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SPECIAL COMMITTEE ON FOOD PRICES

HEARINGS

Friday, September 4, 1981

Chairman: Doug Graham, M.L.A.

SPECIAL COMMITTEE ON FOOD PRICES

CHAIRMAN: Doug Graham, M.L.A.

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Expert Advisor: Dr. Peter Dooley, Department of Economics and Political Science, University of Saskatchewan, Saskatoon.

WITNESS:

Dr. Peter Dooley, Department of Economics and Political Science,
University of Saskatchewan, Saskatoon

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Mr. Chairman: I will call this session of the Special Committee on Food Prices to order. This morning, as our witness, we have Dr. Peter Dooley. Dr. Dooley is Professor of Economics at the University of Saskatchewan, Saskatoon. He is also the author of a report on the Batten Commission, a report on the food industry on the prairies.

Dr. Dooley, welcome. Thank you for coming. As everyone here likely knows, you have been sitting with us during the last few days and making observations on your own about some of the testimony that we have heard to date. As I understand it, you now are prepared to put some of those observations on the public record. Perhaps you would care to take it from there.

Dr. Dooley: Thank you very much. It is a pleasure to be here. Although these hearings have been rather long and tiring, I think on the whole they have been informative, and enjoyable, in a way.

Let me say to begin with that the information that I have to work with is relatively limited and consists primarily of the testimony we have heard here, together with the published information of Statistics Canada and the Yukon Price Survey.

I have not examined the books or any other confidential data of any of the companies doing business in the Yukon, and so I am not going to be able to say very much about their operations that has not already been made public before these hearings, but I think I can draw some conclusions from what I know about the industry on the basis of the study I did a few years ago for the Batten Commission, and what I have learned since I have been here.

In the case of the testimony, I think it would be fair to say that most of the witnesses spoke very carefully. They were very careful in what they said and what they did not say, and they were very careful not to say much about their private affairs. That is to say, they did not explain such things as what their gross margin was, or what their profit on sales was, or what their total profit was, so that information has not yet come out. It would probably be inappropriate to make it public for the reasons expressed by both Kelly Douglas and Alberta Grocers, that they are in a competitive business and if the competitor got ahold of their confidential statement, they might be able to find some way to take advantage of it that would be detrimental to the company. These companies did, however, promise to provide certain additional information to the Committee, on a confidential basis, that would no doubt be useful to the Committee when it comes to making up its final recommendations.

In the case of the Statistics Canada data on retail sales, which was the most important item with which we were concerned, it shows that for the Yukon Territory in 1980, the total food sales were $14.8 million. This figure appears to be too low by at least half, as Kelly Douglas remarked yesterday, and I agree.

A more reasonable figure, if one took the Yukon population and the per capita expenditure in food stores in the rest of Canada, it would be sales in the neighbourhood of, say, $32 million a year. Kelly Douglas also criticized the Spatial Price Index compiled by the Yukon Price Survey as being too high for Whitehorse. It shows that prices in Whitehorse were 25.9 percent above those in Edmonton, and 18.8 percent above those in Vancouver, as of June, 1980. Now, these two figures, as I understand the way that the Index is made up, are not comparable, because we do not know the relationship between Edmonton and Vancouver. The way in which the Index is made up is, one takes a list of as many identical, comparable items that one can find in Whitehorse and in Edmonton and in Whitehorse and Vancouver, and do a price comparison on them. The list may not be the same for the two pairs of cities.

These items are then weighted according to their importance in the expenditures of the average family. Statistics Canada does a very extensive, and I might add, very expensive, survey every few years — not necessarily regularly — on Canadian family expenditures. While these vary from region to region by a certain amount in making up the Consumer Price Index, they assign weights to particular items, or particular classes of commodities, that reflect their importance in the budget of the average Canadian family. For example, if the average family spent five percent of its grocery budget on milk, the price of milk would count as five percent in making up the Index. This is the way in which the Yukon Price Survey has done its comparisons between Whitehorse and Edmonton, and Whitehorse and Vancouver. This is the best way to make such comparisons. Indeed, it is the only information we have on such comparisons.

As was noted in the earlier testimony, the differential between Yukon, or between Whitehorse, particularly, and the south has remained fairly high for five years, and this would give you cause for some confidence in the Index that it was not the result of a single day's specials being offered in Vancouver or Edmonton.

I note, however, that the differential has fallen substantially from 1979 to 1980. That is, in the case of Edmonton in 1979, Whitehorse prices were 35.1 percent above Edmonton; last year, they were 25.9 percent above. In the case of Vancouver, they were 31 percent above in 1979, and 18.8 percent in 1980. This substantial decrease in the price spread between Yukon and the south coincides with an increase in the amount of competition in the Yukon. That is to say, it is during these years that Alberta Grocers expanded its operations in Yukon very substantially, and I would not be surprised if the price differential between Whitehorse and the cities to the south continues to decline for reasons that I will be explaining shortly.

It should be noted that we were talking, not about the rate of inflation, which is probably what is most irritating to everyone — prices have more than doubled in the last decade, and that is a much larger increase in prices than any differentials that we are talking about between the Yukon and the south. What we are concerned with here and what the task of this Committee is, is to examine only the differentials. We are not going into the issue of why there is such a high rate of inflation, which, in any event, is beyond the control of the Territorial Government, or for that matter, the British Columbia Government or Alberta Government, although perhaps not out of control, at least in principle, of the Government in Ottawa.

The truckers who testified here argued that the price differential was not due to the freight. The grocers, on the other hand, said that the freight was a major item, if not the main item, that explained this differential. So, let us turn to the question of freight costs, insofar as I have been able to make sense out of it. In the case of the truckers and White Pass, we were quoted freight rates on the basis of cost per mile, per truckload, per container and per pound. The lowest rate we were quoted by White Pass was two and three-quarters cents per pound from Vancouver to Whitehorse. The maximum rate that we were quoted on trucking was nine and a half cents. The actual rate is, no doubt, somewhere between these. The amount of business that White Pass is presently doing is sufficiently small in the grocery business that there is probably very little shipped up at the lowest rate.

