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SPECIAL COMMITTEE ON FOOD PRICES

HEARINGS

Thursday, September 3, 1981

Chairman: Doug Graham, M.L.A.

SPECIAL COMMITTEE ON FOOD PRICES

CHAIRMAN: Doug Graham, M.L.A.

MEMBERS: Peter Hanson, M.L.A.

Tony Penikett, M.L.A.

Missy Follwell
Clerk to Committee

Wynne Krangle
Committee Researcher

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

WITNESSES:

Doug McLellan, President, B.C. & Yukon Division, Kelly Douglas & Company Limited

E. McAneeley, Wholesale Branch Supervisor, Kelly Douglas & Company Limited

Shirley Anne Brown, Director of Communications, Kelly Douglas & Company Limited

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Mr. Chairman: I will call this session of the Special Committee on Food Prices to order.

I am very pleased to welcome as witnesses this morning Mr. Doug McLellan, President of the BC & Yukon Division of Kelly Douglas Company, Mr. Ed McAneeley, the Wholesale Branch Supervisor, BC & Yukon Division, and Shirley Anne Brown, who is the Director of Communications for Kelly Douglas Company, Limited. Welcome, thank you very much for coming.

First, I will go through how we have been operating to date. One of the three Committee Members usually will begin with a series of questions. At times, other Committee Members will jump in when a question occurs to them. We are trying to remain on one topic until it is exhausted; however, from time to time, we jump around, so please bear with us.

We have basically been starting off with a general idea of the background of the company, the history of the company in the Territory.

I will introduce the Committee Members. On my left is Tony Penikett, MLA for Whitehorse West. On my right is Swede Hanson, MLA for Mayo. My name is Doug Graham; I am the MLA for Porter Creek West. On my immediate right I have Dr. Peter Dooley, who is Professor of Economics from the University of Saskatchewan in Saskatoon. Dr. Dooley is serving as an expert advisor to the Committee during these hearings.

I will lead off with some general questions about your company here in the territory. Perhaps you can give me a brief history of the company and also some general comments about your operations here in the territory.

Mr. McLellan: We are glad to be here. I think it would be appropriate to say that we have been in Whitehorse, probably, four or five times over this issue of food prices, and we are responding again. The first thing I feel is important is that we did submit a complete resume of our company to Mr. Lang, and we reponded to the questions and the commitment that we made to him back in the spring. You are aware of that?

Mr. Chairman: Yes.

Mr. McLellan: Kelly Douglas has been involved in the Yukon probably since its inception. At the turn of the century when the Klondike gold rush was on, I think this was one territory that they did a great deal of business in. We have always been represented in the Yukon by salesmen, and in about 1964 our company bought Tourist Services, operated by Bruce Sung. At that time there was a tourist supermarket and a small, 12,000 square foot warehouse. Since that time, we have built a Super Valu store and we have expanded the Super Valu store, and we are now into our third warehouse. We started in the old warehouse that Mr. Sung had, we built a new warehouse where the Hudson Bay sits now, and we have relocated up by the airport.

Our company has had a long standing relationship with the people in the Yukon and the traders in the Yukon, and we felt it appropriate to expand our operations into the Yukon with the knowledge that we had and the opportunities that were here, as well as the fact that perhaps the Yukon people deserved the opportunity to take advantage of the wholesaling concept as it relates to freight factors, thus reducing the food costs. That was our intention.

It is much better set out in the written summary, and I could read it to you if you wish to listen to it.

Mr. Chairman: We have copies of that. Perhaps it would be a good idea if you could run through it briefly to put it on the record. There will be transcripts available later when the hearings are finished.

Mr. McLellan: Kelly Douglas & Company, Limited, as a leading food distributor in Canada, has always demonstrated full cooperation with government authorities and consumer groups in respose to any enquiries regarding food prices. We, at Kelly Douglas, recognize the responsibility as food distributors and take this responsibility very seriously. We are continually searching for ways and means to supply food at the lowest possible landed cost, keeping in mind our investment and responsibility to the shareholders of this public company, to our employees and to the communities we serve. The fact that we established a distribution centre in Whitehorse demonstrates our interest in supplying food at the lowest possible landed cost to the consuming public in the Yukon Territory. The Whitehorse facility has provided us with the opportunity to take advantage of the suppliers' fully-paid or partially paid freight to jobbing points, which was not the case when we purchased the business from Tourist Services.

Another example which demonstrates our interest in supplying food at the lowest possible landed cost is our No-Name program. We initiated the first No-Name products in British Columbia and the Yukon, giving the consumers the opportunity to save some 10 to 40 percent on a wide range of products with a guarantee of quality as good as or better than national brands. In addition, in our efforts to keep our input costs, which affect the retail food cost, down, we took a seven week strike in the spring of 1979 in Whitehorse.

We are here, hopefully, to provide the people of the Yukon with a better understanding of the factors affecting food prices, and to demonstrate that food prices in Whitehorse are fair, and in fact lower, because of our company's involvement in the Yukon.

Because we are so visible, because all people must eat to survive, and because we must repeatedly spend money on food products that must be replaced, the food industry is constantly accused of rip-off or profiteering. There are no villains in the food industry, as many studies have shown. The Food Prices Review Board, alone, produced over 50 pieces of research. A publication of the Department of Consumer and Corporate Affairs entitled "A Review of Research in the Canadian Food Industry" has a bibliography of work done in the last 10 years, covering 50 pages. The two longest and most costly public enquiries into the food industry were the Food Prices Review Board and the Select Standing Committee on Agriculture in the Province of British Columbia. In no instance was the retail or wholesale segment of the food distribution industry found to be operating in an inefficient, costly or unscrupulous manner.

Two direct quotes summarize these enquiries. From the Food Price Review Board: "Food distributors' average profit rate was not excessive, relative to the risk involved and the rate of return on other financial securities such as corporate and government bonds." From the report of the Select Standing Comittee on Agriculture, Province of British Columbia: "There is no evidence to indicate that the practice of offering rebates, allowances or discounts, as it presently exists, adds to the cost of food to the consumer." There is some indication that rebates and discounts may actually assist in lowering food costs.

Kelly Douglas & Company Limited has a long association with the Yukon Territory. This association dates back to the days of the Gold Rush, when Messrs. Kelly and Douglas formed the company to supply merchandise to the Yukon. In 1966, Kelly Douglas & Company Limited purchased Tourist Services wholesale/retail operations in Whitehorse. Since that time, we have built a new food distribution centre, and today have one of the most efficient and best-equipped warehouses in the country, here in Whitehorse. Kelly Douglas & Company Limited also operate a Super Valu store that is as modern as any supermarket in the country. This store was expanded and refurbished in 1979, enabling us to better serve our customers in the Yukon. We are proud to be able to provide the people of Whitehorse with a first class supermarket, with all the perimeter departments, comparable to any supermarket in North America.

That is, briefly, an introduction of our position.

Mr. Chairman: Statistics Canada reported food sales for the Yukon Territory to be somewhere in the neighbourhood of $14.8 million. Does that agree with your estimate of the total retail food market in the territory?

Mr. McLellan: I do not think we have the figure with us. We have the market share. We could figure this out very quickly. What is the population of the Yukon?

Mr. Chairman: Roughly 25,000.

Mr. McLellan: About $30 million.

Mr. Hanson: The total market should be $30 million?

Mr. McLellan: Yes. This is not an exact formula to use, but one determines the amounts per person per week, and multiply that by the number of people. In the lower mainland we are using $20.00 and it would not be unreasonable up here to perhaps use $25 or $30. Thirty times the number of people in the Yukon gives you a pretty good number. It is close enough.

Mr. Penikett: May I ask, Mr. Chairman, why that figure you have given, based on your professional expertise, varies so much from the Statistics Canada estimate?

Mr. McLellan: The only thing we can do, sir, is explain that when you are dealing with Canada, you are dealing with the numbers of Canada; you are dealing with Ontario; you are dealing with Quebec; you are dealing with Toronto; you are dealing with high metropolitan areas.

Our experience in British Columbia today, I believe, is $20.00, so I would think in the Yukon, it is going to be $25.00

Mr. Penikett: Statistics Canada just published a figure for Yukon. I think they estimate that $14.8 million is the market.

Mr.McLellan: Let us figure out how correct that might be, or how ridiculous it might be. If you take 24,000 people and figure that there is $14 million spent, how much is that per person?

Dr. Dooley: $616 a year; $11.85 a week.

Mr. Chairman: I think most of us, as consumers, know that.

Mr. McLellan: Certainly, anybody in the room would know that $11.00 a week is not what they are spending per person per week. It has got to be $25.00 in the Yukon.

Mr. Penikett: Just as an aside, I wonder if we could ask our researcher to communicate with Statistics Canada for a comment on the reliability of their figure — not at this time, but for future reference.

Mr. Chairman: We will establish then that food volume in Yukon is somewhere between $25 and $30 million a year. Using those figures, what is Kelly Douglas' approximate market share?

Mr. McLellan: We are dealing with Kelly Douglas as a wholesaler?

Mr. Chairman: Yes.

Mr. McLellan: Kelly Douglas' market share is approximately 54 percent.

Mr. Chairman: Of the total Yukon market?

Mr. McLellan: Yes.

Mr. Chairman: Of that 54 percent, what chunk does Super Valu take?

Mr. McLellan: Of the retail market share, it would represent 29 percent. If we have 54 percent of the market share at wholesale, Super Valu has 29 percent of the market at retail. You are not dealing with an apples and apples if you take the warehouse sales and put that against the retail sales.

The best way to do it is: there is 29 percent of the retail business in Yukon is done in the supermarket and 54 percent of the business in Yukon is done by our wholesale.

Mr. Chairman: That gives us the figures we need. How many other independent retailers do you sell to in the territory, then?

Mr. McLellan: There is an expansive list here. There would be about 50 other retailers.

Mr. Chairman: Retailers as well as restaurants.

Mr. McLellan: There is institutional, there is industrial. There is a lot of other business that is done that is not in the retail business.

Mr. Chairman: I have seen some of the replies that you have given to the government regarding profit on sales and your gross margin for the territory, return on investment. Perhaps just to clear it up for all of us here, can you run through what you calculate as the rate of return on your investment that you have in the territory that you require in order to run your business?

Mr. McLellan: I would really prefer not to do that in public. I think that there are certain things that our business is privy to that we would not mind sharing with certain individuals, but to make it public on television, with competition, I think it would be wrong for me to disclose that information.

Mr. Chairman: That is reasonable. Perhaps you can tell us what kind of money Kelly Douglas has invested in the Territory?

Mr. McLellan: $9 million, I think. We have that information here. I am sorry, it is $5, 307,000. That is in inventories, buildings, equipment and land.

Mr. Chairman: Is that Kelly Douglas only, with Super Valu as a separate entity?

Mr. McLellan: That is the company's investment in Whitehorse, $5 million.

Mr. Penikett: You own the warehouse, but you do not own the retail facilities?

Mr. McLellan: We do not own the warehouse; we lease the warehouse. We lease the store, too.

Mr. Penikett: Does Kelly Douglas have an interest in the companies that own the premises?

Mr. McLellan: No. Dealing with the warehouse, I may have to correct myself here, as it is listed within the $5 million. I am dealing with inventories, buildings, land, equipment and leasehold improvements. That may have to be clarified, but the investment we have is $5 million.

Mr. Chairman: Do you own buildings in the territory other than the structures that are in Whitehorse?

Mr. McLellan: We do not own any buildings in the Yukon. We own buildings in various places of our operations, but not in Yukon. Most of the business is done from leased premises. In the supermarket business, as all of the chains, the distribution people do their business out of leased premises, in most cases.

Mr. Chairman: We have also seen some figures about movement, man-hour figures, illustrating cost differences between your Burnaby Kelly Douglas operation and the Whitehorse Kelly Douglas operation. I am interested in the differences in those movement, man-hour figures, because we also understood that the Whitehorse operation was a very efficient operation, and when I saw the movement, man-hour figures, I see that the Burnaby operation is consistently higher than the Whitehorse operation. Is there a reason for that?

Mr. McLellan: I think it is simply in the volume that is done out of the two locations. In the Burnaby operation, the volume out of that building would probably be about 15 or 20 times the volume out of the Whitehorse location. When you have more volume, your productivity is usually better; there is no question about it. The more you can put through — the same in any business, the same as in this building right here, if you had more taxpayers and more revenue coming in, you could probably operate, per tax dollar received, more efficiently that you do, because you are small. The same thing as the Whitehorse branch as compared to Burnaby. It would like be comparing this to City Hall in Vancouver.

Mr. Chairman: I understand from this that you could run a lot more volume through your operation here in Whitehorse without any appreciable increase in man-hours or persons?

Mr. McAneeley: You would increase the man-hours in the warehouse because you are physically handling the merchandise, putting it on trucks, and so on. Where the savings come through is because the rent remains the same, and those sort of things. In your office you have a computer so you can run more sales without adding too much there. The difference in the Burnaby operation and the Whitehorse operation is mainly in the office. To quote figures: there is about $3,000 per man-hour in the office in Burnaby compared with about $650 out of here. In our warehouse operations, Whitehorse is not very far behind, because they are both physically doing things, but there is a higher volume there. That is where you do get penalized to some degree, because of the population.

Mr. Penikett: Is that a management problem?

Mr. McAneeley: It is not a management problem, it is a volume problem.

Mr. Penikett: I am not clear how the office becomes a function of volume.

Mr. McAneeley: The computer can handle extra sales without additional manpower. The orders go right into the computer without people physically having to do that. In the warehouse, you have to handle each case separately. You can handle far more volume through the office without adding people.

Mr. Penikett: In this case, the productivity is a function of technology. You have more capacity than you need in that equipment for the present moment.

Mr. McAneeley: We have the same capacity in the computer here as in Vancouver but we do not have the volume here that we do in Vancouver.

Mr. Chairman: When we spoke with people from Super A yesterday, and one person from Alberta Grocers, who came from Edmonton, they told us that they estimate that they have roughly 20 to 25 percent of the total retail business in the territory at the present time, and that it would not be economical for his company to build a warehouse in the territory.

I may be begging the question because you have a warehouse in the territory, and evidently it is operating at a profitable position. In your estimation, if you were looking at the Yukon market, would it be a profitable market to come into and build a warehouse, or is it because of your historical position in the Yukon that you are here in the manner that you are?

