

THE EXCHANGE

Food for thought

Michael Medline has never been one to hold his tongue, and right now especially, he has a lot to say—about supply chains, inflation, price fixing and his soon-to-be-former rival-in-chief

BY TREVOR COLE

When he grabbed the controls of Empire Co. at the beginning of 2017, Michael Medline knew he had a challenge ahead. He was a hard- and soft-goods retailer from Canadian Tire with no experience as a grocer, and the company he found himself piloting needed to be pulled out of a scary tail-spin, and fast. What he couldn't have known is that saving Empire would be only the first of his troubles. Storms and controversies—from a price-fixing scandal to a pandemic to a toxic relationship with suppliers—have battered Canada's grocery industry throughout his six-and-a-half-year tenure. And Medline's penchant for saying what he really thinks has helped stir things up even more. Now he's arguing for an industry code of conduct, dealing with the aftermath of a cyber attack, and fighting accusations that Canada's Big Three grocers are profiting from inflation. It's a lot. We spoke to him at Empire's Mississauga office in late April.

How does it feel to be one of the leaders of a reviled industry?

I love my job, and sometimes jobs are a little tougher than normal. I think that it's an industry, I'll agree, that has lost some trust. And part of that, I really understand. Prices are up the most in 40 years. So I don't expect people to be happy about that. At the same time, I think there's a false narrative out there being propagated, that grocers or retailers are taking advantage of the situation, which is completely untrue.

Do you think the bread price-fixing scandal, which was before your time, contributed to the lack of trust?

Yes, would be my short answer. The long answer is that our company, Empire Co., had nothing to do with bread price fixing. (1)

What's your understanding of what happened?

Around seven years ago, our largest competitor went to the authorities and said they had found that they'd been involved in bread price fixing. Two years later, that became public. And at the same time, the largest competitor threw pretty well everybody else under the bus. We ferociously defended ourselves. I've not seen one iota of evidence, in all these years, that we did anything wrong. But that kind of narrative gets out there, and it influences trust in the industry.

Do you have a simple answer for why food inflation, at 9.7%, is higher than headline inflation?

Yeah, 'cause it's predicated on different things, and it's not affected as much by interest rates. First of all, the war in

1. In late 2017, Loblaw Cos. Ltd. publicly admitted it was part of what it called an industry-wide scheme to fix bread prices for 14 years, then offered customers \$25 gift cards to atone.

2. On March 8, Medline, Galen Weston Jr. of Loblaw and Metro Inc.'s Eric La Flèche appeared before the House of Commons Standing Committee on Agriculture and Agri-Food.

Ukraine has an incredible impact on the input into grocery. Grocery came a bit later than most inflation, and it stuck around a bit later, and now we're seeing it ebbing and abating. We'll see grocery come down to the levels of the rest of inflation, and maybe even lower, in the next number of months. But the underlying issues are just completely different.

During a parliamentary committee hearing on food inflation, (2) NDP leader Jagmeet Singh asked this of Galen Weston Jr., so I'll ask you: How much is too much profit for a grocer?

A company's purpose, let me be clear, is to make money and stay strong. But always within the law and with values. Our teammates, our stores, the communities we serve and our country need us to be strong. And Empire Co., when you look at all the empirical data, has definitely not profited from inflation, and a return on capital is certainly not out of line. I took over a company, six and a half years ago, that was in desperate straits. A company that wasn't strong, could not invest in stores, in our teammates, in our communities, in our country. Then we strengthened the company. On every metric over the past five years, we strengthened that. Not because of inflation. Despite it. At another parliamentary committee hearing in 2020, you felt compelled to say, "Dividends are not a bad thing." Do you find that politicians lack understanding about the realities of business? Six and a half years ago, we couldn't raise our dividends very much. Well, a lot of people, and a lot of pension funds, a lot of



people who work really hard, depend on Empire Co. paying the dividends and being a strong company. And we weren't doing that. And now, not because of inflation, but because of our people and the efforts they put in, we're able to do that. So, to talk about dividends as a bad thing, when they're so helpful to so many Canadians, I really don't have time—I don't love political theatre. And so when things aren't fact-based, they bother me. And then sometimes it boils up and I say something. (3) **You told the committee that Empire's profit margin was 2.5%. Galen Weston said Loblaw's profit was \$1 out of every \$25 spent, so 4%. Why is your margin so much lower?**

Part of why our margin could be lower is just a different business mix. (4) And part of it is that we don't make as much money at this point. We just finished a six-year turnaround, and we're not as profitable.