Yesterday, Kelly Douglas estimated freight costs at 10 to 12 cents per retail dollar of sales, which is the more relevant measure of freight costs. What we are concerned with is why prices in Whitehorse are above those in Edmonton or Vancouver, and that is on a percentage of a dollar spent. So, the 10 to 12 percent is their estimate of how much of that price spread is due to freight.

Let us see if we can make some sense out of the figures that were supplied by the truckers and by Kelly Douglas. Zenith, who ships for Kelly Douglas, and Alberta Grocers, who ships for Super A, gave us figures on their total pounds shipped.

Kelly Douglas and Alberta Grocers also gave us figures on their market shares of the Yukon wholesale market. Their estimates are consistent with one another — that is, remarkably close. They imply that about 29,000 tons of foodstuffs are being shipped into the Yukon Territory annually, of which over half is being shipped to Kelly Douglas — something over 50 percent — and something over 20 percent is being shipped by Alberta Grocers.

Freight costs, as a percentage of sales, can then be estimated, assuming, say, $32 million in foodstore sales. At the lowest rate that White Pass quoted, two and three-quarter cents per pound, it would be 5.1 percent, or about five percent of the retail dollar. The reason why we cannot use the simple pound figures, I think, should be apparent. If you are talking about a freight cost of, say, 10 cents a pound, and you are looking at potatoes or beets, that freight cost is an enormous percentage of the price of those commodities. On the other hand, if you are looking at steak or lobster, 10 cents a pound is fairly irrelevant, and therefore we need a figure that is more in the nature of a percentage of the price for all the goods shipped.

At the highest rate that was quoted us, nine and a half cents per pound, it works out to over seventeen percent markup. That is well beyond what seems reasonable. Something in the order of six cents a pound corresponds to 11 percent, which is approximately what Kelly Douglas estimated. This seems to be a reasonable amount, a reasonable estimate. It is also close to the mileage charges that we were quoted from Vancouver for a 40,000 pound truck. It would appear that the freight costs are going to amount to, say, 11 percent, — 10 to 12 percent. The differential, that is to say maybe half of the amount that prices in Whitehorse exceed those in Edmonton and Vancouver are due to freight costs, if we can accept this figure. The total cost is going to run somewhere in the neighbourhood of $3.5 million.

There are two ways in which this could be brought down, I think. I do not know how feasible it would be. One would be to use the White Pass route to a greater extent. Those are commercial negotiations that are rather complex and they are none of my business, but if we can take White Pass at their word, they are willing to ship at almost half of what the present costs are. Indeed, they argued in their testimony that their costs would be half of what the present costs are.

Another thing that could be done would be improving the highways. Several truckers testified that there was a substantial premium per mile paid to truckers for travelling into Yukon. One set of figures, for example, was $1.45 mile in the Yukon and $.95 a mile in the south. If we were to take the Government in Ottawa at their word, that they want to provide equal government services, general public services to all Canadians, then I would think it would be worthwhile pressing the case that a substantial portion of the extra cost of food and, no doubt, everything else in Yukon is due to inferior transportation. Since it is a matter that involves two provinces as well as the Territory, it may well require some sort of federal action, or assistance, in improving the road transport. Indeed, I am somewhat surprised, considering how long the road has been in place, that there should still be such an enormous differential over the highways that exist in the south.

Let us turn to the other half. That is, if freight costs amount to about half of the higher costs in Whitehorse relative to the south, I think we have to look at the grocery trade itself here in the Yukon to find the answer to the other half. There are two things that are absolutely essential in the grocery business, both at the retail and the wholesale level, if you are going to survive in a competitive market. If you are not in a competitive market you do not need to worry about what you do.

The first is that a retailer must gain the benefits of mass buying at the wholesale level. The reason for this is that suppliers, such as food manufacturers, give their wholesale customers discounts that are based primarily on volume, volumes that are far in excess of what most individual stores would ever sell. These may run, say, three to five percent on a truckload or a carload. This is a form of price discrimination and I think you could make a case justifying it if these volume discounts were based on costs. To a large extent, I do not think that that is the case. The Combines law that governs these says that it is not illegal, so far as the price discrimination is based on quantity. Price discrimination based on quantity is indistinguishable from price discrimination based on monopoly buying power.

The more appropriate way of looking at it, and perhaps when the *Combines Act* is finally revised, they may change it, would be that such quantity discounts would have to be cost-justified. The problem is this: if you are a national operator, and you have one store located in a remote location, but your head office does mass buying from a supplier, that one store gets the benefits of that mass buying even though the cost of delivering to it might be identical to the cost of delivering to an independent that did not benefit from the mass buying.

The Super Valu store here receives these lower prices because it is owned by Kelly Douglas, which is a large scale buyer. The Super A also receives these lower prices because it is a part owner of Alberta Grocers, and Alberta Grocers is also a large scale buyer. So, both of these stores, at the retail level, one way or another, are going to get the advantages of having a large wholesale connection. The very many smaller stores, and even some of the larger independent stores in the Yukon do not have this connection. That is to say, it is not a very firm connection if it exists. I think most of these stores could be referred to as an uncompetitive fringe. Operators who do have these advantages can compete on the basis of price that these independent stores simply could not match.

The second, very important factor is the rate of utilization. That is to say, the amount of volume going through either a retail or a wholesale outlet. The costs per unit sold are going to fall as the volume increases. The reason for this is that whatever the size of the store or the warehouse may be, there is going to be associated with that enterprise a certain amount of fixed cost: rent, heating, a certain number of staff, and so forth. Substantial portions of these costs would be paid if nothing was shipped. It may go out of business and shut down, but until they make that decision, they are still going to be faced with these overhead costs. These costs do not vary much with volume. The consequence of that is that as the volume increases on a per unit basis these costs fall very substantially.