Mr. McLellan: I think the reason we are here is because we have always done a big volume of business in the Yukon, for years, since we started our company. As a matter of fact, I think that, if the truth were known, probably Kelly Douglas did so well in the Yukon in the Gold Rush days that that is where they got the money to allow them to do what they did and become a factor in the food distribution business in BC and the Yukon. Our company has a great deal of confidence in the Yukon. You may laugh at this, but we have a feeling of obligation and commitment to the people of the Yukon, because we have, in fact, been involved with them for 80 years.

If you ask me the question: would we come in here and go into the wholesale business — that would depend on what opportunities we could see and what potential market is here, what problems we would face with people, the cost of building — . It would be an exercise we would go through to determine if it was a viable or unviable situation.

You must remember, we kind of grew up here. We started small and have gradually taken advantage of the marketing opportunities that we have had. I have to emphasize that it is most important that the people who live in the Yukon understand how the food business does work.

The fact that we have a warehouse here, and I hate to be repetitive, is really a benefit to the people in the Yukon, because it is a jobbing point, and a jobbing point is recognized by many, many suppliers. Over the years, through the efforts of the people of our company, and particularly Mr. McAneeley, we have the suppliers prepaying merchandise all the way from their place of business to Whitehorse, or partially prepaying it. Those freight prepaid factors are reflected in the retail prices. I think Nabob coffee is a good example. I think we sell Nabob coffee in Whitehorse at the same price that you can buy it in Vancouver. I am not positive of that, but I know that I am close on it, and I know that there are many items that fall into that category. Now, there are many that do not. On those, you are exposed to $7.95 hundredweight freight, or $8.00 dollars in freight, or $8.25, whatever the commodity rate is.

To answer the question: would we come in here and start up a wholesale? I could not answer the question unless we were going to go through the exercise as I expressed to you — consider the population, take a retail survey, see what markets are there, see where they are buying from, find out what the freight costs are and find out what we could do to do it better. If we could not do it better, we certainly would not consider it.

Mr. Penikett: I understand what you are saying, and I recognize that you would be faced with a different investment decision in today's environment than you would have been at the time you made it. Yesterday we were told by the representatives of Super A that their market share may have been 20 to 25 percent, and they may have been talking about the Whitehorse market, as opposed to the Yukon market. You have described the Super Valu market as 29 percent of the Yukon. As I understand it, their store is under 10,000 square feet. Your Super Valu is 33,000 square feet, plus. I recall that you had cited, on one of your many previous visits, that one of the functions of their being competitive was, in fact, a smaller retail space. Given those numbers, to a layman, it would appear that your operating cost per square foot, if those volume figures are accurate, would be higher than theirs. Is that a harsh reality of your doing business here?

Mr. McLellan: Yes, it is a harsh reality, but it is a fact. Our operating costs would certainly be higher.

Mr. Penikett: Would it be fair to say that, given industry practices of trying to achieve, on a national and international basis, a small mark-up on a high volume, or fairly low unit cost, that you have sufficient capacity at both the retail and wholesale levels right now to serve a much larger market than presently exists here?

Mr. McLellan: Are you asking if our store is larger than it should be for the market we are serving?

Mr. Penikett: As it is at the moment. I mean, do you have sufficient capacity built in to anticipate growth in the market?

Mr. McLellan: Yes, we do.

Mr. Penikett: So, there is surplus capacity at the present for the present market?

Mr. McLellan: I would say the volume in the store could be increased probably 25 percent in the present facility without adding to it. That is only a guess.

Mr. Penikett: What would a similar figure be in terms of your warehousing capacity? Could you increase that 25 percent, or would it be more?

Mr. McLellan: We are not operating either operation to capacity.

Mr. Chairman: How many square feet do you have in your warehouse?

Mr. McLellan: About 60,000.

Mr. Chairman: How many did you have in the old one where The Bay now is?

Mr. McLellan: Thirty-four thousand, I think it was.

Mr. Chairman: How many people do you have working in the warehouse?

Mr. McAneeley: We have about 40, or in that neighbourhood.

Mr. Chairman: And you operate 24 hours a day, I understand? You have three shifts?

Mr. McAneeley: Yes, but we could increase the volume there and have larger shifts at night, and so on. This warehouse is more complete than the last one in that there are better facilities for produce and frozen foods.

Mr. Chairman: Speaking of which, how many times a year does your stock turn over in the warehouse?

Mr. McLellan: Thirteen. It should. It is better now, since we changed our inward freight. White Pass had a 14 day turnaround and it caused us to carry an excessive inventory, and with the interest rates we had to change that. We went to trucks and now we are in here probably three times a week.

Mr. Chairman: So it has made a difference to your turnaround time?

Mr. McAneeley: Yes, and service.

Mr. McLellan: You were asking how many people were employed at the wholesale operation. There are 25 people at the wholesale and 82 at the retail. We employ 106 people in Whitehorse, give or take a few.

Mr. Chairman: That is in both of the operations?

Mr. McAneeley: Yes.

Mr. Chairman: On March 17, 1981, to the then Minister of Consumer and Corporate Affairs, you stated that you had $5 million invested in the Yukon Territory, and that it was necessary for you to earn a specific return on your investment after taxes.

Mr. McLellan: We would like to, yes, 18 percent.

Mr. Chairman: Eighteen percent?

Mr. McLellan: Yes.

Mr. Chairman: After or before taxes?

Mr. McLellan: Before tax, which would leave 9 percent.

Mr. Chairman: I have tried to work that out based on the amount of business you are doing in the territory, and I guess this is one of the things that I have trouble with, because, as I understand it, the industry average is about 2.8 or 2.4 percent on volume — one percent after taxes on volume. Taking those figures, it works out to somewhere around four and a half percent. Do you consider that high?

Mr. McLellan: You are really asking what our net profit is, and I am not prepared to tell you what our net profit is. I think that we have discussed that with Mr. Lang; we discussed it with Mr. Spray, and it was never an understanding that we had a commitment like that. If we do, then we should change the rules, because although we want to cooperate, I am not prepared to divulge confidential information. We have already done that with Ottawa, as far as the Yukon is concerned. Our financial officer, Mr. Campbell, has reported to Mr. Lang, has reported to Ottawa on our financial position in Whitehorse. My understanding was that there was a satisfactory conclusion to the issue of that question.

Mr. Chairman: One thing that should be understood is that any information that you passed along to Mr. Lang we have no intention of releasing, mostly because a lot of it we did not ask for and do not have. We do not report to him. We are a Committee of the Legislature, entirely independent from the government.

It is my understanding that the Kelly Douglas operation is being investigated by the Income Tax department. Is that a correct statement?

Mr. McLellan: The only thing that is being investigated, and I do not think the word "investigation" is the proper word to use, and I do not see its relevance at this hearing, but if it must be mentioned, Kelly Douglas sold Nabob Foods in 1976 to Jacobs (?), from Switzerland. There was a question regarding the tax on the sale of Nabob Foods. It is something that I am not involved in. It is something that I do not know anything about, except I do know that Kelly Douglas takes a position with the tax department that is beyond reproach. We are not in a position to ever put ourself at risk, and if there is any problem there, I am sure that Kelly Douglas will not be found in error.

Mr. Chairman: The next question was to be if that had any effect on the Yukon market, and obviously it does not.

Mr. Hanson: You mentioned on a radio interview last Spring that you had a store in the Northwest Territories. Where is that store located?

Mr. McLellan: Pine Point.

Mr. Hanson: Could you describe its operation and its method of wholesale supply, and shipping charges, and how it compares to the Super Valu in Whitehorse?

Mr. McLellan: Mr. McAneeley is the gentleman who looks after that store, and I will let him answer the question. But before he answers the question, I will tell you that it is not unlike Whitehorse, although it is a very small store. The store was, at one time, operated by a catering company. The catering company was having financial problems with the store. It was an IGA store with a franchise from Horne & Pitfield out of Edmonton. They asked us if we would take the store. We did. We operate the store. We are customers of Horne & Pitfield, and we abide by the franchise agreement of IGA. The gentleman who runs the store is a gentleman who worked for our company in various areas, as a buyer in Kamloops, as a salesman on the Island, and so forth. That store is probably 6,000 square foot selling area, or maybe 8,000 square feet of selling area. It is a business that has proven to us to be quite satisfactory, although we have problems there with staff, location and finding suitable people who would stay in Pine Point. I think Mr. McAneeley can give you further information on the store. He visits it quite regularly.

Mr. McAneeley: It is more of a general store. It carries clothing and that type of merchandise. We carry quite an inventory of clothing, with a very low turnover, really to accommodate them. As Mr. McLellan mentioned, the Cominco people asked us to go in there because the people in Pine Point were not satisfied with the service of the store at that time, and from that day onward, we have been in that small store. Our supplier is Horne & Pitfield in Peace River. We supply it with very little merchandise from our company.

Mr. Hanson: You lease, rather than own, the Super Valu store in Whitehorse?

Mr. McLellan: I think I said that I am just a little vague on that issue. It says here that it is an investment and that it is our property and land, and that may be correct. I am sorry, because I should know, and I am just a little vague. I will check it out. We have, as you can appreciate, many operations, and it is hard for me to remember every one, whether we own it or lease it.

Mr. Hanson: In your statement of March 17th, you said that Super Valu has 33,500 square feet. Is that selling space?

Mr. McLellan: I think that is the size of the store. The selling space of the store would probably be about 80 percent of that, or 75 percent of that. That would be the total area, I believe, 33,000-three thousand square feet.

Mr. Hanson: What are No-Name products?

Mr. McLellan: Everyone has been concerned about high food prices. This is not a thing that is only in the Yukon, it is across Canada. Consumer groups are up in arms about high food prices. What we try to do in our company is assist the consumer by developing food products that could be sold to them cheaper because they would not have the expensive packaging; they have no advertising. Our company developed these products in Ontario.

It simply means that the merchandise is in a package that may be undressed and not very attractive. Most of them come in yellow with black labels on them that say "No-Name." We have probably 120 items under No-Name. We have only one criterion: we guarantee the product to be as good as or better than a national brand, and we are able to market that at a cheaper rate because it does not have the built-in factors that are required when you are merchandising a product as a supplier.

I know that perhaps I am confusing you, but let me illustrate with an example: Nabob coffee is extensively advertised. A lot of money is spent on advertising Nabob coffee; there is a lot of money spent on advertising Kellogg's Corn Flakes; there is a lot of money spent on advertising Ivory Snow soap, and No-Name gets no advertising, so that money that would be spent to promote and advertise that product is not required, so that product has that reduction in cost. The second thing is that it does not have an expensive box to go into. In some cases it is in a sack bag, like a plyo bag. In other cases, it is in just an inexpensive cardboard box. So, there are two factors that give us the opportunity to market that and give an opportunity to the consumer to save money. That is a No-Name product. We have them in the stores. We guarantee them. If people are not happy with a No-Name product, we give them a refund. We have had maybe two or three instances on tea, where customers have felt that the product was not as good as it should be, and we gladly refunded the money, but we have had great success with it because it does give the people an opportunity to save money.

Mr. Chairman: Do you intend to continue No-Name products?

Mr. McLellan: Yes, we are expanding them continuously. I think, if my memory is right, and Shirley Anne Brown can help me with this one, when we started the No-Name I think we had maybe 16 or 20 lines, and now I think we are up over the hundred. I am not saying that we have 100 in Whitehorse. You have to understand the No-Name concept is anti-supplier. If you are making Kellogg's Corn Flakes, it is not likely that you are going to cooperate with me to make No-Name corn flakes. I am going to have to go to him, and he may not have the resources. He may run out of raw material that he can buy at a cheap price to give me No-Name corn flakes. It is something that is not consistent. You have to get in, make the market position and make a No-Name, sell it and then you try again.

Mr. Penikett: If you were going to be selling corn flakes, for example, and you have a No-Name brand, and you are guaranteeing that they are as good as the name brand product, what would be the source of supply for that? Someone else who makes corn flakes happens to have a surplus, or more than they could sell?

Mr. McLellan: In some cases, the source of supply can be that manufacturer, like Kellogg's. It could be that we could make a deal with Kellogg's to package No-Name corn flakes. It is unlikely, but that does happen in some product groups. For example, Purfex Bleach would pack a No-Name bleach for us.

Mr. Penikett: From their point of view, why would they do that?

Mr. McLellan: Because they have the equipment, they have the plant, they have capacity problems.

Mr. Penikett: You would be just another customer?

Mr. McLellan: What it means, really, is that instead of packing their Purfex Bleach in the bottles, they are packing the No-Name, because it does not have the expensive package or the extensive advertising, and it can be sold at a lesser price.

Mr. Penikett: Are most of the No-Name commodities generated within the Weston-related companies?

Mr. McLellan: I think I could let Shirley Anne Brown answer this question, because she is really involved in it to a greater degree than I am. She is right in there with the consumer groups.

Ms Brown: I think the directive to the buyers who are searching the market for No-Name products is wherever they can find it at the cheapest rate, and still meet our qualifications. We do have a qualification that we do not let it go below. They can go to a Weston company, if that is where they can get the best possible deal, or they can go outside. Their directive is: This quality at the cheapest possible price, with a plain label, meeting all of the government standards in terms of the *Labeling Act*.

Mr. Penikett: From a lay person's view, I had the quaint notion that perhaps these were things that were not substandard, but were surplus, and dumped on the market and you were able to buy them cheaply. Is that an accurate assumption?

Ms Brown: There are two ways it really happens. It can be a surplus or, as Mr. McLellan was saying about the bleach company, if their plant is going to close down or not get a third shift in the day, they would rather do a third shift, so they will put on the plain label. It is very simple and easy, and gives us an opportunity to get a lower price.

Mr. Penikett: Let me ask you another question about No-Name brands. It perhaps gets into another area. In the Super Valu store in Whitehorse, No-Name brands are in one aisle. How much of a disincentive is that to consumers to buy them when, if they are looking for beans, and the No-Name brand of beans are not located with the other beans, they are perhaps less likely to buy the No-Name brand because they have gone to the bean section to look for beans and pick up the cheaper ones available there. Is there some marketing reason why the No-Name beans are not put with the other beans?

Mr. McLellan: In other words, putting a product with its family group in the store —. There is no marketing reason.

Ms Brown: I think we are doing it both ways in a lot of the stores. I do not know that we have the answer yet, which way is more attractive to the consumer, because I think it is being done both ways.

Mr. McLellan: I agree one hundred percent with you. If you have No-Name jelly powder, it should be with the jelly powders. No-Name pork and beans should be with the pork and beans. I agree with you.