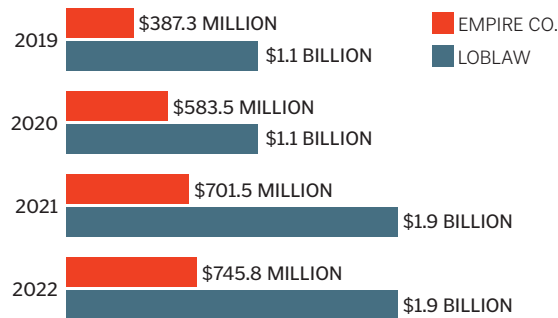
You mentioned that when you joined in 2017, Empire was in desperate straits. What was it getting wrong?

Look, the people were great. We have a great culture. It's over a hundred years old. It always comes down to leadership and decision making. The fact was that we had made some poor decisions and let down our teammates.

Can you give me an example or two?

We made a great acquisition of Safeway, which is a fantastic brand, and we did a really poor job integrating it. We had lost track of what it means to compete and to price right and to have the right products in the stores. We had lost track of how to be an efficient company. When a company loses its way, it really loses its way, and we didn't have any compass. We have 130,000 teammates, many of whom are the same today as they were back then. We just had to give them the tools to be able to compete. And so we did two

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3. In October 2020, on relations between suppliers and retailers: "This is the worst relationship I've seen in my couple of decades in retail." In September 2022, on accusations of gouging: "I am tired of these armchair quarterbacks... pontificating about how Canadian companies are reaping unreasonable profits on the back of inflation."

4. At the hearing, Weston argued much of Loblaw's profit came from its pharmacy division, including Shoppers Drug Mart. Medline admitted pharmacy made a minor contribution to Empire's profits.

5. Project Sunrise, launched in mid-2017, cut \$550 million in costs and restructured operations. Starting in July 2020, Project Horizon saw Empire invest \$2.1 billion to renovate and build stores, expand e-commerce, and convert up to 35 stores to FreshCo. The goal: a \$500-million increase in yearly EBITDA.

three-year projects—Project Sunrise, Project Horizon—to really grow our sales and be more efficient. And it worked. (5)

What was the hardest thing to change, internally?

The hardest thing was when you're losing, you lose your confidence. You make terrible decisions. And it was to instill confidence in the team, even before confidence was deserved, I suppose. That we were winners. The first speech I gave here, I said we were diamonds. We just needed some polishing and then we'd shine. And I had to portray what the future would look like before people could actually experience it. Like, what it would feel like. And there's a ton of business decisions we had to make, so very quickly. But most of it was just giving the confidence to our people. That kind of winning attitude.

You mentioned the poor integration of Safeway. What was different about the way you incorporated Longo's and Farm Boy? (6)

When you're buying or partnering with another organization, you have to really respect why they were successful. You have to learn their history, you have to let them do things their way, and if they want some help from the mothership, that's their business to ask for it. I had learned a lot at Canadian Tire when I led the Mark's and Sport Chek acquisitions. What you're buying is a culture. The customers already should love that brand, and do not disturb it. You get

more out of it.

When you were let go from Canadian Tire, it was said the board was unhappy with the slow pace of the online effort. What did you learn that you've applied to Empire's online effort, Voilà?

I think we were absolutely on the right track at Canadian Tire. So, what was written was completely false. I'll, first of all, straighten that out.

But that was the perception, correct?

Well, yeah. There's a difference between perception and reality, Trevor, as you know. And I've always been, I think, at the forefront of digital and e-commerce innovation. And that is absolutely key, not just because you can make more money, but because customers are looking for that from companies now. It puts a halo effect on all your business. And if you don't do it, you're dead. What I did take from Canadian Tire was the importance of digital. And I found in grocery, it's actually—even though you have ambient and chilled and frozen—it's actually easier, because of the size of the SKU. Almost all our SKUs in grocery fit into a bag. And I've been a proponent for a long time that picking from stores is certainly not the future for e-commerce. Someone at this company put me onto a company called Ocado, (7) which was the world leader in e-commerce technology. My chairman and I went over and visited them. We were blown away by the technology and what it could be in Canada.

Very quickly we made sure that we had the exclusive rights to the Ocado technology. Ocado's exclusive to one large grocer in each region of the world. And we were fortunate to make that partnership.

One of your other big moves was to end your relationship with Air Miles and partner with Scene+. Why make that change?