Let me give you a hypothetical example. It is not entirely hypothetical, it is based on an average of stores that I looked at on the prairies. Consider a store with 10,000 square feet of selling space. If that store sold, say, $1.5 million worth of groceries in a year, the sales per square foot would amount to $150.00, and the cost might be as high as 22 cents. That is, the cost of selling those groceries would be fairly high, it would not be profitable.

At twice the volume, that is if they were selling $3 million worth of groceries, or $300.00 per square foot, the cost might be 17 percent of the grocery dollar. If the situation were to arise where they could double it again and move to $6 million worth of annual sales, or $600.00 per square foot, they would probably be at their least-cost point, and that might be, say, 13 cents. The most efficient stores that I have seen were as low as nine cents. Stores that were operating with a volume that would be comparable to $600.00 per square foot if they were very well managed — the management is very important — might have had costs in the store as low as nine cents, but 13 is perhaps more likely, given the average situation of the store.

That is about as low as the cost could get, because if the volume expanded beyond that, it is doubtful that there would be any advantages. Indeed, the place may become very difficult to run and costs would go up. We could refer to this as 100 percent capacity utilization. I might add that there are stores that achieve that, but there is no market in which all of the stores could achieve that; most stores would be operating well below that level. Fifty percent of capacity would be 17 cents. Twenty-five percent of capacity - 22 cents. Again, you could give or take a couple of pennies on these figures, depending on how well the store is managed, and what its particular product mix is, and so forth.

Since the average gross margin, that is to say, the addition to the laid-in price at the store is 20 to 21 cents. To give a figure, twenty and one-half cents — at twenty-five percent of capacity, this store would not break even; it would be running at a loss if it is a hypothetical ten thousand square foot store. At 50 percent of capacity, they would be making $105,000 before taxes. At 100 percent of capacity, they would be making $450,000 in profits before taxes. That is to say, the larger the volume they can put through, the in-store costs decline at least to some lower limit, and if they are still selling at the same price that prevails in the market, say, 20 percent above what they are paying for the goods, they are making an increasing percentage profit on each dollar of sales at the same time that the volume of sales is going up. While I said that these figures are hypothetical, when I was working for the Batten Commission, I had access to financial data of all the chain store operators on the prairies, all the individual stores, as well as a very large number of the independent stores, and let me assure you that these sorts of figures obtain in practice. There may have been changes since that time, and there may be costs that are peculiar to Whitehorse that would make the costs a little higher or a little lower, but the general principle is, I think, a sound one — that the costs will fall as the volume increases.

Let me compare in very rough terms the operation of Kelly Douglas and Super Valu with the operation of Alberta Grocers and Super A. Mind you, I have not looked at their records; this is just my impression from what they said. Kelly Douglas said that they could easily handle an extra 25 percent in business at both the wholesale and retail level in Whitehorse. That means that if they had a larger volume, their costs would be lower. They could no doubt suffer a 25 percent loss, too, in which case their costs would be higher. Alberta Grocers, on the other hand, said that they are going to build a new and larger warehouse in Edmonton. The same principle applies to a warehouse that would apply to a grocery store, although the numbers are different.

The Super A store here admitted to having problems keeping the shelves stocked, at which consumers complained — they have a special and the item is not there — and they admitted it was a general problem keeping the shelves stocked and they wished they had more selling space. Well, to me, this suggests that they are operating at a fairly high rate of utilization. At both the wholesale and the retail level, they would like to have more space. They think it would be more profitable if they had more space. From this, I would expect, if I were to look at the books of Kelly Douglas and Alberta Grocers and Super A, that Alberta Grocers and Super A would have lower in-store and lower wholesale costs than Kelly Douglas. That is only speculation; I do not really want to see their books, but that is my best guess.

Given these two esential principles, then, that for a retail store to be successful it must have a wholesale connection, so it gets the benefits of mass buying and the volume discounts that go with that, and that it has a very high rate of utilization. What will determine the price in a particular market will depend upon competition. You may wonder why it is, for example, that grocers spend so much time, particularly in the larger super markets, in making the store as attractive as possible, and putting on all sorts of advertised specials, and spending a great deal of money, at least in absolute terms, on advertising, adding various specialty shops such as bakeries and delicatessens, and what not, health foods and imported foods. The whole purpose of that is to increase the rate of utilization. It is a type of sales promotion. It adds somewhat to the cost of the particular store. If they did not carry these items, it might be somewhat cheaper to operate, but having carried these items, they have a much bigger volume of business because they attract additional customers. This tends to lower their costs. What the price is is going to depend upon competition.

Some people have alleged that Kelly Douglas has a monopoly in the Yukon. I would not go along with that. If I had to characterize the market, I would say that it is a duopoly with an uncompetitive fringe. Duopoly means that there are two sellers and the two sellers that are relevant are the ones at the wholesale level. At the wholesale level, Kelly Douglas has something more than half; Alberta Grocers has something more than one-fifth, maybe a quarter, and all the rest split up the market.

Price competition in Whitehorse is rather odd. At least, it struck me as odd, and I will explain to you why. Alberta Grocers and Super Valu use Edmonton prices, which are mainly determined in Edmonton by Safeway, to which they add the freight, with no additional markup. That is to say, they take what they are charging retail in Edmonton, including whatever profit is going to be in that, and they add the freight. That is basically what they are charging in Whitehorse, or that is what they say they are charging in Whitehorse, with minor changes for all sorts of local problems that they may have. Kelly Douglas and Super Valu follow guidelines from Vancouver, which I would have to suppose are determined at least in part by the operations of Safeway in Vancouver. Safeway is one of the largest, if not the largest, operator in both Vancouver and in Edmonton. It is clearly the largest in Edmonton.