Mr. Penikett: There is no implied reasoning that the consumers might go to the No-Name aisle because that is where they get all the deals. Let me ask you another question, because I understand that there was an enquiry about this in Ontario. There is no reserved or purchased shelf space by any of the competitors to prohibit you from putting No-Name brands there?

Mr. McLellan: No.

Mr. Hanson: There is a great deal of concern with the Whitehorse shoppers regarding the possible removal of individual item pricing should the Unit Price Control (UPC) system come into use here. Is it the intention of Kelly Douglas to implement the UPC system in the Super Valu store using electronic scanners?

Mr. McLellan: It is nice to have that question asked in Whitehorse. I do not know whether or not you are aware of it, but right at the moment we are in discussion with the British Columbia Government, Mr. Hyndman and Mr. Nielsen, on the issue of scanning. Certainly, we are not going to put scanners into Whitehorse tomorrow. We are not going to put scanners into Whitehorse for a long time. We are not going to put scanners into Whitehorse until we are satisfied that the consuming public understands them and would accept them. We do not want to do anything to further disturb the consuming public in relation to food, and that is exactly what has happened in all our mainland stores. There is a tremendous anti-scanning attitude that appears to be there, but it is not there. It is not there, because the nine stores where we have scanning probably have the greatest growth in terms of sales.

It is a contradiction, because the people are saying, "Look, we do not want scanners." Well, they are not objecting to scanners; they are objecting to the fact that the item is not priced. Although the price is on the shelf, that item itself is not priced. If you were going to price the item, scanning becomes redundant. You cannot have both, because of the cost involved. Right now, we have nine stores that are on scanning and those nine stores show the highest growth, and yet over on the other side you have the consumers screaming that they do not want the scanners and they want the items marked, so we are a kind of quandry with it. We are dealing with it. Shirley Anne Brown and I are on the committee. We meet with them. They have appointed another inquiry, to be headed up by Mr. Shapiro, and we go to those meetings regularly. Shirley Anne Brown has been very helpful. Did I miss anything?

The answer is no, at the moment.

Mr. Chairman: Do you find, in the stores where you do have scanning and the prices are on the shelves, that people really care if the price is on the individual items, or do they look at the shelf, see the price and that is that? It seems reasonable to me.

Mr. McLellan: Shirley Anne Brown should explain to you what the consumer groups are advocating.

Ms Brown: We spent a lot of time before we even went into scanning meeting with consumer groups and we realized that one of their basic concerns was that if we did not price the individual item that they would lose the advantage of old stock.

When we went into scanning, we instituted what we called our "green sticker program", where the old stock was marked with a green sticker, and that alerted the cashier and they did get, in fact, the product at the lower price. That seems to have satisfied our customers, because, as Mr. McLellan said, those stores are enjoying good sales, but they are also enjoying increased customer count. What is most interesting about it is that in all of the stores where we have scanning, there is another comparable supermarket within walking distance. We are a little confused as to what the consumers are trying to tell us.

Mr. McLellan: Actually, scanning is better for the consumer. It is better. The error rate in supermarkets is probably three percent. Now, that is just a dumb figure that comes out of my mind. Maybe Shirley can correct me. Let us take weighing, considering a short girl and a tall girl. You just have to be at a certain point looking at a scale at something and see twenty-nine cents a pound. It could be a cent under or a cent higher. Frequently, cashiers do not remember the special prices. Frequently stock boys make errors in pricing. All of those things are eliminated with scanners. The consumer gets the best possible deal and the retailer gets the best possible honest deal with scanners.

Mr. Chairman: Are there any savings to the consumers in your nine scanner stores in BC?

Mr. McLellan: There is no saving. The only thing that we hoped to do through the installation of scanners was to cut the cost of food to the consumer, and if we can put in something that is going to allow us to reduce the price of food, we want to do that.

For example, last week, we made a deal in Whitehorse to give the consumers a better price on milk. We are looking all the time at how we can do this job better. If you look in the paper today, I think we have plums and Bartlett pears at 39 cents a pound. That is an arrangement made by Mr. McAneeley because we made a commitment to the people in Whitehorse to work on these items.

Mr. Hanson: There have been complaints that Kelly Douglas is raising the price of old stock in the Whitehorse warehouse when a price change occurs. Can the computerized system in the warehouse ensure that this does not happen?

Mr. McLellan: No, it cannot ensure that it does not happen. I am confused about what you are saying. Are you saying that we move up the old prices?

Mr. Hanson: That you move it up when the old stock is being sold.

Mr. McLellan: Mr. McAneeley, what is the policy when you buy merchandise wholesale and the market advances? If there are 50 cases of shredded wheat in the warehouse and the market goes up $1.00 a case, what happens to the price?

Mr. McAneeley: There will be some cases at the old price that will be moved up. It also works the other way. When sugar goes down, we will have higher priced merchandise in the warehouse and down it goes. I agree that there is more merchandise going up than there is going down, but our policy in the warehouse is to move out the deal stock first. All our customers are given every opportunity to buy through bulletins telling what the deal is, whether it is $1.00 off, $.50 off, whatever it is, when the deal is going to be finished, and we really try to do our best possible job to keep them informed as to when the deal is going to be finished. Very often we make a commitment that a deal is going to be finished on a certain date and we have to pay a higher price, but we still sell it at that lower price.

Mr. Chairman: So, you are like a Super Valu in that you will have a sale on a specific item, if you have too many in the warehouse or something?

Mr. McLellan: I think the question is: are we taking a profit on items that we bought at a certain price. I think Mr. McAneeley explained it. We do. If the market goes up, it could happen that we have some stock that we put up. We cannot have two prices. If you have 50 cases of an item in the warehouse and get another 50 in at a new price, it is quite likely that the 50 that you already had will move up to that price, because how else would you keep track of your selling prices? When an item goes down, the same thing could happen. I can tell you that in a retail store we do not do that. We hold the prices, because it is marked. You can go into a store and find four prices on an item.

Mr. McAneeley: Our major problem in the warehouse is that we oversell in deal stock.

Mr. Chairman: And you still sell at the price quoted.

Mr. McAneeley: We sell to the date that we said we would.

Mr. Chairman: Regardless of what the warehouse stock is?

Mr. McAneeley: Yes.

Mr. Chairman: I would like to get back to the warehouse operation. One of the reasons is your contention that it is an extremely efficient warehouse. After your explanation about office versus operations, it reassures me a certain amount. Do you have here comparable equipment and resources to your Burnaby operation?

Mr. McLellan: Yes, exactly.

We have branches throughout the province of British Columbia, and the wholesale business throughout Canada is done much the same way, as we have right here in Whitehorse. The size of the building is governed by the potential trade that is available to us, but we have all of the necessary handling systems to give us the maximum efficiency in the warehouse. I am sure that warehouse is probably as good as any warehouse that you would find, other than a computerized, automated warehouse. There are a few of those, but not in western Canada. I think there are some in Eastern Canada. This is an efficient warehouse. You are welcome to visit. If you wish, we will take you out and show you the warehouse.

Mr. Penikett: I would hope that we would accept that invitation.

Mr. McLellan: We will take you out; we are very proud of that warehouse.

Mr. Penikett: It happens to be a constituent of mine, too. Let me ask about the use of the word, "efficiency" in this case, because you have indicated that it is new, modern and well equipped. I am sure it is and I look forward to seeing it. Mr. McAneeley also indicated that you do have surplus capacity there. To the extent that I have any understanding of your economics at all, if you have got surplus capacity, are not operating at optimum efficiency. Would that be a fair statement?

Mr. McLellan: No, it is not a fair statement. You can have maximum efficiency in the warehouse, but it does not mean that you are using all of the facility provided there.

Mr. McAneeley: What I meant by that statement was that we have a full shift on day shift. We could operate a complete afternoon shift with a full shift or a complete night shift. That would give you more volume and you would have more people involved there. As far as surplus square footage, it does not expand, there would be quicker turnover. We would have more trucks arriving, we would be receiving more merchandise and we would be shipping out more merchandise.

Mr. Penikett: But the extent to which the warehousing was a cost to each item would go down if your volume went up?

Mr. McAneeley: Yes. As I said before, rent remains the same; insurance remains the same; light remains the same; heating remains the same.

Mr. Penikett: One of the fascinating mysteries of your business is the question of mark-ups. Like the weather, everyone talks about it, but no one seems to know very much about it except the people in the business. One of your competitors gave us a dissertation on the subject yesterday, but they seem to have a different practice than what seems to operate in your enterprise.

Without betraying trade secrets, could you give me some idea about how you calculate your mark-ups? For example, if a product goes from $1.00 to $1.50, how would you describe that markup? Is that a 33 percent mark-up, or is that a 50 percent mark-up?

Mr. McLellan: It depends on whether you are dealing with your mark-up based on the selling price or mark-up based on cost. In the case of the mark-up on the selling price, it is 50 percent. It would go down to 33 percent if it was based on the selling price.

I do not want to confuse you.

Mr. Penikett: You just did.

Mr. McLellan: Usually when you are dealing with mark-ups, you deal with the percentage of mark-up on your selling price. I think the best way for me to describe it is to use an example of an item that cost $1.00 and you want to mark it up 20 percent on your cost, you would sell it for $1.20. If you wanted to mark it up on your selling price, the 20 cents would be sixteen and two-thirds percent on your selling price. Twenty-five percent on your cost would be 20 percent on your selling price.

Thirty-three percent on your cost would be, for a number, 28 percent on your selling price. I know it sounds Greek, but when you are dealing with mark-up, you always deal with mark-up on the selling price.

Mr. Penikett: You sound like you are an expert at handling those numbers.

Mr. McLellan: I had a lot of trouble with it myself for years.

Mr. Penikett: As I understand it, the mark-up on a given item allows the retailer to pay your bills and achieve a reasonable rate of return on the investment. Presumably, from what I can read, there is a standard percentage mark-up in the food retailing industry. Can you give me some idea what that is? Is there a fixed mark-up allowed by Kelly Douglas, or does the local store manager have the authority to set that mark-up? If you can tell me, what is the usual Super Valu mark-up on produce, meat, frozen foods, dry goods?

Mr. McLellan: First of all, there is no standard procedure in use. I think there is probably what we might call an acceptable procedure. It seems to me that when you are dealing with grocery items, they usually use what they term is 16 percent. Sixteen percent on selling represents 20 percent on cost. That is not to be used, and not to be tormented with, because there are so many things that change that. There are items that the stores do not make any money on: for example, baby food, bread, milk, eggs, sugar, flour, tea or coffee. Those items might be around eight percent mark-up. On top of that, there are feature items that are specialed all the time, and there is a lot of loss-leader selling. Periodically, there is merchandise sold below what is actually paid for it.

To make it easy for everyone to understand, I think the number that you would be looking for in a grocery department, gross profit, would be around 17 percent on selling price. That is about twenty and one-half percent on cost.

Mr. Penikett: That is within your whole company?

Mr. McLellan: I would not say within our company. I would say that within our company there are a lot of variances depending on the area. In the industry, it is pretty well the way that it is.

Mr. Penikett: Would the mark-up here be similar to the industry standard?

Mr. McLellan: Yes.

Mr. Penikett: It is not significantly above it?

Mr. McLellan: No, we could not allow that. We have to be responsible in respect to what we charge the people in Whitehorse. We have costs that have to be considered, certainly, and we take those into consideration when we establish our selling prices, but we do not go beyond what we would call a normal, acceptable business practice in respect to our mark-ups in Whitehorse, either at retail or wholesale.

Mr. Penikett: You will understand that this is a subject of considerable interest. Because you explained that there were some products on which there is a lower mark-up, could you tell me why? Is it because they are higher volume products, or is there some reason for that?

Mr. McLellan: I think the reason is that you cannot expect to get what we would call a standard or normal mark-up — use the 16 percent, if you wish — on items such as tea, coffee, baby food, ice cream, milk, eggs. The consumer demand on those items is high and therefore the mark-up is lower. That is an accepted, standard practice in the retail food business in Canada.

Mr. Penikett: Apart from being a standard practice, presumably if you have high volume, you do not need the higher mark-up.

Mr. McLellan: If you have high volume, it gives you greater flexibility to give the consumer a better price.

Mr. Penikett: When you are talking about high consumer demand, I assume that what that means is that people are buying a lot of those items?

Mr. McLellan: Yes, that is correct. Eggs, for example, are a very important item. I think that on eggs we would probably make about 10 percent. I am not sure, but I know that our mark-up on eggs is not what we would call a standard markup. It does not fall into the category of a can of peas, for example.

Mr. Penikett: You indicate that there are some items on which the markup would be lower than the industry standards. What kind of items would be higher?

Mr. McLellan: I would say that they would fall into the area of fancy foods.

Mr. Penikett: The things handled by Ziggy's, for example?

Mr. McLellan: No, that is delicatessen.

I think that pickles, olives, some biscuits, imported foods, fancy fish, snails in cans — those items would certainly have a higher mark-up. They could be as high as 30 percent.

Mr. Penikett: That is about as high as mark-ups go?

Mr. McLellan: I do not know anyone who is getting any more, although there could be the odd item in the store that could be higher than that, but it would be an exception.

Mr. Penikett: The mark-up is presumably tacked on to your cost price plus the freight, is that it?

Mr. McLellan: Yes.

Mr. Penikett: Does the manager of your Super Valu store make those decisions, or is he under some form of instruction or policy guideline?

Mr. McLellan: He is under a policy guideline. He makes the decision based on movement and other problems that may be environmental to his trading area.

Mr. Penikett: Let us consider Whitehorse. A Super Valu manager buys some product from Kelly Douglas. Presumably, he then tacks onto the Kelly Douglas price plus the freight, then the mark-up?

Mr. McLellan: He just has his cost from Kelly Douglas, and from that cost he determines his selling price.

Mr. Penikett: So, Kelly Douglas has calculated its cost based on their cost, plus the freight, plus the mark-up?

Mr. McLellan: Kelly Douglas has a landed cost, yes. Then they take a mark-up, then they sell to the customers based on their selling prices.

Mr. Penikett: Is the industry standard for mark-ups at the wholesale level similar to the mark-up at the retail level?

Mr. McLellan: No, it is considerably less, because you are dealing with a wholesale business. Probably less than half.

Mr. Penikett: Are you talking about 19 or 12 percent?

Mr. McLellan: Less than that.

You are zeroing in on me. I do not think that it is fair that I should have to get into the wholesale mark-ups, because of our competitive situation, and we do have a very competitive situation in wholesale.

