options may not entirely replace in-store shopping anytime soon. But if Canadians are looking for more choice, they may find it online.

### Canada's online grocery options

Ordering groceries online can replace the need to shop in-store. When an order is placed, the items are either made available at a retail location for pick-up (otherwise known as "click-and-collect") or delivered to a customer's home. As delivery and pick-up charges may apply, the overall cost of an online order can be greater than what would be charged in-store.

Online grocery is dynamic and includes companies both big and small. To date, there are three broad categories of businesses that operate in Canada's online grocery segment:

Grocery Stores: From large chains to small independents, many are now also selling groceries online:

- Online shopping, including delivery and click-and-collect, is not yet available at every grocery store or in every community. For example, the discount banners owned by Loblaws (such as No Frills), Sobeys (such as FreshCo), and Metro (such as Food Basics) do not currently offer delivery.
- Delivery from traditional grocers is usually only available near an existing store's physical location. And orders may not be delivered on the same day.

Delivery Services: Some new businesses offer to purchase customers' groceries at a grocery store and deliver them to their home:

- Many delivery services have partnered with grocers to fulfill their online orders.
- Importantly, these companies—although they operate at arm's length to grocers—do not control the prices that consumers pay. Instead, they just buy products from grocers on a consumer's behalf.
- Delivery is usually only available to homes that are close to an existing grocery store.

Online Stores: These are businesses that sell groceries only through an app or website:

- This includes meal kit providers, dark stores, mass merchandisers that sell groceries, and online-only grocers.
- These businesses generally buy groceries on a wholesale basis, and control the ultimate price that consumers pay.
- Deliveries from these stores may be restricted to urban areas only, and the delivery speed can range from an hour to a day or more.

## Competition in online grocery

Online grocery shopping has brought more choice and innovation to the grocery industry for consumers. But some online services—like those operated by existing grocers or delivery services—may simply create a new way to access existing options. Here's why:

- **Grocery stores with online shopping options do not necessarily increase competition.** An online platform can sometimes just be a new way to source products from a pre-existing retailer.
- **Delivery services are more like grocery store partners than independent competitors.** Unless they've developed their own fulfillment centres, delivery services simply purchase products off the shelves of existing grocers. They can't charge lower prices than the store they buy from without taking a loss.

On the other hand, online stores are like new grocers, except that they only sell their products online. If they don't rely on existing grocery stores for product supply, they are better positioned to compete with them.

The introduction of new online options from existing grocers, including those offered through delivery services, has increased competition between them. All of Canada's large grocers are investing millions of dollars into their online platforms to ensure they remain competitive. Some have even partnered with online grocery technology companies to try to get ahead of their competitors.

These changes have benefited Canadians, including by expanding available grocery options for some consumers, and generally making groceries more accessible through delivery and pick-up. They answer the demand for convenience and alternatives to in-store shopping.

### Challenges for new, online grocery businesses

The reality, as of today, is that independent online options remain limited. Though there are companies that only sell groceries online (see Table 2), we heard that they face challenges growing into the kind of big competitive threat that could take on Canada's large grocers:

- **Capital requirements.** The costs to build warehouses and distribution centres are high. And finding investors who are willing to support entry and expansion can be difficult.
- **Product supply.** New businesses typically do not have the scale or relationships required to deal directly with manufacturers. Instead, they often have to rely upon the grocery giants—who are their competitors—for product supply. According to online grocers, this dependency makes it more difficult for them to compete on price.
- **Regulatory requirements.** Online grocers can face challenges that a traditional grocery retailer may not. For instance, some municipalities are uncertain as to whether dark stores should be licensed as retail or wholesale companies. In addition, regulations for certain products vary greatly by province, making it difficult for a business to operate nationally.
- **Consumer hesitancy.** A lot of Canadians are used to shopping for groceries in-person. Many like to see and touch their groceries before buying them. That isn't possible online, so perceptions about freshness and quality may be a concern. Some may also worry about receiving the right items and cost. There are others who just like going to the grocery store or who find online shopping overwhelming.
- **Geography.** Canada is a large country with few densely populated city centres. For online grocers, serving customers who don't live in urban areas is very costly. As such, they may be less likely to operate in rural communities.