Again, the local manager, or section manager, has discretion to change particular prices as he may think appropriate, as was explained yesterday. Since Kelly Douglas is at least twice as large as Alberta Grocers in the Yukon, I think we can conclude that Kelly Douglas is the dominant factor here. However, Alberta Grocers has been growing very rapidly. They said in testimony that they now have seven stores in the Yukon that are affiliated, or actually own Alberta Grocers. The retailers own the wholesaler, in that case. Most of these members have joined Alberta Grocers in the last two years.

S uper A has gone from 1,000 to a 10,000 square foot store, and they also said that in one year they had 100 percent increase in sales, the year they opened the new store. I would conclude from this that Alberta Grocers must be undercutting Kelly Douglas — that is, selling at a lower price. There have been pricing surveys done that indicate that that is the case. Those were not introduced as evidence, and it might be worthwhile having that done.

Consumers are very responsive to relatively minor price changes if they know that they exist. The difficulty is knowing that they exist. Comparing the prices in one store with another is not an easy thing to do and it could not be done in principle in a comprehensive way, simply because they are not the same items, and you are looking at a very large number of items. I do not remember what Alberta Grocers said they carried in number of items, but something in the order of 2,000. The Super Valu store no doubt carries many more than that. Some of the largest stores in the country might carry 15,000, or even more, so that these sorts of comparisons are difficult to make.

When consumers perceive, even incorrectly, as is often the case, that particular stores are cheaper than others, they will tend to switch their business to the cheaper store. This can be estimated. If a store were to cut prices by three percent, which would be quite substantial, the estimates that I have made suggest that they would increase their sales volume by 50 percent, which is a very large response. It is very important, mind you, because their costs are going to fall as they increase their volume. Their costs are going to fall more than that three cents.

What goes on in Whitehorse, itself, is a little curious. In a large city, what all the major competitors would do, as Kelly Douglas told us about in Vancouver and indeed what they do here, and do everywhere, is to check fairly carefully the prices being charged in all the stores, and they do that here. Alberta Grocers said they were not doing that much. That is, they check the advertisements, but they did not check the prices, at least on a comprehensive basis, or regular basis, at Super Valu, which suggests to me that they are indeed charging Edmonton prices, plus freight. So what we may be witnessing is a situation where the prices in Whitehorse, instead of being determined by Safeway in Vancouver plus freight, are being determined by Safeway in Edmonton plus freight. Or, at least that seems to be the direction we are going.

I think it will be inevitable, if Alberta Grocers continue to use this policy, and we assume that they are somewhat under Kelly Douglas, of charging Edmonton prices plus freight, without regard for what Super Valu is doing, or any of the other competitors here, that prices here would tend to be about 10 percent or 11 percent above Edmonton. That is the direction in which they are going. I am a little doubtful that this will occur. Kelly Douglas is larger and stronger financially than Super A, and Super A is very much aware of their inferior financial position, as they testified the other day. I also think that the managers at Kelly Douglas and Albert Grocers are very sensible fellows, or ladies as the case may be, and they are unlikely, if they can avoid it at all, to get involved in cut-throat price competition that may do considerable damage to both. That is to say, in each city where you do have competition arise, there has to be some sort of price structure arrived at, and no one who is going to do business in that city for a very long period of time is likely to ruthlessly pursue a price-cutting policy for very long, because the other stores will have to match it, and if the other stores match it, it wipes out their advantage, so that they are back to where they started, and they are all worse off. This is just speculation, but it is very likely that rather than having prices in Whitehorse go to Edmonton or Vancouver plus freight, it is not likely to go that far. It is likely to stop short of that point, because it would be in their mutual self-interest to do so. That is common sense; they are in business. I am not accusing them of anything, mind you.

This would not happen if you had a larger market. If you were talking about Toronto or even Edmonton or Vancouver, where you have a lot of independent stores, or other stores that have the advantage of mass buying, competing in the market, the tendency is for price competition to push down toward what the national average is. If you have a situation where one chain is overwhelmingly dominant, this might not occur, but it is always possible for new stores to enter.

In Saskatoon, for example, we now have a case-lot operator run by Steinberg's. We have two Dominion stores that have entered in the last little over a decade. If the market is big enough, you will have that sort of competition. The market in Whitehorse and Yukon at the present time is not big enough to afford much more in the way of companies that have a connection with a wholesaler. Those that do not, I think would be well-advised to find one. If you are an independent grocery store, not affiliated with an outfit like Alberta Grocers, and do not have some arrangement with Kelly Douglas that allows you to achieve the benefits of mass buying, you are not going to be able to compete. The reason why outfits like Alberta Grocers have been growing so rapidly, as they are so proud of, is, indeed, so many independent stores in Alberta and now in the Yukon have realized the advantages of joining this sort of operation. Let me leave it at that.

Mr. Chairman: Thank you very much, Dr. Dooley. Perhaps before the Committee Members begin to ask questions, we will have a short coffee break. I know we wish to discuss a few things among ourselves here, so we will take a five minute coffee break.

Recess

Mr. Chairman: We will call the hearing back to order.

Dr. Dooley, Mr. Penikett will start off with a few questions and both Mr. Hanson and myself will ask some supplementaries as we go along. Is that all right?

Dr. Dooley: Fine.

Mr. Penikett: Dr. Dooley, I thank you for your presentation this morning. I would initially like to get some things clear because there has been some doubt expressed about the numbers we do have. That, added to the problem of the numbers we do not have, still seem to give us a bit of cloudy picture.

The retail food volume here concerns me. A great many cruel and unkind things are said about Statistics Canada —

Mr. Chairman: Most of which are true.

Mr. Penikett: — but I have a real problem with the difference between the $32 million figure, an estimate which we have shared with Kelly Douglas, and the Federal Government figure. That seems to be way beyond the bounds of what we would normally call statistical error. Would you care to comment, if you can, on the ways that Statistics Canada would have arrived at that figure and the reason for that size of error?