Mr. Penikett: I would have been happy to have an industry standard. I am asking about company policy, now. Do the mark-ups differ from store to store, or region to region?

Mr. McLellan: Not generally. There is usually only a standard application that is applied. It is adjusted according to the environmental needs of that territory — consumers, type of trade, ethnic groups, there are all kinds of reasons.

Mr. Penikett: How would ethnic groups impact on mark-up.

Mr. McLellan: If you have a high Italian trade, you would sell a lot of Unico oil, and it falls into the category of eggs, et cetra.

Mr. Penikett: I was asking you about regions because some of the industry publications we have been looking at indicate that some markets are more competitive than others and the mark-ups are therefore lower. Does that square with your experience?

Mr. McLellan: I would say that that is absolutely right. There are a lot of markets that are very competitive.

Mr. Penikett: In a market where the competition was not so tight, there would be room for the mark-up to be higher?

Mr. McLellan: I do not think that the standard would increase. It would mean that there would be less loss-leader selling. I think that would be a way to answer that.

Mr. Penikett: Could you briefly describe loss-leader selling, and what kind of loss-leaders you have in your store here in

Whitehorse?

Mr. McLellan: Right now, there are plums and pears. That is loss-leader selling.

Mr. Penikett: Bread is not a standard loss-leader, for example?

Mr. McLellan: It could be periodically, yes. Loss-leader selling is when you sell items that cost you more than you get for them.

Mr. Penikett: Presumably, it is an attractive item to bring people into the store so that they will buy other things?

Mr. McLellan: The idea is to attract customers to your trading place, yes.

Mr. Penikett: You have given me some idea for the mark-up for different kinds of goods. When the Kelly Douglas price is higher to the stores here than it would be in a warehouse down south, is the mark-up for Super Valu the same as it is for all the other stores? Does Kelly Douglas treat Super Valu as if it is simply another retail outlet?

Mr. McLellan: It is just another customer, yes.

Mr. Penikett: So the only considerations would be based on volume?

Mr. Penikett: Yes. A high volume store would demand a lower upcharge than a small store.

Mr. Penikett: There is no circumstance where a lower-volume store would get a lower price than a higher-volume store for its product.

Mr. McLellan: No, but I cannot think of any places where that would happen, but it could be happening. I am not aware of any places. Are you, Mr. McAneeley?

Mr. McAneeley: No.

Mr. McLellan: It is just common sense. If I can load a 40,000 pound trailer and put that at the back door of a store, rather than load a truck with 40,000 pounds and have to make 15 deliveries wth it, then I can certainly sell that one load to that one location cheaper that I could sell that one load to 15 locations. It is economics.

Mr. Chairman: I think it is very important that you stress this, because one of the complaints that we have had to date is a letter from a retailer who said that he went to Kelly Douglas to buy apple juice for his small retail store and found that his wholesale price was more than the retail price that Super Valu had on apple juice on sale that weekend in their store.

Mr. McLellan: That could be. If it was on sale, it could be.

Mr. Chairman: This is one of the problems we face, especially with small retailers, who find they cannot be competitive.

Mr. McLellan: For the small retailer to say he cannot be competitive, I think is wrong, because I think that the spread between the top and the bottom would not be very much. Mr. McAneeley and I were talking about this last night, and I asked the question, because I would like, myself, to be satisfied that we are in fact treating the retailers in the Yukon in all fairness. He told me that the greatest difference there would be would probably be three percent.

Mr. Chairman: Between a high-volume purchaser and a small-volume purchaser?

Mr. McLellan: The very smallest. When we talk about small, we are talking about someone who comes in with a $50 order. It may cost us $100 to process it. There is a lot of that. You almost prompt me to find out who that customer is and let me track it down, because if we did have apple juice on sale, I would say that that could have happened. Apple juice may have been on as a loss-leader. Perhaps he was selling it for less than he paid for it during that particular week in the store. We like to follow these things up with our customers if we have the information, because that is not fully answered.

Mr. Chairman: I will talk to the retailer who sent this letter, and I am sure he would be only too happy to let you follow up on that specific instance.

Mr. McAneeley: That happens in any business. I went to buy a toaster wholesale, and I could buy it cheaper retail. Quite often, you can buy a TV cheaper retail than you can wholesale.

Mr. Penikett: I think it could get a bit confusing if you found Super Valu in the wholesale business in competition with you.

Mr. McLellan: I think it would be a real exception when a person could find an item being sold in the store for less than a small store could buy it wholesale. That would be a real exception.

Mr. Penikett: Let me ask you one last question regarding mark-ups and upcharges. Last year, the Hudson'a Bay Company had a similar enquiry to this in Frobisher Bay. One of their officials stated that they had a policy that would not permit their northern prices to exceed southern prices by more than 10 percent, even if the normal mark-up could be achieved. I would be interested to know if you have any similar policy within your company.

Mr. McLellan: No.

Mr. Chairman: Perhaps we will break here for a few moments. We have a five minute recess and get on another subject when we return.

Recess

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

I just have a couple of other small questions on the subject of mark-ups: one is supplier's discounts. I spoke to a retailer in the trade from southern British Columbia. We talked about suppliers discounts where certain suppliers gave, shall we say, rebates to a retailer for stocking their products on the shelves, or for putting their product at the end of an aisle in a predominant place so that shoppers passed that aisle first. Is that kind of practice prevalent in the territory or not?

Mr. McLellan: In a small way. It is not something that is of a concern and I cannot see how it would have any effect on the prices of food. It is much like me wanting you to favour me and if you will put up a display of my products, I will give you $20 or $50 dollars. That does happen, but it is not a significant factor in the retailing business.

I did not want you to be confused, because there are, periodically, a lot of allowances that suppliers implement in their merchandising programs, and it is in the way of deals, special allowances and we pass those on to the retailers. That is a significant part of retailing.

Mr. Chairman: But those are passed on to the consumer?

Mr. McLellan: Yes, into the retail price.

Mr. Penikett: Let me just ask you one last question about mark-ups. Mr. McLellan, in your opening statement, you referred to the Food Prices Review Board. I do not know whether you are aware of this but the final report of the Food Prices Review Board said, after a substantial enquiry on northern food prices, — and I believe I quote fairly accurately — that it questioned the practice of northern retailers of applying a mark-up to their landed cost plus freight, or their cost plus freight because of the large freight costs involved that this produced, the Board felt, unfair gross profits.

I think there are many consumers in this community who believe that the effect of that practice is for the food company to make a profit from the freight too, and they thought that is something more appropriately left to the trucker than to the food company. Because it has been such a sensitive item, would you care to comment further on it?

Mr. McLellan: I know it is a sensitive item but you must understand that the cost of that product, is the cost. It has got the contents; it has got the tin that it is in; it has got the label that is on it; it has got the case that it was shipped in, and it also has the freight that it takes to get that product wherever it is going. This is not something that is alone in the Yukon; this is nation-wide. You are dealing with an item that costs X dollars, and the cost is made up of all of the component parts that make that cost, and freight is one of them. There is no question about that. That is nation-wide, industry-wide and commercial-wide. The car dealer here that ships in a car bases his mark-up on his landed cost. He does not base it on the cost of the car and add the freight later. That is an industry practice, and you are right.

Mr. Penikett: Since you had quoted Berle Plumtre, I did want to quote her back to you.

Mr. McLellan: You are absolutely right; there is no question about that.

Mr. McAneeley: If I can just add to that: if you require some merchandise from Japan, the cost of the merchandise may be $5, and it will cost you $2 to get that case there and the cost in Vancouver is $7.

Mr. Penikett: Our problem here is that we often feel that things cost $2, and it costs $5 to get it here and then there is a fair mark-up on top of that.

Mr. McLellan: We are very sensitive to freight, and that is why we are trying to work hard with suppliers to get the freight prepaid or to get the freight assistance. We are very sensitive about that issue in Whitehorse. I was just reading in the paper last night and the headlines said that the freight is not the reason.

Mr. Penikett: That is what the truckers say.

Mr. McLellan: Simple economics make that statement ridiculous because if you take $7.95, and an item weighs 30 pounds and the value of the item is $15.00, it is going to cost you $2.40 to get it here and that means that it is $15 plus $2.40. Which is $17.40, so I just do not quite understand how anybody can say that the freight is not a factor.

Mr. Penikett: Is that an average freight cost from your point of view?

Mr. McLellan: Seven dollars and 95 cents a hundred? That is what we pay.

Mr. Chairman: Freight is a funny thing because I see it as a percentage of the value of the product that you are shipping because freight on a t-bone steak is insignificant. It means absolutely nothing, but the same freight on a hundred pound sack of potatoes is a very significant item. This is one of the reasons that I have tried, throughout the hearings, to get some idea or some correlation between freight as a percentage value added to items. We find it is almost impossible.

Mr. McLellan: If you work it back, it is 14 or 15 percent.

Mr. Chairman: Using it on an industry-wide basis, which I realize is kind of ludicrous, but considering the total value of food sold in the territory, we have got a rough idea of the total poundage. Freight is a significant part of the price.

Mr. McLellan: There is no question about it. Many retailers in the Yukon Territory have to pay freight from Whitehorse. The people in Dawson — I do not know what the rate is but I think it is $2.50 from here to Dawson City, or a customer in Mayo — all of the places.

Mr. Chairman: Mr. Hanson probably has some questions about transportation.

Mr. Hanson: What transportation company do you use to get your product into the Yukon.

Mr. McLellan: We use various carriers but our main carrier is Zenith Transport who operate out of Vancouver. They haul our merchandise in here direct from California, which is another thing that our company did, establish direct loads from California, right to Whitehorse. I think that is another indication of our interest in trying to help the people in the Yukon. That was unheard of. Most of the produce came from California to a wholesaler in Edmonton, transhipped to our wholesale here; we have made arrangements with a trucker, Zenith, to haul direct from California to Whitehorse.

Mr. Hanson: What percentage of your product does Zenith haul?

Mr. McLellan: To the Whitehorse wholesale?

Mr. Hanson: To the Whitehorse wholesale.

Mr. McLellan: I would say probably 75 percent.

Mr. Hanson: How long have you had this shipping arrangement with Zenith?

Mr. McLellan: Ever since the White Pass discontinued their weekly sailings.

Mr. Hanson: And before that it was brought in by White Pass?

Mr. McLellan: Yes, sir.

Mr. McAneeley: If I can just add to that: Zenith hauled our produce long before that. White Pass was mainly dry groceries.

Mr. Hanson: How often do truckloads arrive here? One a day?

Mr. McAneeley: We have trucks arriving every day.

Mr. Hanson: How often do you receive damaged goods?

Mr. McAneeley: How do you mean? Are damaged goods a problem?

Mr. Hanson: How often do you receive damaged goods?

Mr. McLellan: You mean the frequency of damage on the loads, is that what you are asking, sir?

Mr. Hanson: Yes.

Mr. McLellan: It is good. Zenith Transport have a record of knowing the food business. We have been with the associated company of that company for years and years and they have done a tremendous job and they understand our business and do a good job. The damage is very, very small.

Mr. McAneeley: Recently they have taken steps to take down those damages by — I do not know if you know of the process called "shrink wrap". They have a shrink wrap machine in their warehouse where the last pallets on the load are shrink wrapped. The loads that are shipped over that road are shrunk wrapped in this plyofilm and that holds it tight in place. Of course at one time, the load would shift and when you opened the door, out would fall the pallets. No, damage is not a major problem.

Mr. Hanson: Do you have any trouble getting any damage claims honoured from Zenith or whatever transportation?

Mr. McAneeley: No.

Mr. Hanson: On Monday, August 3, 1981 and again on Monday, August 31. Kelly Douglas advertised another truckload of super specials brought to the people of the Yukon through the cooperation of Kelly Douglas, Zenith Transport and local merchants. Why were you able to offer such low prices that one time only? For apricots it was 59 cents a pound; $6.19 for 11 and a half pound cases; peaches 59 cents a pound, or $10.99 for 20 pound cases. Do all products always come up by the truckload?

Mr. McAneeley: I would like to answer that. When we first came up and met with the Food Committee, one of the criticisms that they had of us was that we did not have enough deals to offer to the public. Mr. McLellan made the commitment at that time to Mr. Lang that we were going to have more deals for people of the Yukon. That was my responsibility, and it is our responsibility to keep that up now.

Mr. Chairman: We have had various witnesses appear here. One of your competitors said that, at one point in time, the price difference between them and the Super Valu store in Whitehorse was somewhere in the neighbourhood of 20 percent. You could actually go and shop at this store and save 20 percent on your grocery bill. Now, since this enquiry has started, and the competitor has probably taken a little bit larger share of the market, they now contend that the same price spread is only in the five to ten percent range. Is that as a direct result of the deals that we are getting, or is it a result of them increasing their prices, or Kelly Douglas and Super Valu decreasing theirs? Can you make a comment on that?

Mr. McLellan: We have not changed anything. The only thing that we did, and Mr. McAneely explained it. It leads back into his question of the peaches and the apricots; there were cherries as well, and this week there are plums and pears. As Mr. McAneeley said, after listening to Mr. Lang and listening to the consumer groups — we have met with the consumers; we were on the radio; we were on TV, and we had a lot of criticism. I said to Mr. McAneeley, "Well now look, let us really see if there is something that we can do to give those people a better break up there." Mr. Zenith Transport cooperated with us. The branch is not taking a mark-up, or a very slight mark-up. We are selling the merchandise at cost to give the people of the Yukon a break and I do not think that we can be criticized for that; we do not have to do that. It is just a commitment that I made to Mr. Lang and I passed it along to Mr. McAneeley and asked him to look after it and he has done a good job. We will continue to do that. We may do it with paper; we may do it with margarine. Maybe we will do it with a canned good sale, but we want to do that just to fulfill the commitment that we made. We do not have to do it.

Mr. Chairman: Do not get me wrong. We are not criticizing you for doing it. The observation has been made not only by a consumers group but by another retailer that the price gap between Super Valu and probably your major competitor is shrinking.

Mr. McLellan: You know I have to question the price gap between Super Valu and whoever the other competitor is because we do price checks and at no time were there ever a 25 or 20 percent spread. I think if anybody was to check the food prices in Whitehorse, they would find that perhaps Food Fair has the lowest prices. I am not saying that Super Valu has the lowest prices. Super Valu's prices are within the market. I am not really familiar with any of the other stores but there was never a 20 or a 25 percent spread in any price checks that we have ever carried out. It just does not make sense that it could be that far apart.

