



Make Informed Decisions

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GM Gains Topping Out?

StatsCan recently released its second quarter 2020 retail sales by commodity and by industry. That dataset shows food sales through total retail, food and beverage stores and the general merchandise (GM) channel.

The food and beverage store channel is defined by StatsCan to include supermarkets, convenience, specialty and liquor stores. Supermarkets comprised 69% of total food and beverage sales in 2019. Convenience stores and specialty food stores amounted to 6% each of total food and beverage stores in 2019. Liquor sales were 19%. As such, when it comes to food only sales, this “food and beverage store” channel is overwhelmingly supermarkets.

The general merchandise channel includes Walmart and Costco as well as outlets such as Canadian Tire. Regarding food sales, this channel is largely represented by Walmart and Costco. Consequently, the discussion below is worded as food and beverage stores versus general merchandise, but the real protagonists are the supermarkets versus Walmart and Costco.

Second Quarter Reverses the First

In the second quarter of 2020 total food sales through all retail channels increased by 11% versus the second quarter 2019. That compares to 11% in the first quarter this year and a 2019 and 2014-2018 average of 4%. The food stores, meaning supermarkets, saw second quarter year over year increases of 14% compared to 10% in the first quarter and a 2019 and 2014-2018 average of 4% and 3%, respectively. The general merchandisers (GM) saw second quarter food sales increase by 4% year over year. That is compared to 14% in the first quarter and 1% for all of 2019. The GM channel had 2014-2018 food sales increase by 10% on average year over year.

A key summary point is that in the first quarter, when the pandemic first hit and consumers were pillaging stores, the GM channel outsold the food stores by 14% compared to 10%. By the second quarter the food stores outsold GM on food sales 14% versus 4%. As seen on the graph below, that 10% advantage for food stores on food sales over GM is very large and counter to typical performance.

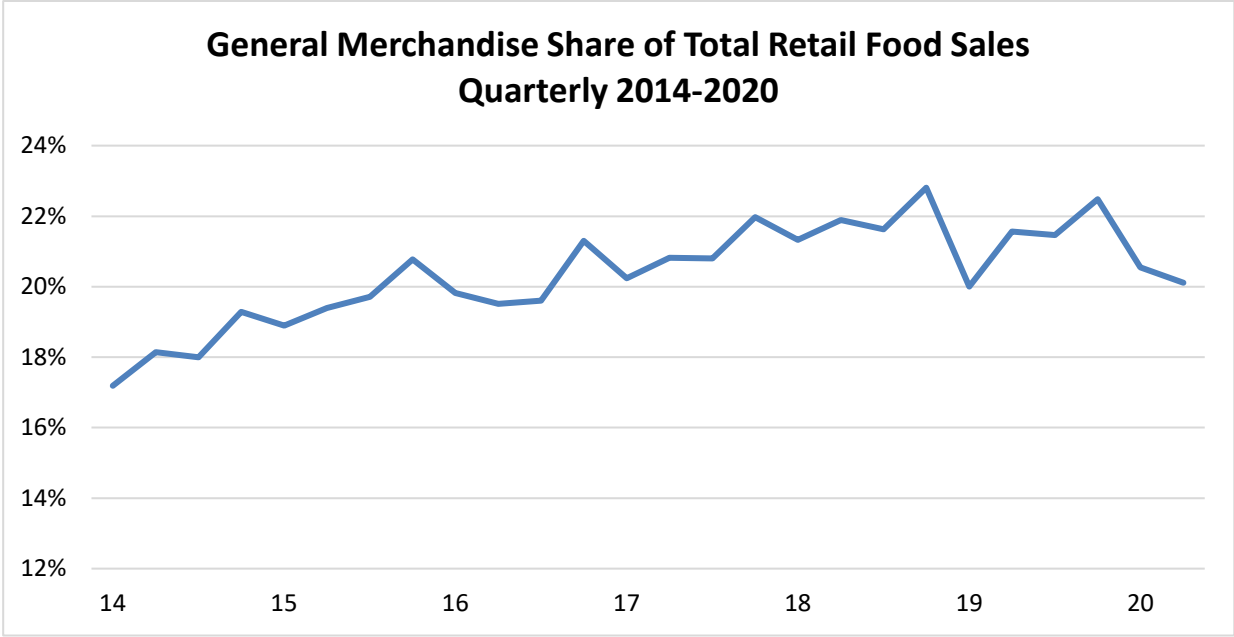
In the first quarter this year, consumers appeared to prefer food stockpiling and hoarding at Walmart and Costco rather than the local grocery store. In the second quarter that trend was reversed. That is doubly interesting because the big return to the grocery store ran counter to