Dr. Dooley: Their annual figures are collected on a sample survey basis and they would have a master sample. They would follow those particular stores, month by month. If you have new stores entering or some of their sample going out of business, they disappear and they may not revise it very frequently. I think what I should do is look at the census figures for the last census which is now some time ago and see if I can get a better bench mark as to what they should be. They only do a thorough census every 10 years and I think they upgrade this every five.

Mr. Penikett: Is it possible that what we have is a census which is practically 10 years old, that being factored with some kind of national average per capita consumption of food. Is it possible that that kind of computation was used to arrive at the $14.8 million figure?

Dr. Dooley: It could be, yes.

Mr. Penikett: That would explain the error then, given our population growth —

Dr. Dooley: Together with the turnover in stores. Statistics Canada is badly under-funded and I would think that explains a lot of the criticism that they face.

Mr. Penikett: You previously said that they use very expensive methods too.

Dr. Dooley: If they want to do it right, it is expensive.

Mr. Penikett: Explain to me about the stores. I do not understand how the stores arrive at that figure.

Dr. Dooley: Suppose there is a Joe's Market that has five percent of the market —

Mr. Penikett: In 1971?

Dr. Dooley: In 1971, in the sample. It goes out of business and they do not replace it with something else, it would lead to a serious under-estimate. They might have a sample that is a third, a quarter of the total sales, maybe more —

Mr. Penikett: So they are obtaining these figures reported by retailers then?

Dr. Dooley: Yes.

Mr. Penikett: Let me ask you to move on to the question of the percentage of family income spent on food here. I recognize that this is a calculation that you may have to work through. Obviously the higher a percentage of a family's weekly budget taken up by food, the more that expenditure is going to be of concern to the family. Based on what you now know about the market, have you any conclusions about the proportion of the family budget here that may be spent on food compared with national averages?

Dr. Dooley: No. That is the way Kelly Douglas and I both got our estimates of the Yukon market, by taking the number of people and multiply it by something like the national average; we do not have the data.

Mr. Penikett: Let me ask you this question because it is a matter on which this Committee may have to reach some conclusions: are there any sources for data which you have yet to explore but may be available to you that would enable you to reach some conclusions on that question?

Dr. Dooley: I will check.

Mr. Penikett: Let me move on then to the big question, that of the price discrepancy. You have spent some time at the beginning of your comments this morning on this question; you detailed a way in which the discrepancy seems to have narrowed of late, and the probable reasons for that. Can you give us a little more in response to the question raised by Mr. McLellan about the reliability of those figures. You seemed to indicate that since the monitoring had been going on over a long period of time, and since the trends seemed to be fairly consistent, that they were probably generally reliable. Would that be an accurate statement?

Dr. Dooley: I have no reason to question him on the face of it. If they have done it right, the answer should be right. The procedures which they explained in testimony here was the right way to go about it. Those are the answers that they have gotten and the answers are consistent.

Mr. Penikett: Even the government seemed to have some apprehension about the reliability of their figures as they relate to the other communities that were surveyed, Watson Lake and Dawson City. Would you have any comments on the results for those communities?

Dr. Dooley: I would assume their problem there is that they have far too few pairs of items to match. They did not cover the market basket.

Mr. Penikett: What are the consequences for the survey of that?

Dr. Dooley: Well, they discontinued it.

Mr. Penikett: As a professional, if you were analyzing the results, would that cause you to place great doubt upon them? Would they be slightly interesting or would they have any reliability at all?

Dr. Dooley: They are better than nothing.

Mr. Penikett: Better than nothing but not much better.

Dr. Dooley: If I were to analyze it, I would have to spend a lot of time on it and look at it.

Mr. Penikett: Let me go back to a question we have asked all of the witnesses and that is the question of the relative priority or rank for the various reasons we have been given for the higher prices here: freight, wages, energy, excessive mark-ups, all those kinds of things. Now, you indicated in your remarks this morning that freight, from the evidence available to you, was probably was the single most important component in the discrepancy.

Dr. Dooley: Yes. The only identifiable component, I might add.

Mr. Penikett: Could you offer at this time any comment on the relative importance of the other factors that have been complained about during these hearings?

Dr. Dooley: We did not get any concrete information on that. That is, we had little stories. If you are going to talk about comparing the over-head costs in particular, of operating in Vancouver and Whitehorse, you are going to have a long list of items: such things as the value of the real estate in Vancouver obviously is going to increase their costs very substantially relative to Whitehorse. So, even though energy costs might be higher here, you would have to do a detailed analysis of the two in order to explain what the difference is, if there are any.

Mr. Penikett: So you could not, at this point, offer any comment on the relative importance of labour costs or energy costs or any of those things?

Dr. Dooley: No.

Mr. Penikett: After you have been able to examine the transcripts in some detail, will you be in a position to offer any comment on that question?

Dr. Dooley: Probably not. What I would need is an examination of the books of the operators in Whitehorse and compare it either with some national standards which are available — which we should be able to get — or with operations in Edmonton or Vancouver which are out of the jurisdiction.

Mr. Penikett: Let me go on then to an area in which you did reach some conclusions. You talked about freight being 11 cents of the sales dollar here. You talked about a range of fixed costs going from an absolute ideal of nine cents on a sales dollar up to in the 20-some cents. I think you suggested that there were probably not any stores in this market that were close to the nine cent ideal.

We also heard from Mr. McLellan some indication that they were close to industry standards in terms of the range of their mark-up. To the extent that we have figures in those three areas, do they mesh, from your point of view? As an economist, does that sound right? Do those numbers add up?

Dr. Dooley: No, they do not add up. If the mark-up were the same in Whitehorse and Vancouver or Edmonton and the freight is 11 cents, the difference should be 11 cents.