Mr. Chairman: It is kind of ironic, we hear lots of scuttlebutt going around town that Kelly Douglas do, in fact, own a portion of Food Fair or a good chunk of the action there.

Mr. McLellan: We do not own anything of Food Fair. Mr. Palamar is an independent owner-operator who used to work for our company, but he elected, when Taylor and Drury wanted to get out of the business, to go into business for himself and he is doing a good job. He is a good man and I know that he is just as interested in doing a good job for the people in the Yukon as I am, because our philosophies are not any different.

Mr. Hanson: The prices are not either because they were advertising the same specials that you advertised in Super Valu. Food Fair does the same thing. The same truckload, I presume, of stuff coming in.

Mr. McLellan: We arranged that truckload with the retailers of the Yukon. That is absolutely right. On those cost items, they cooperated. That is not Kelly Douglas, it is the retailers of the Yukon that are doing that, those that wish to participate. Anybody who wants to get involved in that is welcome to get involved. Jens Jorgenson in Riverdale was willing to come with us; Mr. Palamar was willing to come with us. Our own store was with us and anybody else that would like to get involved. There is no money in it.

Mr. McAneeley: Faro participated; Dawson City General Store participated. All the customers were offered the same price all throughout the Yukon — not just in Whitehorse.

Mr. Chairman: Is that right? On all of these truck lots that you are bringing in.

Mr. McLellan: On that fruit. What we wanted to do was give the people the opportunity to can fruit, the same as the people in Vancouver; those prices are Vancouver prices.

Mr. Hanson: In the March 17 brief, Kelly Douglas states that goods are shipped to Zenith who consolidates them. On CKRW on March 18, Mr. McLellan said that the run from California to Whitehorse is a direct run and in July of 1979, a memo referring to a meeting with J. Eby and Mr. McAneeley, that one reason given for the wholesale price difference between Kelly Douglas in Whitehorse and Kelly Douglas in Burnaby is consolidation charges. These charges result from goods being shipped to Vancouver where they are stored in an independent warehouse awaiting shipment to Whitehorse. Would you like to comment on that please?

Mr. McLellan: It is unfortunate that it is said that way because it is very confusing. What happens is: there has to be a consolidation point for loads. You understand that the Whitehorse branch does not buy from Burnaby branch. Whitehorse branch buys some merchandise from Burnaby, some from this supplier, some from that supplier, some from that supplier, some from that supplier, 15 or 20 or 30 sources and they all have to take that merchandise to one consolidation location where it can be loaded on the truck destined for Whitehorse. Does that answer the question?

Mr. McAneeley: If I can add to the one part there. You mentioned the direct loads from California and felt that was contradictory. Well those loads are direct, they do not go to Zenith to be unloaded; they just put another tractor on and away they come.

Mr. Hanson: We understood that from the witness yesterday, but your comments from three different individuals do not indicate that.

In the March 17 brief, you state that the Whitehorse warehouse has provided us with the opportunity to take advantage of suppliers' fully paid or partially paid freight to jobbing point. Why do you also state in the May 6 brief, "Food comparisons are higher mainly due to added costs of transportation." Why, when the warehouse was completed, did the price of food not go down?

Mr. McLellan: Your question is why when the warehouse was completed the price of food did not go down? Why should it go down? What is your logic for the question?

Mr. Hanson: Your March 17 brief said, "The Whitehorse warehouse has provided us with an opportunity to take advantage of suppliers' fully paid or partially paid prices to jobbing points."

house, the old warehouse and the first old warehouse have all afforded us the opportunity to take advantage of a jobbing point. It is not the new warehouse. It is because we have a warehouse in Whitehorse. Regardless of what warehouse it is, it has given us the opportunity to go to the suppliers and ask the suppliers to treat us the same way as they do in British Columbia.

Now, if you remember what I said when we first started — I said that when we came here, there were no suppliers giving any freight assistance to the former wholesaler, Tourist Services. I said that Mr. McAneeley, and other people in our company, have worked very hard to try and get the cooperation of the suppliers to give us freight assistance on shipments into Whitehorse, in some cases fully prepaid, in other cases, partially prepaid. That has grown and grown and grown, where today we enjoy a good share of our product coming in there with freight assistance. That is giving the consumers of Whitehorse a better price on food. Okay? That has not anything to do with the new warehouse.

Mr. Hanson: Well you mentioned the new warehouse is going to be an advantage to the consumers.

Mr. McLellan: The new warehouse gives us the opportunity to take in minimum shipments. I would say that we have had the opportunity to expand the freight factors with suppliers, but it does not say that the prices should go down because the prices have been going up with all suppliers over the last 15 years. It would not make sense that the prices would go down.

Mr. Chairman: Can you give me a rough idea, if you have the figures available, what percentage of the total freight coming into the Yukon has some kind of a subsidy attached to it? Some is 100 percent paid and some is zero, what total percentage are you looking at? Say your freight bill a year is a million dollars. Fifty percent of that is prepaid by suppliers or 20 percent?

Mr. McLellan: I could not answer the question. It would be a guess on my part that we are getting freight assistance on about 40 percent coming in here, either prepaid or a freight allowance, and that is a guess. Mr. McAneeley works very closely with the branch, so he may be able to answer it better.

Mr. McAneeley: No, you would certainly have to do a special exercise to get an accurate figure on that.

Mr. Penikett: Could I just ask a question on that subject? We were talking earlier about the authority of the local retail managers and the warehouse people, for example, to negotiate deals, or to buy. You talked about the buyers for your company, presumably the Super Valu store here does not have buyers out in the marketplace; it is Kelly Douglas that has buyers out. The local operator here is not really in the position to go tinkering around in the marketplace looking for special freight deals or anything; you are able to obtain these arrangements because of the market power and the fact that you have large volume in Kelly Douglas. Would that be a fair statement?

Mr. McLellan: No, it is the selling policies of the companies that we deal with. We have no influence with the suppliers. They have their selling policies and their freight allowance policies, their prepaid policies, their no-freight-assistance policies. We have no influence with them.

Mr. Penikett: Perhaps you misunderstood my question, Mr. McLellan. You were suggesting that even if the company were owned by another arm of George Weston that you would have no special influence on them. That was not what I was asking. What I was asking was: presumably Kelly Douglas' ability — because you are a large customer — to make arrangements with the supplier are better than a corner store here in Whitehorse. It is the volume buying that allows you to make these special deals for freight and so forth.

Mr. McLellan: The corner store in Whitehorse, or any store, still has that same opportunity dealing with the particular wholesale of their choice. I mean, the wholesalers are the people that are out looking for the deals. The wholesalers are the ones that are negotiating with suppliers. The wholesalers are the ones that are relating and coming back to the retailer, the wholesale customer, and bringing him these special deals that they can arrange from the vendors. The corner store, if he is buying from an Edmonton wholesaler, is in no different position than the chap running the supermarket in Whitehorse, from that standpoint.

Mr. McAneeley: If I can add to that: you are wondering what power our local buyer, Mr. Dunlop, has with suppliers. The sequence of events with suppliers: we will use Libby's for example. Occasionally their representative will call into Whitehorse and go around and get detail orders, we call them, from the various accounts. They will go into the branch and of course they will apply as much pressure as they can for a freight allowance or whatever deal that they can make. Now, beyond that, if they are not getting an equal freight allowance, they will usually come to me, and ask if they can get the head office assistance. If I cannot get it with the supplier, I will go to someone else with a higher position, a vice-president in charge of merchandising that maybe is a little closer and knows the person a little better, all those sort of things. It is a continuing thing. It is not just something that happens and we leave it. It is almost a daily thing. In the Whitehorse branch — actually the latest milk decrease was really negotiated through the store manager, so it is a combination of a lot of people helping here.

Mr. Penikett: Mr. McLellan, presumably, if I decide to set up a wholesaling business here and I do $100 worth of sales in Libby's every year and the Whitehorse store does a million dollars, the ability to make those arrangements is much better if you are doing a million dollars than if you are doing $100. That seems rather obvious.

What I am trying to get at is: given the purchasing power of Kelly Douglas, is the operation here in Yukon able to obtain all of the advantages of Kelly Douglas' purchasing power in terms of that partially pre-paid or fully pre-paid freight? In other words, if you go to a major supplier — let us use Libby's for example — and just because this is a jobbing point, is Libby's as prepared to give you the same deal on freight to Whitehorse as they would be to somewhere in the interior of British Columbia.

Mr. McAneeley: To answer that: as a matter of fact we did better. They gave us a higher freight allowance into Whitehorse than they do into Prince George.

Mr. Penikett: A higher freight allowance — is that a percentage of the total cost, or just in dollars.

Mr. McAneeley: No, in dollars.

Mr. Penikett: So it might be a lower percentage.

Mr. McAneeley: It costs them more.

Mr. Penikett: It costs them more but it might be a smaller percentage of the total freight costs.

Mr. McAneeley: Yes.

Mr. Hanson: Before the advent of Tourist Services' warehouse, I think pretty nearly every retailer in Yukon had his own warehouse. When I first came here, the Kelly Douglas man was a salesman who travelled on the riverboat to all of the communities along the river. In those days they were giving partial payment of freight costs into Yukon and that was long before Kelly Douglas got into the position they are presently in in Yukon. I cannot help but wonder what these warehouse facilities that you are enlarging or just built are costing the consumer in Yukon through our prices.

Mr. McLellan: Again, a misunderstanding. Kelly Douglas was allowing the retailer the freight allowance on its shipments from Burnaby. We are dealing here with two different subjects. The first subject is the supplier and his freight allowance or freight assistance. In the case of our salesman being on the road up here and giving freight allowances, Kelly Douglas has always prepaid what we call tobacco, candy and drugs. Those are the only items that were ever given any freight assistance to retail customers. That has been a standard practice for years and years.

I am sorry, but you are not dealing with the same apples and apples situation. I do not want to take a lot of time but if you want me to, I will go into it again. I thought I had explained it; obviously I have not.

Mr. Hanson: My concern is that the big warehouses we are building are just adding to the cost to the consumer in the Yukon, rather than detracting from the cost.

Mr. McLellan: Can I tell you that you are absolutely wrong, and prove it to you, sir? Could I do that?

Mr. Hanson: That is a debate that I do not think we want to get into at this time.

Mr. McLellan: It is a statement that you have made and it has to be understood. It is an unfair — not criticism, but there is a concept that you have in your mind that is not correct and I just hope I can take the time to explain it. I thought that we did understand it, but it just points out the difficulty that our company has in trying to explain to the consumer groups. I am not blaming anybody; it is just difficult to understand and I would take the time, as much time as necessary to explain it so that we do understand it.

Mr. Chairman: Go ahead.

Mr. McLellan: We have not got a warehouse in Whitehorse, number one. That is where we are going to be for a minute. That is what you said: the warehouse has cost the people more; because we have a warehouse, it has cost them more for food. So we do not have a warehouse in Whitehorse. The Super Valu store is going to get its merchandise from probably, we will say, five sources. Some of the items will come from Edmonton: the milk, the meat, maybe the bread. The produce is going to come from probably Vancouver or Edmonton, and groceries are going to come from Vancouver. There are going to be perhaps, just a number, 15 trucks on the road a week to supply that one store.

Food Fair is going to have exactly the same situation; maybe lesser number of trucks on the road but the same problem. Super A would have the same situation where his truck is on the road bringing merchandise from Edmonton or wherever he gets it. All the little retailers would have these trucks on the road pulling this stuff out of Edmonton. The freight costs would be horrendous. Instead of that, sir, we have a warehouse here where we can take advantage of the freight — and I have to emphasize this again because obviously I have not got it across — the freight —

It is very, very important that you understand two things here. One is FOB, which is free on board shipping point. The other is FOB location. FOB location means that we get it prepaid. FOB source means that we pay the freight — $7.95.

Now we have another concept that is a truckload rate which is considerably less than what we call the less than truckload rate, LCL they call it. All these little guys in the Yukon are going to be paying $15.00 a hundred to get their product in here.

Instead of that, we have the warehouse — and I think I am using a figure of 40 percent of the products, but I am not sure of that figure — that has freight prepaid or freight assistance. Now, do I have to go any further or do we understand it? Question.

Mr. Chairman: I just have one question. Just to clarify in my own mind, you said 40 percent of the goods either have full assistance or some kind of assistance.

Mr. McLellan: Right.

Mr. Chairman: As a percentage of your total freight bill, what are we looking at? Twenty-five percent? Your total freight bill for everything would be $1,000,000 a year, using round numbers?

Mr. McLellan: Yes.

Mr. Chairman: Would roughly 25 percent of that be —?

Mr. McLellan: That is a good guess, sir. A good guess.

Mr. Chairman: That is all I am looking at is a guess, some kind of an estimate.

Mr. McLellan: What we have to do is fully understand that the warehouse is a consolidation point of all of the suppliers' shipments. I can go to Standard Brands and I can say I want 50 cases of Fleischmans Margerine and they will ship that in here prepaid or partially prepaid. Now, that 50 cases of margerine that is coming into the Yukon is going to come out of Edmonton or out of Vancouver to the individual stores. Food Fair is going to buy five cases; Super Valu is going to buy eight cases; Super A is going to buy five cases, each one of those would have an individual rate to it. Probably, because it is less than a carload lot, it would be in the area of $15.00 a hundred.

What is the LCL rate from Vancouver?

Mr. McAneeley: It would easily be that high. It can get as high $19.00.

Mr. McLellan: I must get you to understand, sir, that because we have the Whitehorse warehouse, the food prices are lower in the Yukon. Now, I must get that understood. I will take the days or time or hours that are necessary to take you to the warehouse and show you that. This is the concept that has got to be understood. Food prices are lower in Whitehorse because we have a distribution facility in Whitehorse.

Do you recall what I said when I first made my remarks about when we came here? The Tourist Services' warehouse was here. He was a wholesaler. Why was he a wholesaler?

He was a wholesaler because all of those customers had to have someplace where they could go and get goods because they could not handle the individual shipments to their stores from the source locations. It would be impossible for them to do that without charging horrendous prices because of the freight.

I do not want to leave this. I want to make sure that your Committee understands it, because it is one of the issues that people in the Yukon do not understand. It is very important.

Mr. Penikett: If you will understand some of the frustration of some of the people in the Yukon — I am leaping ahead a little bit to a subject I had hoped that we could spend some time on this afternoon — there are all sorts of popular ideas about the reason for higher food prices here. I believe in one of your representations, you listed a few: energy costs, operating costs here, small market and freight were among the ones I think you listed. What we have a hard time getting a clear handle on is if you had to rank those reasons in terms of importance, what kind of order they would be from your point of view as the major actor on the scene.