We felt we had to have more control and ownership over

whatever we went into. But we also didn't want to go it alone. So we're part of a very good group, but we are able to control the fate of that entity, (8) and we're able to use data and personalization, increasingly, to serve our customers. We had so many entreaties from other parties to join, because we're a grocer. Everyone wants a grocer in a loyalty program. And we're national.

You suffered a cyber attack recently that cost you \$32 million dollars. What did those losses include?

And that's post-insurance. That included everything from the fact that our pharmacies weren't open for a few days, to some losses in our supply chain, to some lost sales, and other things. It's all over the business. It also entailed replacing some of our hardware. And it's not only the financial losses. It's also, for a number of months that's all you worked on. And it takes you off whatever else you were working on. As I said on our conference call, it's a nasty piece of business. **Let's go back to a big issue that came up during the committee hearing: the relationship between grocery suppliers and retailers, and the need for a code of conduct. You said that when you started with Empire, you were "shocked" at the relationship between those two entities. What exactly was going on?**

Too much time was spent arguing, each side trying to gore the other. It wasn't enough about the customer, how to make it more efficient, to lower prices. I'd known it was a bad relationship; I hadn't realized how poor it was. It took a couple of people, who came to me separately. I didn't know anything about a code in other countries, and they began to educate me. And I realized that there were better ways to do business. That doesn't mean you have to be weak. It doesn't mean you don't negotiate. We still expect people to deliver on



time, in the quantities we want. But to retroactively bill people for your capital, for things like e-commerce, to just, anytime you need some money, go to the piggy bank and try to get it out of the CPG [consumer packaged goods] companies, it just wasn't the best way to do business.

I think there should be some rules and ethics. And so we're developing the code. In May, we'll be sending out a draft for public comment. (9)

You've said you'd support government regulation if needed. Who's with you on that idea?

From the retailers, I don't think anyone's with me on that. From the CPG companies, I think almost all would agree with that. I'm leery of government regulation. It's better to do it alone. But what I don't want is a code where a couple of us are following it, and the rest of the industry does whatever it wants.

How have you changed, as a leader, over the last number of years?

I still like velocity. I still like making decisions quickly. But I've become more patient and think about things a lot harder. And I talk to more people. I like to ask questions and try to learn.

You've said that you've gotten more demanding. What do you demand more of now?

I'm a loyal person, but you have to be able to get results. And

6. Empire acquired Farm Boy for \$800 million in 2018. In early 2021, it announced a deal to buy 51% of Longo's, including its e-commerce service, Grocery Gateway, for \$357 million.

7. Ocado Solutions, part of U.K.-based Ocado Group, partners with leading grocery retailers—including Kroger in the U.S., Coles in Australia, AEON in Japan and Morrisons in the U.K.—in the use of its "Ocado Smart Platform."

8. In June 2022, Empire teamed up with Scotiabank and Cineplex, trading access to its customer base for a one-third stake in Scene+.

9. On May 3, an industry steering committee released its proposed final draft of the grocery code of conduct. Industry members have until May 30 to offer input.

you have to be able to do what you said you were gonna do, within reason. But also, I like sports, right? So, you may be a great individual contributor, but if you're not good on a team, you can't work here. We need everyone pulling together. That doesn't mean everyone gets along. But it can't be about you. It's got to be about the team. And when I think it's about you, it's probably time that you go do something else.

What's your end goal for Empire? What does "job done" look like?

Our goal is to be the greatest retailer in Canada. Not just the greatest grocer. We're not there yet, but we have everything in place where we could be there, with the right decisions and the right people in place. And when I leave, I hope we've put them in place to be able to do that. We've got great young people here, great leaders. We attract and retain now, like never before. So, I'm very confident in this place.

A few days before this interview, it was announced that Galen Weston Jr. was leaving Loblaw. He's somebody you've battled fiercely. Do you have any parting words for Galen?

I had a surprising reaction to that. I was very disappointed to learn Galen was retiring. I enjoyed competing with him, and we certainly did have some major differences of opinion. But his company performed well during his tenure. And when you think about it, and step back, the Weston family's done right by Canada. Gave more people jobs than anyone in the history of Canada, other than probably the government. And that's something to respect. So, at the end of the day I'm sorry, on a day-to-day basis, we won't be competing.

This interview has been edited and condensed.

Trevor Cole is the author of five books, including the novel Practical Jean, which won the Stephen Leacock Medal for Humour.