Mr. Penikett: Can you venture any further comment on that?

Dr. Dooley: Well, the explanation that I have offered tentatively is that there was perhaps a lack of competition for some time which seems to be improving which would allow, particularly if you look at the more remote towns, the store manager or store owner to charge more or less what they please. The more competition, the less likely they are going to be able to do that.

Mr. Chairman: Now that we speak about competition, you have already stated that possibly the introduction of Super A has served, to some extent, to lower food prices or to decrease the rapid increase of food prices in the City of Whitehorse at least. In your opinion, would more competition such as another wholesaler or retailer in the City of Whitehorse help to lower prices even more?

Dr. Dooley: I think the only way in which additional competition could successfully enter the market is the way in which Alberta Grocers and Super A have done. They have started out small and gradually increased their shares. There are any number of companies that do a business not unlike Alberta Grocers; indeed there are some operating not far from here in BC; or Federated Co-operatives could do it. They run a very large number of co-operative stores and they are a large billion dollar wholesaler so they would get the advantage of mass buying. That sort of thing essentially depends upon an entrepreneur seizing an advantage and developing it.

Mr. Penikett: What you are saying is that there really is not any room for a Safeway here?

Dr. Dooley: Safeway's basic marketing strategy has been to locate the majority of their stores in very large cities relatively speaking. That is to say in the Vancouver, Edmonton, Calgary cities and have maybe two or three dozen stores, launch a very heavy advertising campaign which, on a per store basis, is very cheap so they can beat their competitors very badly on advertising.

I might also add that they are a very well-run company. They look after the details of their operation very thoroughly; they have management training programs; they keep their stores up to snuff and run a better shop than the average.

Mr. Penikett: Let me pose the question to you again: is there room for Safeway in this market?

Dr. Dooley: Given their marketing strategy, I would be surprised.

Mr. Chairman: I am curious about retail space as it applies to the number of dollars that are available in the Whitehorse market. We are using Whitehorse as an example and we have possibly two-thirds of the Yukon's population. Basically there is $20 million a year available in the City of Whitehorse for the retail market trade. Based on your calculations of trade necessary per square foot to keep a retail operation in business, can you give me a rough idea of how many square feet of retail trade in the City of Whitehorse we would need to have to handle that $20 million worth of business?

Dr. Dooley: At a least cost?

Mr. Chairman: Let us go at a least cost.

Dr. Dooley: At least cost it would work out to something in the low 30s.

Mr. Chairman: In the low 30s?

Dr. Dooley: Yes. There would not be much room for anyone besides Super Valu and Super A. If they were the only stores, they would come up to about what you would need as an engineering estimate. I do not know what the rest of the market is, how large the other stores are, but my guess would be that the amount of capacity in Whitehorse for the sales volume, assuming we have the right sales volume figures, is about average.

Mr. Chairman: I believe we talked about this once before.

You said that probably 150 percent of the least cost is generally available.

Dr. Dooley: It is very typical to have excess capacity defined in terms of 100 percent being the least cost point of 50 percent which would give you in-store operating costs of say 17 cents.

Mr. Chairman: Why is the 150 percent figure typical?

Dr. Dooley: It is the way in which the competition in the business is done and not the only business. If you were running the government liquor stores, you have a monopoly and you can do your market calculations very exactly; you set up stores in very good locations which have enormous volumes and, having looked at those figures on occasion, generate incredible profits. There is no business in Canada, in terms of profitablity that matches the government-owned liquor stores.

If you had a competitive market; if you said, "Okay, now, let's throw it open to competition," given the profits that are made, you would immediately have a very large number of independent liquor stores. In areas where you have complete free competition in the opening of liquor stores, you might find one a block. People would enter the market until there was simply an enormous excess capacity. Something of the same sort happens in the grocery industry. If a chain market, for example, discovers that it has a store that is operating at a very high level, earning very high profits, they themselves will tend to build a store not far from it, rather than have one of their competitors do it and take the business away.

Mr. Chairman: So what you are saying is that it is a kind of "protect your market" philosophy.

Dr. Dooley: It is not a perfectly competitive industry and it never will be.

Mr. Chairman: Which is one of the reasons why most of the retailers in the City of Whitehorse do not want their profit figures known, nor their amount of the trade.

Dr. Dooley: Right. The location is important.

Mr. Penikett: Let me, Dr. Dooley, explore for a moment, an area that you touched on. That was the co-op alternative. You mentioned Federated Co-ops, and of course you reside in a province where I would suspect that the co-op stores have a pretty large chunk of the market, even in the food business. I am not sure but perhaps you would comment on that.

There are, to my knowledge, several small co-ops around the Territory. Most of them, I suspect, are what you would call buying clubs rather than store-front operations. Can you give me any idea as to how viable a kind of competitor a co-op can be or whether that is a price alternative for very many people, even in the market where you live for example. Is it an issue that was dealt with at all by the Batten Commission?

Dr. Dooley: Yes, it was. Federated Co-operative is a fairly large wholesale buyer and so they do get the volume discounts. The pricing policy of the co-ops is quite different than most other stores. Their object is to meet all legitimate low prices of their competitors with the exception of loss leaders; that is, they are not going to sell things below cost but they will meet all other prices. That tends to give them the lowest prices — at least it did. At the time I did my studies, the co-ops did have the lowest prices in the city by a small amount.

Mr. Penikett: Which city?

Dr. Dooley: Saskatoon, Calgary, Regina, as best as I can recall.

Mr. Penikett: Let me ask you then, because you indicated that that may not still be the case how are they doing in the market in which you live? Do they have a very big share of the market? Are they growing; are they getting smaller? What is happening?

Dr. Dooley: I would expect that their share is about the same.

Mr. Penikett: What is that share?

Dr. Dooley: I do not remember. Ten percent would be my guess; maybe 15.

