

# Grocery chains feel pinch

## Economic slowdown adds to competition, food price woes

BERTRAND MAROTTE, Globe and Mail

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MONTREAL -- Rising wholesale food prices, economic sluggishness and fierce competition add up to a tough environment these days for North America's grocery chains.

But some companies are managing to make a go of it amid all the turmoil.

U.S. giant Kroger Co. is doing well, and its turnaround story is one that troubled Loblaw Cos. Ltd. would do well to emulate, says **Peter Holden**, an analyst with **Veritas Investment Research**.

Kroger has been holding its own against the steady inroads being made by behemoth Wal-Mart Stores Inc. and it has fixed its supply chain and information technology problems, he said.

For its part, Loblaw has probably reached a "reasonable bottom," he says.

"There is reason to think at this point that there is upside to the stock."

U.S. chain Safeway Inc. has been struggling, but has done good work remodelling and upgrading stores and shifting to more competitive pricing that is better suited to recessionary times, said Howard Davidowitz of retail consultants and investment bankers Davidowitz & Associates Inc. in New York.

In the retail sector right now, "the grocery segment is among the better segments," he said. Grocery stocks are fairly resistant to recessions, he said.

"Food retailers are in a fairly safe place."

Low-cost king Wal-Mart is another solid stock that is grabbing a growing share of the market, he said.

"My position is that, in a recession, as far as retail stocks go, buy drug and food stocks," he said. "And Wal-Mart is hard to beat."

Indeed, Wal-Mart Canada continues to hurt the traditional grocery chains.

Montreal-based Metro Inc. has failed to generate much growth and part of the reason is Wal-Mart, **Mr. Holden** said.

"Their exposure to Wal-Mart is increasing.

"I'm relatively negative on Metro and relatively positive on Loblaw."

Chris Damas, a former Bay Street money manager who is now an independent analyst in Barrie, Ont., believes the grocery sector still has a huge fight on its hands trying to squeeze decent margins and growth out of a very difficult business.

"I'm steering clear of the grocery business. The chains are basically being squeezed between food inflation and extreme competition," he said.

"I really believe the grocery sector is under siege. It's a highly competitive business."

In the key Canadian market of Ontario, for example, he says there are far too many stores.