### Conclusion on online grocery competition

Currently, grocery competition is mostly centred on grocery stores being the main place for Canadians to do their grocery shopping. However, grocery business models are adapting to the online world and, with that, comes the opportunity for new competitive alternatives to emerge. Truly independent online grocers could meaningfully increase grocery competition in Canada.

# The Competitive Importance of Discount Grocers

When a new foreign grocer comes into a country, it puts pressure on existing grocers to reduce their prices. For example, the ACCC studied what happened to grocery prices when a major, international discount grocer came into Australia. That grocer, ALDI, was found to cause a significant reduction in grocery prices when they opened new stores. The expansion of discount grocers like ALDI and Lidl in Europe has created significant benefits for consumers through lower prices and greater choice. This is not just something that could happen, or happens in other countries: a Canadian example of this was Walmart's expansion into grocery.

### The "ALDI effect"

"...ALDI has been a significant influence on Australian grocery retailing. ALDI has forced Coles and Woolworths to react by reducing prices—specifically in states and localities where ALDI is present. Even if a customer does not shop at ALDI, they obtain significant benefits from having an ALDI in their local area or state, as the Coles and Woolworths stores price more keenly.

## Conclusion from international attempts to increase grocery competition

Perhaps most interesting is the idea of attracting new businesses to come to Canada and compete. The successful entry of international grocers into the Canadian industry may be the best option to bring about lower prices, greater choice, and increased levels of innovation for the benefit of all Canadians.

## Informing consumers

### Key takeaways

- Consumers need accurate, timely, and complete information in order to make informed purchasing decisions.
- Accessible and harmonized unit pricing requirements and price comparison tools have the potential to empower consumers and improve grocery competition in Canada.

Information helps consumers make the right choices. Without accurate, timely, and complete information, competition suffers, and markets fail. Honest competitors lose sales, and consumers end up with goods and services that are not the best choice for them.

To make good choices, consumers must be informed. It's hard to take advantage of competition if you don't know where to get the best deal. Grocers send out flyers to households across Canada to convince shoppers to visit their store. But modern technology allows so much more.

Ensuring that Canadians have access to useful information is an easy way to promote competition. Accessible and harmonized unit pricing requirements and price comparison tools can help to empower consumers. We discuss each below.

Unit pricing

Figure 6: Unit pricing for different sized containers of orange juice


- Description for Figure 6

Unit pricing helps consumers compare grocery prices and find the best value. It does this by showing the price of a product based on a standard package size, alongside the total price. Figure 6 shows an example of how unit pricing works for two different sized containers of orange juice.

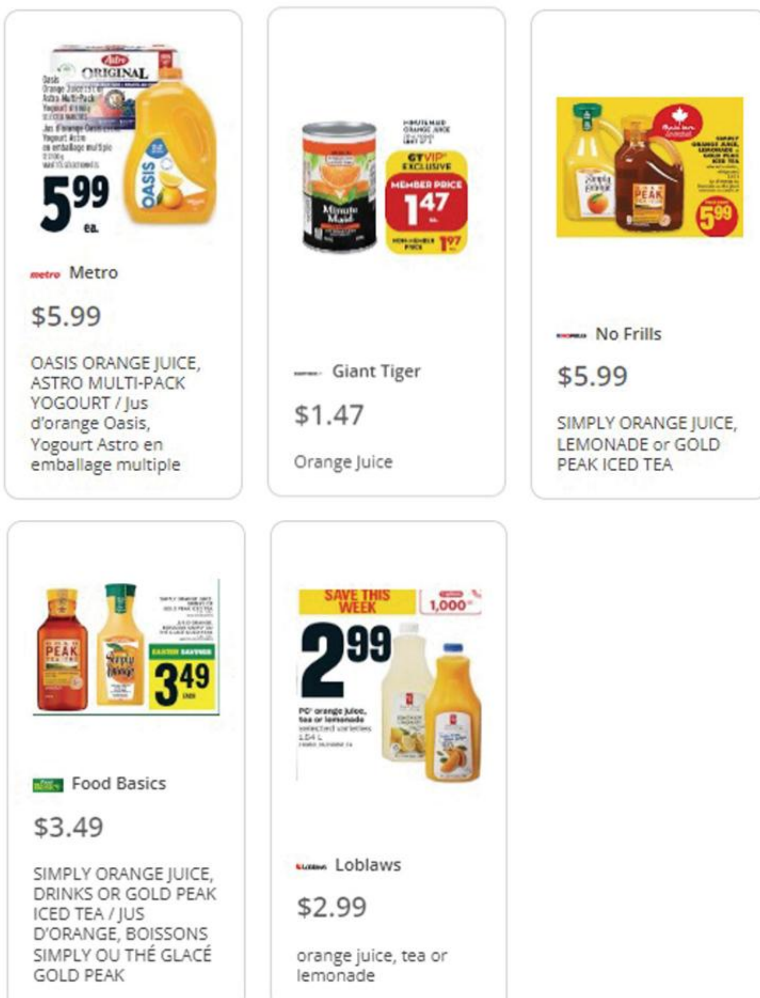
Knowing the unit price helps consumers compare similar products that come in different package sizes. It serves as a quick and easy way to know if a consumer is getting the best deal—without resorting to a calculator or mental math.