Mr. Penikett: From your point of view, have they proved to be an economically viable alternative in terms of price competition? You said they are lower, but have they withstood the tests of competition in very many markets in the prairies?

Dr. Dooley: The essential problem with the co-ops is finding good management. If they have a good manager, they will do extremely well. The management is critical. They have a lot of small stores operating around the prairies, some of which do not do very well and go under.

Mr. Penikett: You previously cited the necessity for a retailer to have an established relationship with a wholesaler. You also indicated that Federated Co-ops is a fairly large organization; would that hold true for the co-ops too, that without a connection to such an organization as Federated, they cannot function competitively?

Dr. Dooley: I would expect that they would have great difficulty.

Mr. Chairman: Dr. Dooley, we have made a habit throughout these hearings if members of the public or interested parties have questions that they would like to ask a witness, we have asked them to submit the questions to one of the three Committee Members and we will ask them of the witness. We have had some questions given to us. I will just make the statement on a couple of them here and then answer them myself because they dealt with previous witnesses' testimony.

When Super A testified — and perhaps you can correct me if I am wrong on this, — they did at the time read off a number of new stores that they had established in Yukon over the last year, and I believe the number was seven new stores, is that correct?

Mr. Hanson: New customers, not new stores. They were existing stores.

Mr. Chairman: Existing stores that had transferred to the Alberta Grocers' name. I believe it was seven that they have.

Dr. Dooley: Seven in all and most in the last two years was their statement.

Mr. Chairman: I think that was their statement, right.

The other thing that you mentioned just awhile ago was the White Pass container rate, the freight rate that White Pass testified on. Perhaps you can go over that one more time, just to clarify it.

Dr. Dooley: Their statement was that they could deliver dry groceries at half the transportation cost of truckers. That statement appears to be correct.

Mr. Chairman: I have written down here from White Pass testimony that they quoted us $1,100 per container in volume and it was our understanding that each container could handle approximately 20 tons of dry groceries, is that correct?

Dr. Dooley: Yes.

Mr. Chairman: That is where that number came from.

I guess those are the only ones I have. I believe Mr. Hanson has a couple.

Mr. Hanson: Does Dr. Dooley not consider freight assistance or freight prepaid a factor in his assessment of food prices in Yukon? That is the question.

Dr. Dooley: We did not get any really very hard data on that. Kelly Douglas said it was an important factor for them; Alberta Grocers did not mention it. Apparently from the way they do business, they would only get it to Edmonton.

Mr. Chairman: One of the questions that comes to mind as a result of the freight assistance is quite simply: if the freight assistance is being passed on to the retailers, then it would appear to me that perhaps freight does not represent a 10 or 12 percent increase; perhaps it only represents 8 to 10, if the freight subsidies are being applied. Or did you take into account the freight subsidies when you arrived at your 10 to 12 percent number?

Dr. Dooley: I did. When I was working through Kelly Douglas' figures, roughly — they did not give us the exact figures but they gave us what they thought would be reasonable. Working through those figures, they seem to be reasonable.

Mr. Chairman: Was the figure you used of roughly 25 percent the same as the figure that Kelly Douglas and I agreed to yesterday.

Dr. Dooley: Which 25 percent?

Mr. Chairman: Twenty-five percent of the total freight bill would be some —

Dr. Dooley: I did.

Mr. Penikett: I believe the indication we had yesterday, Mr. Chairman, was that it would be 15 percent without those discounts, without the prepaid portion.

Dr. Dooley: They indicated that they were paying something on the order of eight cents a pound — knock off 25, you get six. Six is 11 percent of the retail dollar.

I might add that six is also double what White Pass would charge and they say their best estimate was that truckers were charging twice what they would charge, so the figures seem to make sense.

Mr. Hanson: That probably is based on the fact that there would be a backhaul.

Dr. Dooley: It is also consistent with, at least from Edmonton, $1.45 a mile on a 40 ton truck. Give a penny one way or the other, all the figures come out about the same place.

Mr. Hanson: On stores' break-even point you dealt with square footage and volume with no mention of other cost factors of significance, such as wages, energy, rent, taxes et cetera. Could Dr. Dooley explain why these items were not considered in the store break-even comment?

Dr. Dooley: For a particular store, they may well be important; it would move the break-even point one way or another, but whatever they are, the overwhelmingly important factor would be high volume.

Mr. Chairman: What you are saying is that the efficient volume that you can run through a store of any given square footage does not change no matter what your overhead costs are?

Dr. Dooley: No, they do. As I say, the least cost you might get is nine cents at full capacity, because of a very large number of factors, which we have not yet begun to go into. That might well be 15 cents in some stores, if the particular costs are very high. If it is primarily a small pick-up store, for example, where you have shoppers coming in spending $10 at a time instead of $100 at a time, it is going to be more expensive to run. There are going to be very many factors that would affect it. I do not think that the wage costs alone would be sufficient to make that much difference. An extra 10 or 15 percent on wages, or 20 percent on wages, giving the retail store wage as a percentage of the retail price of food is not going to make a great deal of difference — maybe a penny or two at the outside. That is just going to be swamped by the rate of utilization.

There have been studies done on this, and I would agree with the statement that Kelly Douglas made that, on the whole, unionized stores have higher costs than non-unionized stores. Due to unionization, they generally have higher wages. I am not denying that it is a factor; it is not the critical factor. It is not what is going to bankrupt them, or make them an enormous profit, either.

Mr. Hanson: How does Dr. Dooley know that wholesalers do not pass on the advantages of volume buying to independent retailers?

Dr. Dooley: Kelly Douglas said that they did it on a volume basis, and they gave a maximum of three percent. As a small retailer, you are not getting that full benefit.

Mr. Chairman: The three percent does not sound like a huge number while we sit here and talk about a dollar; it is only three cents, but you are a small retailer doing, say, $100,000 a year, it makes a difference of $3,000 in costs or profits.