I go back to a very general question that I have trouble understanding. I think that you were saying earlier that freight is a very critical factor and may be number one in terms of cost.

Mr. McLellan: No question about it.

Mr. Penikett: Can you tell us in any way what kind of a percentage of a sales dollar that freight means? Our government estimates state that food prices here are between 20 and 35 percent higher than the south. I would like to have some idea of how many cents of a food dollar freight is here.

Mr. McLellan: I think I went through an exercise a few minutes ago that showed you 15 percent, but if you take away the prepays and everything, I would come down, and probably say a fair number — it would take a little time to get it out and do the homework on it — but I would say that I would not be far off if I said 12 percent. Twelve percent would be a good figure to use.

Mr. Penikett: Out of a dollar I spend on food, 12 cents of that I am giving to the trucker?

Mr. McLellan: Twelve percent, yes.

Mr. Penikett: Perhaps we can get back to this later, but because we are to be dealing ultimately with the reasons.

Mr. McLellan: Let us deal with the freight for a minute. If you consider the investment in a reefer unit coming all the way from California, that has all kinds of costs attached to it. The driver, the insurance, the depreciation, the fuel — and I am going to suggest to you that the price of food will increase because of the increases expected on fuel. Those trucks do not move for nothing. They move at a cost, and I will tell you that $1.30 per mile is not an unreasonable figure to use. It may be more than that, but in some work I was doing down below, where I was working with one of the major suppliers to a chain of stores, I was told that they use $1.30, and pay $1.30 per running mile. How can you say that freight is not a factor in the prices of food, when Vancouver to Whitehorse or Edmonton to Whitehorse, or wherever we talk about to Whitehorse, is a thousand miles?

Mr. Penikett: We are not saying it is not a factor. We are trying to determine how much of a factor it is.

Mr. McLellan: Then, use the figure of 10 to 12 percent. I think you will be quite close. Or, you could use 15 percent, if you take away the freight allowances and assistance, because I just proved that to you.

Mr. Penikett: Earlier this morning you mentioned your long association with Zenith. The first day of the hearings, Mr. King, President of White Pass, was here singing the praises of his company, and the very low freight rates that he can offer with the marine/rail combination, and that you were at one time a customer. I understand that there was a problem with service when they went to the barge operation, and that you could not get your food here fast enough. The turn-around time was too long. Given that Mr. King was making an argument that his method of bringing groceries in was cheaper than the method you now use, could you describe again why you are still using the alternative service? I understand it from the point of view of service, but you would obviously add warehouseing costs or other costs if you used White Pass. Could you detail it?

Mr. McLellan: First of all, I want to understand your question. Let me go through this and if I have to clarify it further, I will. We dealt with White Pass for many, many years. It did an excellent job for our company and a tremendous effort between Kelly Douglas and White Pass was put forth in the endeavor that they knew we were trying to do for the people in the Yukon. They had weekly sailings, and I remember the rate when we first started out. I think it was $4.32 a hundredweight. No problems. The rates escalated year after year, after year, after year, and then there was a change by the asbestos company on its method of shipping from Whitehorse to the marketing areas. This caused the *C.T. Brown* boat to reduce frequency to once every two weeks.

We were getting weekly service by shipping on the boat, and that was satisfactory, but not as satisfactory as daily shipments by truck. Interest Rates on inventories, bank overdrafts, are now sitting at about 20 percent. We have one million dollars in the warehouse, for a number, and when we ran into a problem with the frequency with the White Pass sailings, we had two million dollars in our warehouse in inventory, and a very poor service level. Mr. Palamar threatened to quit dealing with our company because of the high shortages. Our own Super Valu manager complained bitterly to us in Vancouver about the problems of out-of-stocks, because the customers were complaining to both Mr. Palamar and our own store, and, I guess, our other retail customers were complaining.

So, we made arrangements with our carrier to give us daily service out of Vancouver, at a higher rate. But, the higher rate is less than all of the numbers put together, when you consider the investment in inventory that we had to carry, which was in excess of one million dollars, and also the shortage problem and service level to our customers. Does that deal with the question?

Mr. McAneeley: If I can add one step that Mr. McLellan missed: In making this consideration to change, when the ship came in there were as many as thirty containers at once, so it resulted in a lot of overtime. It is difficult to staff the warehouse and to have people available, so there was a lot of overtime required to unload these, so that was an extra cost. Now, we can staff the warehouse. We know that there is a truck arriving every day, or maybe two a day. Really, in the end, the seven ninety-five cost that we have today is cheaper than the $6.95 that White Pass has, and that is why, with the other reasons, that we made that decision.

Mr. Penikett: You will understand our interest in the proposition, because as Mr. King pointed out, as a community, and as a small regional economy, about the only company that has any backhaul, or carries any product leaving the territory, is White Pass. So, in a simple look at economics, you have one company taking everything out and a lot of other people bringing everything in. Somewhere down the road, we are going to have to look at making recommendations to deal with some of these cost factors.

Mr. McAneeley: Our first concern was the industry here itself. We did not make any instant decisions. We put up with it for well over a year, and our customers really would not put up with the service level that we were giving them. When a supplier missed a 14 day sailing, that was another 14 days we were out of products — as much as six weeks at a time. Some suppliers are out of products right at that instant — they have labour problems, they have transportation problems getting it to Vancouver. We had very serious service problems.

Mr. Penikett: Has it ultimately become a fact that the need for service has become more important that the cost factor?

Mr. McAneeley: If you are a retailer and you are out of product on the shelf, you have lost sales, so you have lost profits, and you have not kept your customers happy. Of course, they try to find another store where they can buy the merchandise.

Mr. McLellan: The need for the service was not outweighed by the cost. We did not go to White Pass and just say that that was it. We tried to work something out with White Pass, and it was only because of the in vain attempts to get some better service that we had to change. We had the service level to consider; we had the high overtime Mr. McAneeley reminded me about, and we had the investment. We took all of those things, and weighed it against the additional — the boat versus the truck. It was a saving, and it was a saving in retail food prices.

The thing that we have to do is consider the consumer. That is the most important thing to consider when we are making decisions. White Pass had a relationship with Kelly Douglas that was excellent, an extremely good relationship, and it was not easy for Kelly Douglas to make this decision to make the change, but they had to in the interest of the consumers and the retailers in the Yukon.

Mr. Chairman: If there are no other questions on transportation, perhaps we will break for lunch now. We have a couple of other subjects we would like to discuss after lunch, so we will reconvene at 1:30. Thank you very much.

Recess

Mr. Chairman: I will now reconvene the hearings of the Special Committee on Food Prices. Welcome back. We will lead off with Mr. Hanson who has a few additional questions concerning freight costs.

Mr. Hanson: If freight costs add roughly 10 percent to the food prices in Whitehorse, why are Whitehorse prices 20 to 30 percent higher that Vancouver or Edmonton?

Mr. McLellan: I do not think they are. That is where we have a problem. Mr. McAneeley carried out a very extensive analysis on the prices in Whitehorse. That was one of the assignments from Mr. Lang, that we rationalize to him the difference in food prices between Whitehorse and Vancouver. I think I should let Mr. McAneeley explain exactly what he did, and let him explain the resultant numbers to you. They are in the book. Certainly there is not that much spread, in our opinion, but perhaps we are missing something.

Mr. McAneeley: I had some assistants develop a computer program that would, first of all, take our super sensitive items — you have a copy of this and you also have a copy of the list of sensitive items — super sensitive items are the best sellers; next in line are the sensitive items.

We listed the items, starting with Heinz baby food, for example, weighing about 13 pounds for a case of 24. There are three types of freight: fully prepaid, partially prepaid to Whitehorse and FOB Vancouver. Heinz baby food happens to be $7.95 a case. If we had to pay full freight, it would be $1.03 a case. The freight allowance happens to be $5.40 per hundredweight, which is 70 cents for Heinz baby food. The net freight cost is 33 cents. The latest Vancouver retail price was 39 cents. Whitehorse retail was 40 cents. That is a difference of one cent per jar. We did this for all of the super sensitive and sensitive items.

Let us go to the last page, where you can see the total difference was $39.65 between Vancouver and Whitehorse retail prices. The difference was 11.2 percent.

Mr. Penikett: That comparison is between one of your stores in Vancouver and the store here?

Mr. McAneeley: That is the difference between a Super Valu in Vancouver and the Super Valu in Whitehorse, you are correct, on those items.

Mr. Penikett: It may be unfairly earned, but I have talked to people here from that area, and they talk about your stores in the Vancouver area being slightly higher in prices than other stores.

Mr. McAneeley: That is a matter of opinion, also.

Mr. McLellan: We check our competitors and, in order to be in the market, we have to be reasonably competitive. It would be wrong for me to say we are right on with them; it would be wrong for me to say that we are not, because there are price changes in the mill all the time. We check our competitors regularly. They check us regularly. There is continuous checking going on between the various retailers. I think it would be wrong to say that Super Valu prices are higher in Vancouver than the other chains, but it could be the case.

Mr. Penikett: One hears that your store has this reputation; it may not be fairly earned. I do not want to comment on that now, but it could explain a smaller gap here.

The first witness we had before these hearings was a representative of this government, the Economic Research and Planning Branch, which had been monitoring food prices for the best part of the last five years, and comparing the prices between here and Edmonton and monitoring the changes over periods of time, for Whitehorse, Watson Lake and Dawson City. The figures that they have for the difference range between 20 percent and 35 percent, with the distance between here and Edmonton being greater than the gap between here and Vancouver. Would you have any comment as to why there might be such a difference between your 11 percent and the figures presented by the government here, consistently over a period of time.

Mr. McLellan: First of all, we only dealt with these items. These are the items that represent the sensitive and super sensitive items. We analyzed all of our items but we did not do a complete —

Mr. McAneeley: These were the only two categories that we were asked to do. We have asked that same question. We do not know the items that they are checking. We have asked what items they were checking, and if we knew we could probably prove it out, but we do not know.

Mr. Penikett: They told us that they were dealing originally with a basket of 100 items. It is now 125, and that they give weight to the extent to which consumers use each item, and the extent to which they are likely to appear in a consumer budget. I gather they use some national standard as to the content of those baskets in terms of what people use. Your list is based on what you sell, not necessarily on what consumers buy.

Mr. McAneeley: These are the best sellers in groceries.

Mr. Penikett: You are suggesting that there are some lower volume items on which the spread might be much greater?

Mr. McAneeley: Yes.

Mr. Penikett: The total sales might result in a greater difference than 11 percent, then?

Mr. McAneeley: It could be, yes.

Mr. Penikett: It might come closer to the figures of government.

Mr. McAneeley: It might come closer to the figure than what Mr. McLellan mentioned this morning, 15 percent.

Mr. McLellan: That was for freight.

Mr. Penikett: The interesting thing to me is that this figure of 11 percent is remarkably close to the figure you explained to be the addition as a result of freight cost. You spoke of freight adding between 10 and 12 percent.

Mr. McLellan: I think we said that if we used between 10 and 12 percent for freight, that would be fair.

Mr. Penikett: Eleven percent is right between 10 and 12 percent, and that appears to be the difference there. What is apparent to me, then, is that the government figures may well be closer to being accurate if we spoke about the total volume of sales through your system.

Mr. McLellan: They may include meat and produce when they talk about the 100 items.

Mr. Penikett: Of course, because they would be a large part of the family budget.

Mr. McAneeley: Meat is purchased from other suppliers such as Burns or Canada Packers.

Mr. McLellan: I think that the people who were doing the checking would be doing it in a manner that could not have a lot of question to it, item for item, apples for apples, you know what I mean. I would think that would be done correctly. I am only making reference to the information that you gave us here a little while ago about the government report on the population and the food dollars spent in the Yukon, and how erroneous that was. I question how efficiently the food basket survey is being conducted. If there is a prejudice assigned to it, well, certainly they will come up with a high number that is going to make Kelly Douglas look bad in the Yukon. Those are things we do not know, and I do not know.

Mr. Penikett: The first figure we spoke about this morning was the Statistics Canada figure, and that is those bad guys down in Ottawa — I am sure that we are going to say much worse things about them than you ever will. We are now speaking about figures developed by our little government here, and they have told us that they are comparing identical items, not apples to oranges.

Mr. McLellan: I could not rationalize a 25 percent difference between Whitehorse and Vancouver in food prices. I am not saying that it is wrong, I cannot rationalize it. We have the reasons for food prices being higher; we have them listed here. This is the mathematics that was carried out as an assignment from Mr. Lang, and I believe the number it came to, for freight only, was ...

Mr. McAneeley: The total was 11.2 percent difference, and when you deduct freight, the real difference is 6.24 percent.

Mr. Penikett: You raised some questions about the Statistics Canada figures this morning, and I think you had good reason, based on your knowledge of how much consumers spend and the size of the population. You are no doubt aware of the methodology used by our government to come up with its conclusions. Do you to have any evidence, not only suspision, that their conclusions may be wrong?

Mr. McLellan: Their conclusions may be quite correct, if I really think about it in depth, for several reasons. First of all, in our discussions this morning, I said that if we did not have any freight allowances, and we use the $7.95 — which, incidentally, is not the rate today, the rate is $8.05.

The second thing: there are surcharges in effect on fuel that we have not yet implemented in our costing rates. Mr. McAneeley has explained to me that he has held back on those, because when we get those surcharges and where we have a freight allowance from a supplier, we do not like to go every month and ask for more toward the freight allowance. Mr. McAneeley, in his wisdom, said that he holds that and tries to get them once every six months or once a year. In the meantime, we suffer a little bit. But, to go back to my mathematics this morning, I said that if the average case was $15, and the average weight was 30 pounds, and the freight rate was $7.95, if you work that out, it is $2.40. Two dollars and forty cents, on a $15 cost, is a 15 percent difference for freight alone.

The next thing is, we have reasons here, that I think are important, that I can relate to you, if you wish. Further than that, these people in the Yukon who are doing this work — and I have the greatest respect for the Yukon Government, I have got along with it fine — but they always seem to put someone on the job who really does not know what they are doing, and who do not do it right, and that is what I am questioning right now. I have a right to question that, because I have seen the inefficiency of a lot of the things that have happened, and the information and misinformation that people have. So, I have a right to question that. Who did it? When was it done? How do they know a Valentia orange from a Navel orange? That is what we have to talk about, apples and apples.