the long-term trend. As noted above, the 2014-2018 average food sales increases for GM were 10%. That is compared to just 3% for the food stores over 2014-2018.

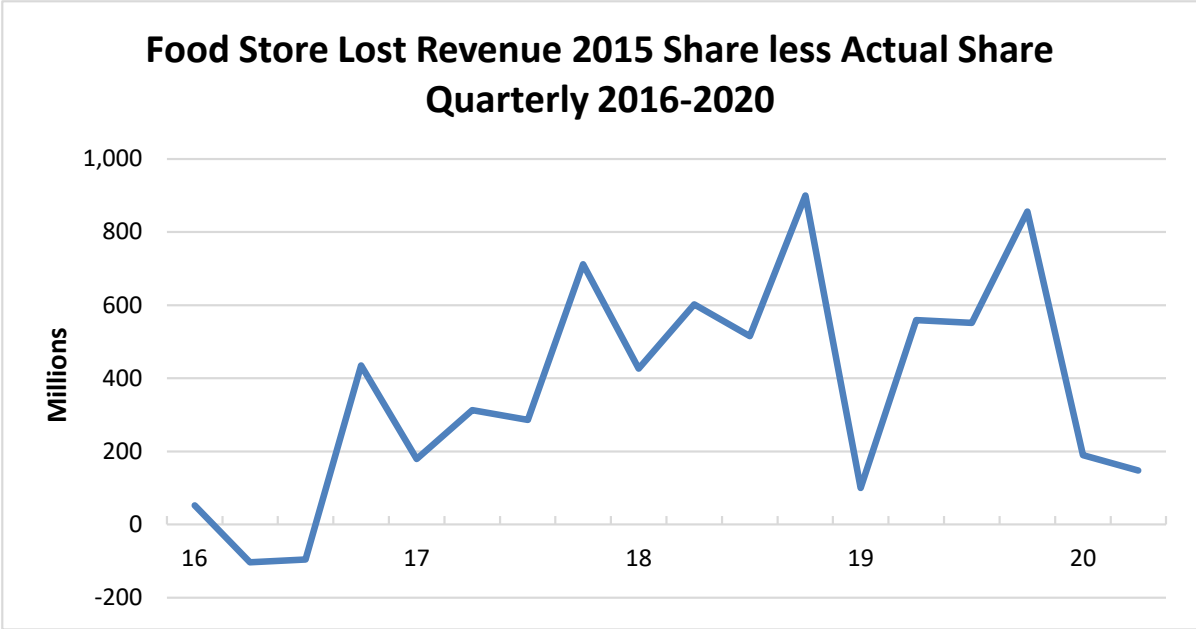
The supermarket gain would be very welcome because of the massive sales that took place in the second quarter. The 14% gain for the supermarkets is unprecedented in recent years for that channel, but not unusual for GM. Another reason it would be very welcome is that on the surface it would appear the GM channel is better suited to pandemic panic buying; more household items under one roof. Despite that consumers went to their grocer.

GM Tippy?

The second quarter performance is also noteworthy because there is now reason to argue that the GM gains have topped out. The GM channel had been steadily growing food sales share until the fourth quarter of 2018. At that time, the channel had 23% of food sales in Canada. The share hit around 22% in two quarters of 2019 before falling to 20% in Q2 2020. Based on the data shown on the graph below, the GM channel has not made consistent gains during the ten quarters from 2018 through Q2 2020.

