

## Loblaw<sup>®</sup> Tries To Exercise Its Muscles

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Loblaw<sup>®</sup> Companies Ltd. is the largest retail food distributor in Canada, with over 139,000 full- and part-time employees in over 1,000 corporate and franchise stores under various banners across the country (e.g, Loblaws, Zehrs, NoFrills, and Dominion Supermarkets; Loblaws Superstore, Real Canadian Superstore, Atlantic SuperStore)([loblaw.ca](http://loblaw.ca)). While the 1994 entry of Walmart to the Canadian market ([walmartcanada.ca](http://walmartcanada.ca)) was of limited concern to supermarkets, because of the limited grocery lines carried, the start of the development of the Walmart Supercentres in 2006 ([walmartcanada.ca](http://walmartcanada.ca)) was a different story. These latter stores combined a full-service supermarket operation and the normal general merchandise operation of Walmart under the same roof. As a result of this new market development, all Canadian supermarket operations located where a Walmart Supercentre exists have to find ways to remain price competitive in order to survive. By the end of 2009, Walmart plans to have 82 supercentres operating in Canada (Flavelle, 2009) within its current 318-store operation ([walmartcanada.com](http://walmartcanada.com)).

While Loblaw had to worry about the new “kid coming on to the block,” since many grocery shoppers shop on the basis of price, it also had to worry about having the merchandise advertised and regularly sought by shoppers available at the right time and at the right place. Prices are not of much concern if the desired item is not in stock.

In 2006, Loblaw was having a difficult time maintaining the required inventory due to the failure of suppliers meeting required delivery schedules. Loblaw decided to address this issue by instituting a penalty system against suppliers who failed to meet delivery and inventory requirements (Strauss, 2006). No-shows, late delivery, and improper condition of merchandise are the problems being faced by Loblaw (Strauss, 2009).

The penalty structure involves a \$1,000 fine being levied against a supplier each time an order is late or the order fails to meet the required conditions (Strauss, 2006). Orders will actually be denied if the required conditions are not met (Strauss, 2009). Walmart also uses a “penalty” approach with suppliers (Strauss, 2009).

One underlying reason for implementing the penalty system is that Loblaw assigns personnel and equipment based on the expected arrival of orders (Strauss, 2009). If there are problems with orders, then the assigned resources are wasted and customers can face out-of-stock situations (Strauss, 2009).

**Focus:** Retailer, inter-type competition (horizontal conflict), intra-type competition (horizontal conflict), vertical conflict, price level policy (i.e., at, below, above),

conflict, power, types of power (reward, coercive, referent, expert, legitimate), market development, indirect channel.

### Questions:

1. Define each of the concepts identified above. Explain how each concept applies to the situation described in the case.
2. If you were a supplier who faced a delivery penalty levied by Loblaw, what could you do? Explain your answer in the context of the concepts of conflict and power.
3. What if a supplier such as Procter & Gamble, General Foods, or General Mills was assessed a delivery penalty by Loblaw and decided to refuse to deal with Loblaw in the future, what do you think Loblaw would do? Why? Explain your answer in the context of the concepts of conflict and power.
4. What if a contract manufacturer that produced a significant number of private labels for Loblaw was assessed a delivery penalty, what do you think the manufacturer would do? Why? Explain your answer in the context of the concepts of conflict and power.
5. What if a supplier that did \$10,000 in yearly business with Loblaw, company with about \$31 billion in yearly revenue, faced a delivery penalty levied by Loblaw, what do you think the supplier would do? Why? Explain your answer in the context of the concepts of conflict and power.
6. Conceptually, what is the nature of the conflict between Loblaw, the supermarket, and a Walmart Supercentre? Explain your answer in the context of the concepts of conflict and power.
7. Conceptually, what is the nature of the conflict between a Loblaw Supercentre and a Walmart Supercentre? Explain.
8. What price-level policy does Walmart try to follow? Explain.

[Sources: Flavelle, Dana. (2009, February 27). Wal-Mart closing Sam's Clubs. *Toronto Star*, <http://www.thestar.com/Business/article/593834>. (2) Loblaw website: [http://www.loblaw.ca/en/abt\\_corprof.html](http://www.loblaw.ca/en/abt_corprof.html). (3) Strauss, Marina. (2006, October 16). Loblaw to levy fines in crackdown on suppliers. *Toronto Star*, p. B3. (4) Walmart Canada website: [http://www.walmartcanada.ca/Canada-About\\_Walmart.jsp](http://www.walmartcanada.ca/Canada-About_Walmart.jsp)]