If the government of the Yukon want Kelly Douglas to get involved on a one-to-one in a price check of Edmonton, Vancouver and Whitehorse, then we would do it with you, but have it understood that she is in this place on this day, and she is checking a C-Mac apple against a C-Mac apple in Whitehorse.

We have done this in Pine Point; we have done it in Yellowknife; we have done it in Vancouver, and we have done it in Whitehorse. I am afraid that your statement could be correct for these reasons: inequities. Further to that, when people are checking — for example, today in Vancouver, it is quite possible to run into three pounds of margarine at $1.99, which is below cost. If that goes into the mix, it is going to knock the difference up quite a bit, when that item is being sold substantially below cost.

Mr. Penikett: Mr. Hanson has some more questions, but, by way of wrapping up, I have a question I would like to put to you: in one of your previous briefs, you gave the reasons for high prices; you talked about freight, energy and overhead, so at the end of all of this, I am going to be asking you to rank those in priority; which is the most significant, which is the least significant and so forth. I ask you to bear that in mind, because, out of all this talk, that is where we are heading.

Mr. McAneeley: I would like to add one more comment. Kelly Douglas only carries grocery products. Also in the food basket, I am sure, is milk. We do buy that from another source, and at one time, that was FOB Edmonton, and at $9.30 per hundredweight, plus 4.5 percent surcharge, when a four-litre container weighs 10 pounds, that adds substantially to the cost of milk. Our invoice cost was the same as in Edmonton, but we added freight on that. We have been successful just recently in getting a partial freight allowance. That is why the price came down.

Mr. McLellan: Mr. McAneeley is supporting the possibility that the figures may be right, if you take everything into consideration.

Mr. McAneeley: Milk is sure to be in the food basket.

Mr. McLellan: There was a big spread in milk.

Mr. McAneeley: Kelly Douglas does not sell that.

Mr. Hanson: Are there any other food wholesalers in Whitehorse?

Mr. McLellan: Not to my knowledge, but there are food wholesalers shipping into the Yukon. You are aware of that, of course.

Mr. McAneeley: Burns is a wholesaler, but they are not carrying a full line; they are not a jobber like ourselves.

Mr. Hanson: You have about half the Yukon wholesale market and the rest of the retailers truck their product from Edmonton or Vancouver. How can these independent retailers compete with you if your warehouse reduces the costs to Yukon consumers?

Mr. McLellan: At the retail level? First of all, most of the food stores in the Yukon do buy from us. There are some that do not, but the majority of them do. I think the reason that some do not could be because they have a franchise agreement with an Edmonton wholesaler and there is a commitment and a responsibility there.

There are all kinds of things that come into this question. If we did not have a unionized store, perhaps we would be in a better position to sell at lower prices. You know we have a very adequate benefit package for our employees, and the rates of pay. I do not think anyone else in the Yukon is in that position in the food business, no one other than our own Super Valu store. That alone partially answers the question, in my mind.

There is a choice of where you wish to buy groceries. You can buy from Edmonton, if you wish. You can buy from Kelly Douglas, if you wish. If we do 50 percent of the wholesale business in the Yukon, I would say, basically speaking, that we have a pretty good share of the market, so we must be doing something right. There are all kinds of reasons why people do not deal with us. They do not like us; they have credit problems and maybe we do not deal with them.

Mr. Hanson: There was no milk in Super Valu yesterday.

Mr. McLellan: There is no milk in Super Valu right now, at this minute, no.

Mr. Hanson: Why was this?

Mr. McLellan: The truck did not arrive.

Mr. Hanson: If this truck were delayed further and the shipment was spoiled, would it be sent back?

Mr. McLellan: Are you asking if we would sell it if it was off-condition? No. I do not know what would happen to the milk. It may be thrown away.

Mr. Hanson: It would probably be sent back. Who would pay for this?

Mr. McLellan: If we bought the milk from the dairy, and it was on a Yukon Freight Lines truck, and if the milk did not arrive and had to be turned back because the truck broke down, or something, I think it would be a matter between the carrier and the shipper, not us. If this young lady ordered some groceries from my store and I put them in a truck that has an accident on the way, I cannot expect her to pay for them.

Mr. Penikett: This morning we were having a good discussion about No-Name brands and the amount of money we could save on those because there was no advertising involved. How much does advertising add to the cost of product? I would be interested in know how much advertising adds to the cost of product. Maybe you would not know that, but if you do, in answering my other questions, I would appreciate an answer.

In your brief, you suggested that you would be prepared to publish consumer information articles in your newspaper advertising. Have you continued to explore this idea?

Mr. McLellan: Ms Brown can answer that better than I.

Ms Brown: I think we are prepared to do it at any time now. We put that in our suggestions to the Minister and have not had a response back, but we are prepared to do it at any time.

Mr. Penikett: Are you doing this anywhere else? Is it something you have had experience with?

Ms Brown: In most cases where we distribute information through our stores we use sources such as the BC Department of Agriculture, and that kind of information.

Mr. Penikett: Could you give me an example of the kind of information it would be?

Ms Brown: What we were doing for a while in the BC area was to writing a consumer column within our ads, themselves. In our evaluation, we found they were not being read particularly well, and we did not feel it was of a benefit to continue that.

Mr. Penikett: What kind of thing would it be? Perhaps, advice to people about the best cuts of meat, and such?

Ms Brown: That sort of thing, yes, options in purchasing, and, for example, explaining No-Name products.

Mr. McLellan: What was your slogan?

Ms Brown: "Buy Wisely and Eat Better".

Mr. Chairman: If you would make a copy available to us, we would appreciate it very much.

Ms Brown: We were doing things such as, when beef prices were going out of whack, we were explaining the beef cycle to the customer. We were telling them their options such as buying powdered milk or fresh milk. We were not telling them what to do, but suggesting that there are ways to save.

Mr. Penikett: What percentage of Kelly Douglas' newspaper advertising budget is paid for by the suppliers, if any?

Mr. McLellan: None of it is paid by the supplier in a direct manner.

Mr. Penikett: Do they not give advertising discounts?

Mr. McLellan: No, they allow co-op funds for promotional activities, and we channel that into advertising, but it is not specifically for advertising.

Shirley Anne Brown and Mr. McAneeley told me at lunchtime that we use these terms, and perhaps I should make them clear. What is a supplier; what is a wholesaler, or a vendor? We do get the terms misconstrued, and some people really do not understand them. Campbell's Soups is a supplier. It is a factory; it is a canning operation; it makes soup. That is a supplier. We are its customer. Kellogg's has a plant where cereals are produced. It is a supplier. Suppliers do supply co-op funds for merchandising activity, which we use in our advertising budget.

For example, and this is a hypothetical case, Kellogg's provide promotional packages, where, if we advertise and display an item for a given period of time, they would give us a remuneration for it. That is money that we channel into our advertising.

Mr. Penikett: Obviously, we see a fair amount of your advertising in our newspapers and we hear the food ads on the radio. Without getting into the specifics of the various arrangements you may have with the media locally, is advertising a big part of the consumer food dollar?

Mr. McLellan: I think that we would spend probably one percent of our retail sales. It depends on the costs involved. In many places we use television, radio, newspapers and flyers. In other places we may use only fliers. We experiment with which will give us the best response, and try to control it. I do not think it goes beyond one percent.

Mr. Penikett: Is that close to the industry standard?

Mr. McLellan: Yes, I think so. But going to your other question. You asked me about the suppliers. Coca Cola is probably the largest advertiser in North America, and Proctor and Gamble would be the next. It would be very difficult for me to give you any number, such as one percent of their sales. I would not have any idea. The industry average for advertising is one percent. We have a retail food dollar, and we show what happens to it here.

Mr. Penikett: We would love to have that.

Mr. McLellan: It tells you what is used for supplies in the store — the bags, et cetera.

Ms Brown: That is not ours; that is for the industry.

Mr. Penikett: Is it possible for us to have a copy of that?

Mr. McLellan: You can have this one.

Mr. Penikett: Occasionally your ads from the Vancouver market are shown on television here, because of the satellite system. Some people are annoyed at seeing the Vancouver prices and not finding them here. Is that something about which you have had complaints?

Mr. McLellan: It happens throughout B.C. and it is something we are trying to correct. Certainly, I agree that it is an irritation. How to overcome it is sometimes a bit of a problem. If we are going to advertise on television, we have to accept some "interference". We have the same complaint from the operator in Smithers, Mr. Goodacres. Through the satellite, it goes on his T.V.

Mr. Penikett: The satellite is covering all of BC.

Mr. McLellan: It is no different in Vancouver, when the people there get upset with Safeway, because Safeway advertise in the Bellingham and Seattle markets and may have turkeys at 69 cents a pound, while Safeway in Vancouver is selling at $1.19 a pound. People get upset about that. That is all because of the Marketing Board, if you want to get into that area. The same problem applies to the people in Vancouver with Safeway out of Bellingham.

Ms Brown: We have already spoken with the Candian Radio and Television Commission about it. It has to do with the cable system here. I do not have all the details, but we have a letter that can be sent to you, explaining why there is really very little we can do about it. It is apparently some arrangement that was made with your cable company.

Mr. Penikett: I am sure we do not want to get into the subject of the CRTC. It is such a mysterious subject, it will take years.

I understand that you have been advertising a delivery service. Can you tell us what the response has been, and how that operates?

Mr. McLellan: In Whitehorse? Mr. McAneeley should answer the question.

Mr. McAneeley: No.

Mr. Penikett: Apparently there are some signs in your store offering a delivery service.

Mr. McLellan: I cannot answer the question, but it it likely that we do have a delivery service.

Mr. McAneeley: There will be a charge for it, but I do not know what the charges are.

Mr. Penikett: Is it a new service?

Mr. McLellan: Most of our stores have a delivery service, but they charge for it. The only place where we do not charge is in the West End of Vancouver, where there are a lot of senior citizens. They will deliver to the senior citizens.

Mr. Penikett: Have you considered making such an arrangement for seniors here?

Mr. McLellan: We have asked for you people to help us on something for seniors. It is in the commitment to Mr. Lang. It has not been attended to, yet.

Mr. Penikett: Who does the deliveries? Are they people on your staff?

Mr. McLellan: In this case, I cannot answer that question. It would be a local contractor usually.

Mr. Penikett: You may not be able to answer this question, and you may not want to, but let me ask it anyway. This Monday, you had a four-page insert in the *Whitehorse Star*. I would be interested in knowing what that kind of ad costs. If you have some special arrangement and you do not want to tell us, I will understand.

Mr. McLellan: You mean, on the ad?

Mr. Penikett: Yes, is a flyer like that very expensive?

Mr. McLellan: I do not know where that one was printed. Was it printed here?

Mr. McAneeley: I believe they are. I do not know what the costs are.

Mr. McLellan: In Vancouver, we would likely pay around $16 per thousand. I cannot tell you what the price would be here, but that should fall within his advertising budget.

Mr. Penikett: That is a decision by the local manager, is it?

Mr. McLellan: It is a decision by the local manager and also in cooperation with the gentleman who is his immediate superior, Mr. McAneeley, and I do not think he, nor I, know what the cost is right now.

Mr. Penikett: For that kind of advertising, he is given a budget?

Mr. McLellan: Yes. He has to stay within a certain guideline. There is no secret about what those flyers cost. Up here, they could be $30 a thousand. If there is anyone from the press here, they should be able to help us answer the question.

Mr. Penikett: You have to excuse me, Mr. McLellan, but in dealing with this question, one is never sure what questions you can get answers to, and if I seem to be asking you questions very deferentially and very cautiously, it is just that we have been in such awe of the mystery surrounding this business. We tread lightly.

One of the things you mentioned about No-Name brands was the relatively inexpensive packaging. I have heard complaints about excessive packaging, or complicated packaging. I do not know what the trend is in the industry, but there seems to be a lot more plastic than cardboard now. Are there any industry standards about how much packaging, as a rule, costs, in terms of the food dollar? Maybe that chart you had there would indicate that.

Mr. McLellan: There is no standard on it. If I make an ashtray and want to put it in a fancy box, and if you are crazy enough to pay the price I am asking, then that is my business and your business. That is the best way I can answer it.

Mr. Penikett: I guess we are not arguing about how many crazy people there are, or by what method they are being driven crazy.

Mr. McLellan: There is no regulation on it, and there is no industry average or standard on it, if that is you question.

Mr. Penikett: Presumably, it is cheaper to pack things in paper bags than in plastic bags?

Mr. McAneeley: Appeal would be the key, would it not? It would be whatever sells.

Mr. Penikett: So the colours and the wrapping, and all that kind of thing, makes a big difference.

We have been asked to ask about double-bagging, which apparently still goes on, even though the bags say that it is unnecessary. Do you have any comment on that?

Mr. McLellan: We do not encourage double bagging, but sometimes the staff in the store feel, because of what goes into the bags, that there is going to be some protection. Double bagging is really not necessary with the new, heavy-duty bags that we have. But, some people insist on double bagging. Is double bagging an issue that is used in this store extensively? I have never observed that. If it is, we should be checking it.

Mr. Penikett: I do not think people are marching in the streets about it, anyway.

Mr. McLellan: They make extra heavy duty bags now which say right on them that no double bagging is required.

Mr. Penikett: Back in May, you were asked for a commitment concerning arranging for signs that would communicate to customers reasons for problems in quality or shortages when they occur, such as with milk right now. From what we hear, there has not been an indication of any development like this. Can you give us any kind of report on when we can expect it? I gather what we are talking about would be some little sign which might say, "The truck has fallen off of the Highway down at Muncho Lake so the milk will not be in today.

Mr. McAneeley: We have been doing that. If it has not been done today, I am surprised.

Mr. McLellan: The milk sign is up today. I was in there.

Mr. McAneeley: We are in fact doing that.

Mr. Penikett: Some of these questions may surprise you but they are ones that we have been asked to put to you.

On August 14, this year, squash was apparently 79 cents at your store and $2.19 at one of your competitors. We have been asked to ask you if you can give us a reason for such a discrepency.

Mr. McLellan: No, I could not. I could not even hazard a reason. I think that you would understand that there are lot of people involved in any business. You can also understand that the degree of efficiency by individual people is sometimes good and sometimes poor. It is quite possible that the gentleman who had the squash on at a high price was incorrectly invoiced by the supplier, and bases his selling price on that. That is one thing that can happen. Many, many things happen that make an obvious error.

Mr. Penikett: Is it possible for a person in your store to mark it too low?

Mr. McLellan: Absolutely.

Mr. Penikett: They have that discretionary power?