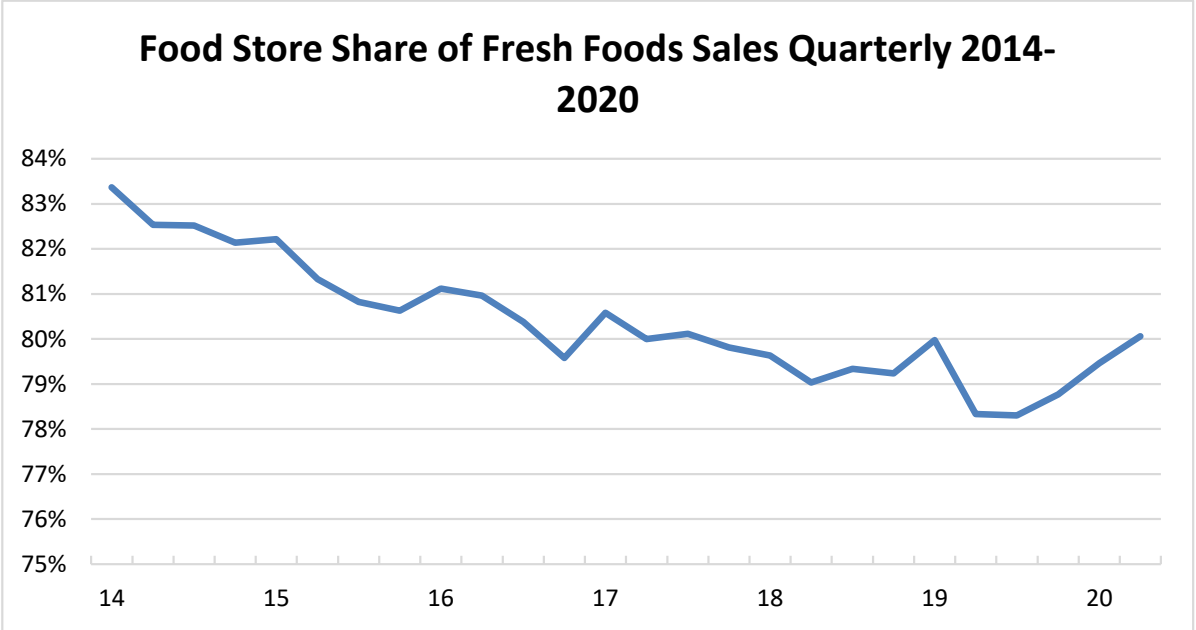


The improvement in share for grocers in the second quarter represents a slowing of the billions of lost food sales dollars from supermarkets to Walmart and Costco. Consider that just five years ago in 2015, the food stores held over 76% of total Canadian food sales. As of the fourth quarters of 2018 and 2019, that share had fallen to 73% each. That share loss in those two quarters equates to nearly \$1 billion in lost food sales for food stores in each quarter. That is, if food stores held that 76% share there would have been nearly a billion more in revenue in those two quarters. By the second quarter of 2020, the food store share had bounced back to 75.5% of total food sales. That represented a loss of about \$150 million versus the share held in 2015.



A Fresh Gain

The share loss of the food stores over the 2014-2019 years, took place across a spectrum of products. Most interesting is that grocers lost share in fresh foods. The logical expectation is that grocers should be able to compete more effectively on fresh foods. That is expected because of grocers’ focus on fresh differentiation from the big discount GM channel. Instead, grocers lost ground on fresh going from an 83% share in 2014 to a 79% share in Q1 2020. With that noted, however, in the second quarter of 2020, the food stores did manage to claw back a percentage share on fresh foods to get to 80%. That gain was due to a 13% increase in fresh food sales for food stores in Q2.



Why it Matters

During the pandemic, grocers have been very careful not to increase prices too much. That pricing strategy must have been responsible, at least in part for helping grocery gain back market share. The market share changes paint a picture of a very competitive food retail environment in Canada.

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November 2020

A version of this note appeared in the October 2020 edition of the Grocery Trade Report. Ask for a two-month free trial from Kevin@kevingrier.com