Dr. Dooley: In a highly competitive market, three cents on the dollar is critical. It is very significant. The profit margin on sales in the retail grocery business is about one cent at the retail level; three cents is therefore very significant. That is why the management of stores and warehouses is so very critical. It does not take much of a foul-up to turn a profitable operation into an unprofitable one, if you are in a very competitive market.

Mr. Penikett: Dr. Dooley, may I change pace a little bit, because we are going to be hearing from you and talking to you again about some of the details. I know there is some information that we do not have that we still hope to obtain, and that may have some bearing on your findings.

Let me ask you about some trends in the industry. We have heard recently about a new phenomenon in the United States called food warehouses, where people go in with great shopping carts, load up with case lots in a simple, low-grade, cheap, huge operation. Can you tell us what kind of alternative styles of merchandising are happening to meet consumer demand for lower prices or more reasonably priced food?

Dr. Dooley: I think the people from Kelly Douglas could give you a better assessment on that than I. Loblaw's, on the prairies, have experimented with a variety of different types of concepts. They have probably experimented more than any other operator. How successful they have been, I do not know, but there are many different types of stores that are surviving. One is the mini-store; there are moderate sized superettes, of say $4,000 square feet. There are large warehouse-type, case-lot-and-you-mark-the-price-yourself, dry groceries only, sorts of operations. How relatively successful they have been I could not say, except that many of them have survived, but the market is still dominated by the luxury supermarket. The consumer likes those big stores.

Mr. Chairman: That has to be one of the big reasons why the large store supermarkets are still here, is that correct?

Mr. Penikett: Can I explore that a bit? We have heard a lot about the cost of packaging and advertising. We also heard from Mr. McAneeley yesterday, and this is kind of a Catch 22 proposition, that those are the things that attract people to the stores, about how people tend to buy the more attractively packaged products. One hears that there is increasing consumer resistance to costly advertising and packaging. As a politician, constituents occasionally complain to me about that kind of waste, as they see it. Is there any trend away from that elaborate packaging and advertising in the industry?

Dr. Dooley: There are two types of products that do not have advertising. One is the private label, which is put up in basically the same format as a major manufacturer's, but it would have, say, Safeway's private label on it. The other would be the No-Name that we heard discussed yesterday. I am reasonably certain that Safeway's private labels have been very successful. How successful the No-Name concept will be, I do not know. Apparently it is growing, from what we heard. They do have, on many items, a very substantial cost advantage. On some manufactured foods, the advertising costs could be one-third.

Mr. Penikett: We are going to come back to you in some detail on these questions and we are going to want to know what kind of things you need to know in order to draw some conclusions in other areas.

Let me give you a proposition. Imagine an extremely unlikely possibility. I am a wealthy person in the food business. I decide, based on your considerable reputation in the academic community, and your experience with the Batten Commission to hire you as a consultant.

Dr. Dooley: I would charge more.

Laughter

Mr. Penikett: But I do not want you wasting a lot of my time; I want to you to spend three or four days in Whitehorse and that is about it. I have decided that for some reason I like fishing up here in the summer so, for a bit of an experiment, I am going to move in on the market here. I think prices are a little high; I think there is room here for some more reasonably priced food. I want you to advise me how I could move in on the market here and bring lower priced food to consumers of the Territory. What kind of operation should I set up? What would you advise me to do?

Dr. Dooley: Sticking to firm ground, I would advise youdo the same thing that Alberta Grocers and Super A have done: I would not come here and drop a bundle of money.

Mr. Penikett: Alberta Grocers are already here. Can I compete with them?

Dr. Dooley: I would think so.

Mr. Penikett: Would I look for some established retailers and try to get them into a wholesale arrangement with me?

Dr. Dooley: Yes.

Mr. Penikett: Is there room for new stores and what kind of size?

Dr. Dooley: I have no idea what the total number of stores are or where their locations are, how large they are. That would have to be studied carefully.

Mr. Penikett: Basically, you would look to the Alberta Grocers' model as the way for me to compete in this market.

Dr. Dooley: I would start small, but then I am not likely one to lose a lot of money, either.

Mr. Penikett: Let us assume it is my money. Would you still advise that?

Dr. Dooley: Yes, I would advise you that way.

Mr. Penikett: Can you add any more detail to that? You would advise me to set up a small corner store, or a small supermarket? What would you be talking about?

Dr. Dooley: Assuming that you are in the grocery business and know a great deal about the details of its operation, I would suppose, given that knowledge, which is critical, that you would have a very difficult time to come in as a major distributor. That is, if you want to build a store the size of the Super Valu store a few blocks away, one of the two of you, and more likely you than Super Valu because they know the market better than you, would not survive.

Mr. Chairman: On that comment, I think we will draw to a close. Dr. Dooley, thank you very much for coming here with us.

I think we should explain to everyone that Dr. Dooley will continue to advise us as we go along. He will be analyzing the transcripts of all of the testimony given over this past week. We will also be sending letters for further information and clarification of some of the information that we have received to all of the witnesses that have appeared before us.

Public hearings will start in approximately one and one-half weeks. On September 14, we will be touring Yukon. We hope to be visiting almost every community in Yukon and holding public meetings. September 21, I believe, public hearings will start in Whitehorse.

At this time I would like to take the opportunity to invite anyone who wishes to appear as a witness. Even if you just have some concerns about the industry, you are welcome to appear, and make your views known.

After that, we will be attempting to analyze the masses of information that we have compiled to date. Hopefully, the Committee will come up with a report sometime in November for the Legislature. We hope to present it to the Legislature in the Fall Session.

Thank you again, Dr. Dooley, I look forward to speaking with you again in the future.

Dr. Dooley: My pleasure.

Mr. Chairman: I would like to also take this opportunity to thank each and every one of you for appearing here. I think you have made the hearings interesting, not only for us, but for the witnesses themselves. Thank you.

Adjourned