Many grocery stores across the country already display unit pricing, including online. But it is currently only required by law in Quebec. That means there are no standards that grocers have to follow in the rest of the country. An additional issue facing consumers looking to compare unit pricing in its current form is that many of the formats used may not be accessible for people with sight loss.

Provincial and territorial governments may wish to consider working together to support the development and implementation of accessible and harmonized unit pricing requirements for grocery retailers Canada. As part of this process, consideration as to whether any such requirements should be imposed on all grocers, or only large chains may be appropriate due to the potential burden on smaller independents. Accessible and harmonized unit pricing requirements could promote competition among grocery retailers and further empower consumers to make informed purchasing decisions.

### Price comparison tools

Figure 7: Comparison of orange juice prices at select Canadian grocers, April 2, 2023




- Description for Figure 7

Source: Save.ca.

A price comparison tool is a service that consumers can use to compare prices between grocery stores. Current examples include Flipp, Save.ca, and reebee, among others.

If you search for 'orange juice', most of these services can show you flyer clippings from multiple grocers for that product. They can do that because most flyers are available for anyone to view. However, this only allows you to compare prices if they're in a flyer, and comparisons may not necessarily be between the same brand or size of product (see Figure 7).

Some of these services can also search online listings for grocery items. But this information is only available from retailers that have agreed for their products to be displayed.

If all grocers provided their data to these services, it would allow consumers to more easily search and compare prices between grocery stores. However, further study would be required to determine how government could best support consumers in this regard.

### Canadians' ideas for increasing grocery competition

During a recent study, Canadians were asked to share their perspectives on grocery competition in Canada. The study asked Canadians to share what they thought about the current state of grocery competition in Canada. More than 500 Canadians answered the call. This is a summary of what we heard from Canadians:

### Idea #1: Canada needs more grocery competition

- The Canadian grocery industry is concentrated. While this is not the sole reason grocery prices are high, more competition in the industry could drive down prices.
- This is not a situation unique to the grocery industry. A lot of other Canadian industries are highly concentrated, with a small number of businesses controlling a majority of the sales. Canada needs more competition, both in groceries and across the entire economy.

Canada Needs More Competition

### Idea #2: The government should encourage international grocers to enter Canada

- The entry of international and discount grocers could be one way to help lower grocery costs for Canadians.
- Governments should take steps to encourage international grocers to enter the Canadian market in an effort to help reduce prices and increase competition.

## Recommendations to increase grocery competition in Canada

Canada needs more grocery competition. When businesses compete, all Canadians benefit from lower prices, greater choice, and increased levels of innovation. Competition can be a key part of the solution to help keep grocery prices in check.

**Federal, provincial and territorial support for the Canadian grocery industry should encourage the growth of independent grocers and the entry of international grocers.**

- Grants and incentive programs should be directed towards independents, not the grocery giants.
- The growth of Canadian independent grocers into stronger regional and potentially national players would meaningfully increase competition in the industry.
- Additionally, governments should do all that they can to attract international grocers to Canada, including the easing of any barriers to market entry.
- The experiences of other countries, such as Australia, have shown that the entrance of major international grocers have driven down prices and improved choice for consumers.

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