Mr. McLellan: It happens with some regularity, too low, too high, errors. The human element is probably the biggest problem that we have.

Mr. Penikett: Would the produce manager have the authority to set those kind of prices?

Mr. McLellan: The produce manager in the store has a guide for setting prices. He knows what his mark-up base is, and he has to go within that range. Let us say that he had some extremely beautiful cauliflower and it was, say, 79 cents a head. In his wisdom, because it is so good and so beautiful, he might take that up a couple of points to 89 cents. Similarly so, he may, because of the quality, put it down to 49 cents. He has that flexibility, yes.

Mr. Penikett: I have never heard anyone talk so passionately about a cauliflower before.

On the March 17 CBC radio program, to which you referred, you may recall that you were asked a question about peanut butter. The specific question was about its price going from $6.49 to $9.89 in the week. You replied that the wholesale cost had leaped from $13.96 to $27.70. That was for the period March 1, 1980 to January 5, 1981. The consumer's question was why was the retail price increase not spread out over that whole period? Perhaps it had something to do with the answer you gave regarding holding back some of the increases.

Mr. McLellan: I do not really understand the question, but we do not control the price of it, we buy it. We pay that price for it and when we sell it, we base our selling price on our cost. I am confused on the question.

Mr. Penikett: Would an increase like that happen all at once, or is it normal in the industry to effect a gradual increase over a period of time.

Mr. McAneeley: Was there not a peanut crop failure at that time?

Mr. Penikett: Mr. Carter lost the election.

Mr. McLellan: They know that there was a drought, but they want to know why the increases went into effect so rapidly. Here is what we have, and these are the supplier's prices to us. On March 21, it was $13.96 for twelve 500 gram jars. On September 12, the price went to $14.49. On November 28, the price went to $21.90. On January 5, the price went to $27.70, and on August 17, the price is down to $26.50.

Mr. Penikett: The consumer seemed to feel that the price went from the low price you cited there to the high price, all in one jump.

Mr. McLellan: It went from $14 to $21, and it went from $21 to $27. There are other suppliers here. McColl's peanut butter went from $13.20 in January to $14.39 on October 24. On November 3, the price went to $15.82. On November 14, it went to $18.60 and today it is $27.50.

Mr. McAneeley: What could have happened there is: some of those dates are pretty close together so we could have bought at $14.39 and maybe missed one and then bought at the next one. In the meantime, there was an increase and we did not buy, so that is where the rapid jump could have been.

Mr. Penikett: So you had some stock at the low price and then all of a sudden —

Mr. McAneeley: Not necessarily, no.

Mr. McLellan: We cannot answer the question. All we can tell you is that peanut butter doubled in price from March until November.

Mr. Penikett: On August 28, Super Valu was apparently selling Swiss chard at the full price that had gone black and yellow. A question came from a consumer who was concerned about whether or not your produce people were responsible for making sure that food that was not keeping well be removed from the shelves.

Mr. McLellan: I would like to explain to you, sir: when we had our first meeting with Mr. Lang, some of these things came up. What I said to Mr. McAneeley and Shirley Anne Brown after we had had the meeting was that there seemed to be some areas of weakness in our operation. There was a complaint about the customers having to wait too long to get their orders processed. In other words, there were not enough staff to look after the customers. There was another complaint about having to pay for the bread at the bakery. Why could it not be paid for at the cash register? Another complaint was that Ziggy products had to be paid for at the delicatessen rather than being able to take the purchases to the cash register. Another complaint was that frequently there was off-condition produce on the rack. There were lots of complaints and what I would call "industry problems" related to us in that first meeting with Mr. Lang and the committee that was with him at that particular time.

As a result of that meeting, we decided that Mr. McAneeley would take the responsibility of that store. We went back to Vancouver and arranged to have our produce specialist visit the store. It was agreed between Mr. McAneeley and myself that he would come up here at least once every two months to inspect this operation.

What you are bringing up is certainly possible and not acceptable to us. It is no different than you are married and you like toast burnt and your wife does not burn it, or she burns it and you do not like it burnt; there is a human error in that produce operation. I was in the store today and there are some items on that rack that I do not think should be on that rack, but it is not serious. I was not happy with the quality of a few of the items in the store.

What we do: we go to our buyer; we find out that he is maybe not doing his job in the warehouse properly so we have to get that little part of our act cleaned up a little bit. We go down to Vancouver, we get our buyers and send them to California to tell the people how far this stuff has to go and make sure that they do not put off-condition merchandise on the truck. There is no sense in shipping the merchandise to Whitehorse if we cannot sell it.

What we try to do is run a supermarket efficiently and give the consumers good prices, good value and good quality merchandise. That is the objective, but unfortunately, it does not always happen that way. There were things that I noticed in the store today that I was not happy with, but that will happen in any store. I can go to any store in North America and find things that are not right.

The objective is to try to get them right and you are dealing with people. They have to be trained; they have to be taught; they have to be cultured; they have to be dealt with in a nice way in trying to bring them along. That is what we try to do.

Mr. Penikett: Let me ask you a couple of questions on that subject. If an individual consumer has a complaint of that kind, what would you recommend they do? Just speak directly to the manager?

Mr. McLellan: If a consumer has a complaint about any condition in the store, they should go to the manager. If the manager does not satisfy those people, they should go to Mr. McAneeley. If they do not get satisfaction from Mr. McAneeley, they should come to me. We do that. I just love to have customer complaints. Customer complaints are what make me realize the short-comings in the store.

Mr. Penikett: Perhaps the media will put that as the headline today.

Mr. McLellan: No, I do, and Mr. McAneeley and Shirley Anne Brown know that. I will take my time to go and visit customers at home if necessary, to try to explain something that they do not understand and try to explain that it is not the way that we want it but it is the way it worked out for them and we are sorry.

Mr. McAneeley: Since the first meeting on March 17, I have made about four trips to Whitehorse since then and I go over that produce stand myself. Of course, we do have off-condition merchandise and he has been following the instructions — at least when I am there — that he advertises — if it is 99 cents for something, he might be putting it on at half price but he should say "Priced to Clear -49 cents" so that the consumer knows that that is off-condition merchandise and it is "to clear". We certainly do not want them to be paying full price for off-condition merchandise.

At the same point, Mr. McLellan mentioned having control of the warehouse and that is why he wanted me in both so I could be responsible for both, to see that the quality is there so I can go in and inspect that. There are times, when we buy produce — lettuce or whatever the case may be — we are not happy with what we are buying but it is the best available. There may have been a rain or other weather conditions causing that, but we still had to have lettuce and we wish you would bear with us on that.

Mr. Penikett: Let me ask you on that subject, because we have dealt earlier with some of the problems with freight and the distance, even with refrigerated carriers coming almost directly from California, is the distance between here and the source of the produce a real problem in terms of maintaining quality?

Mr. McAneeley: No. Certainly, day by day, the life of the produce will diminish. As far as the quality of the produce, the first thing we do: produce trailers are kept at about 38 degrees. When that trailer backs into the warehouse there, as soon as the doors are opened, we check the temperature of that trailer. We also take what you call a "pulp temperature". That is a thermometer that is dug into a squash or the banana or whatever to get a reading of the inside temperature. We check into that right away.

Now, to get back to that if you will just bear with me a minute, we used to get our produce from another wholesaler in Edmonton. It would come up to our branch and we re-sold it. We just had problem after problem. At that time we did not feel that we had the volume to buy direct out of California, but on an experimental basis, we started, with the cooperation of Zenith Transport, because they were doing an awful lot of our hauling into Vancouver. They also were doing some for Woodwards. We tried it there, and actually, our sales increased about 40 percent — not because the price was better, because the quality was better.

Mr. Chairman: I think those are just about all of the specifics we have. Now we can get back to the question that Mr. Penikett asked you to think about at the beginning. That was: what do you see as the reason for high food prices in Yukon. Perhaps if you have had time to think about it, you can even rank them for us.

Mr. McLellan: I have not prepared a ranking, but I will give you my best position on it. I would say that we have these items to deal with: the first is transportation, or the freight. I am sure that that is a factor.

Mr. Chairman: Do you rank that as number one?

Mr. McLellan: I would say that freight is number one, yes. I would say the other is the building and repairs. I would not give that a high ranking. Fuel cost — our heating costs in Whitehorse are about 300 percent higher than they are in the lower mainland in the warehouse.

I would say, number one you have the freight; number two you have the certification in the teamster bargaining unit. I think those would be one and two. Then I think you would use energy, which includes electricity and fuel as number three. The next thing, I would think, would be the building cost and the cost of maintenance requirements. I think the first time we came up we explained how expensive it is. If something breaks down in our warehouse, we have to bring a specialist in to fix it. We have the airfare to deal with; we have the expenses to deal with. When you have necessary repairs that require Outside people, it can be very costly.

I am not sure if Mr. McAneeley or Shirley Anne Brown, would agree with me, but that is the way I would rank them. I would say: number one is the freight; number two is certification; number three would be the energy which embraces fuel and electricity; number four would be repairs.

Mr. McAneeley: I think I would have to add the lower population there.

Mr. Chairman: The problem with volume.

Mr. McAneeley: Yes.

Mr. Penikett: That is what I wanted to ask you about. Where would you put that on the list? You had cited that as a problem earlier.

Mr. McAneeley: It comes in particularly under our office expenses.

Mr. McLellan: I would put that second.

Mr. Penikett: You would put that number two?

Mr. McLellan: I would put that number two, would you not?

Mr. McAneeley: Yes.

Mr. Penikett: This goes back full circle to a question we asked at the beginning.

Mr. McLellan: Can you excuse me one minute? I do not want to leave a connotation here that we are anti the union. You asked a question, and we do have that to face. There are fringe benefits — 30 percent — and high wages. We pay airfare for two people in and out. These are things that we are happy we can afford. We are happy that we can afford that for our people but it has to come into the limelight as an expense item — the housing subsidies that we are forced to —

Mr. Penikett: Is that for management people largely?

Mr. McLellan: Sometimes if you have to have a specialist — like a baker is very difficult to get. A good meat cutter is very difficult to get; a good produce man is very difficult to get. Managers are difficult to get so sometimes you have to buy a home and rent that home at something less than you would get if it were somewhere else.

Mr. Penikett: Of course your employees have to deal with the high cost of living, too.

Mr. McLellan: Exactly right.

Mr. Penikett: Let me ask you, because it does go back right to the beginning of the questions we were asking. You may be pleased to know that we have been reading some the trade journals recently, something we are not accustomed to doing. We have noticed the observations in those publications that we referred to earlier about high volume, low mark-up and where the volume goes down it is necessary to have a higher mark-up in order to maintain an adequate return from the point of view of the investor.

Since you have cited, as the number two cause, the problem of low volume here, could I ask you what impact that has had on the mark-up? I refer you back to the problem we talked about earlier of you being within the standard for the industry.

Mr. McLellan: I am sorry if I said it was number two. It cannot be number two, but it could be number three.

Mr. Penikett: What is number two, then?

Mr. McLellan: Number two is the certification.

Mr. McAneeley: Lower volume was on my remarks because in Vancouver it is $3,000 per man hour in the office, where it is about $600 and some here. That is no reflection on the people here; we have terrific people here and we have a computer here, but once you have that computer and you have the MSI feeding the orders into that, you can virtually do extra business in the office without any additional cost. Once you have the basic cost: you have the building, you have the rent, you have the heat, the more volume you can throw through that building —

Mr. Penikett: Would it be fair to say that you could handle a lot more volume both in your warehouse and in your retail plant than you are now doing? Would that be fair?

Mr. McLellan: Yes, a lot more. I think I said 20 to 25 percent more. I do not want to leave the idea that people in Whitehorse are being penalized to that extent because of the low volume. We have branches in Prince Rupert, Prince George, Cranbrook, Quesnel, Williams Lake, Kamloops, Kelowna and we have, in many cases, a similar trading area or population as what we have in Yukon. I do not really think that gets into it too deeply.

I think the problems you have got are: the freight — there is no question that the freight is a major factor. You do not run a truck from California to Whitehorse for nothing. You do not run a meat truck from Edmonton to Whitehorse for nothing. That is a big factor and whatever that factor is, you can decide.

The second thing that we have is that we do pay the highest wages in the food industry in Yukon; there is no question about that. The third thing, I think, is the energy. Fourth is the repairs. I do not think the volume is an issue in it, because there is no way that we can penalize the people of Yukon because we have low volume, because we do not have low volume. We have got good volume.

Mr. Chairman: The volume also adds to all of these different things. Your labour costs would not be that much different if your volume increased.

Mr. McLellan: If our volume increases or decreases, the labour is something that can be adjusted. It is the fixed costs that you are faced with that you cannot change.

Mr. Penikett: You cited some other stores in similar sized markets. Would it be fair to say, given what you have said about energy costs and so forth, that your costs per square foot of your store and your warehouse would be higher here?

Mr. McLellan: No question about it.

Mr. Penikett: Very much higher? You talked about energy being 300 percent higher.

Mr. McLellan: I think Shirley Anne Brown did that research for us.

Mr. McAneeley: Are you talking about sales per square foot?

Mr. Penikett: Yes, costs per square foot would probably be quite a bit higher here if your energy costs are that bad.

Mr. McLellan: This may be of interest to you. We did the Burnaby one. In Burnaby, our warehouse wages in relation to sales were 1.94 percent. In Whitehorse they are 2.18. That is not a staggering difference; that is only a quarter of one percent more. Office wages in Burnaby — and you cannot even use this because Burnaby is a head office and we have all kinds of people there so I will not even bother with that one — are a fifth of one percent. In Whitehorse it is 164. There is a big difference there, but that 164 is in line with most of our branches.

Mr. Penikett: You say that energy is 300 percent higher than down there. Is that a big percentage of the cost of doing business?

Mr. McLellan: Energy is, yes.

Mr. Penikett: Ten percent, five percent?

Mr. McLellan: Of the business?

Mr. Penikett: Yes.

Mr. McLellan: I think we have that figure here. We just have a little index here and we have some backup stuff so we may have it.

Energy is not a big number; it could be one and a half percent, one percent of a store. The store has got high energy costs with its refrigeration.

Mr. Penikett: It would be very low in the lower mainland then?

Mr. McLellan: Yes, lower. In this supermarket, we spend $20,000 on oil and gas and a comparable one in Vancouver would be $6,500. That is three times. The Prince George supermarket was $7,200. Mind you, it is not fair to say that this a true comparison because the size is different. This is a larger store than maybe the one in Prince George. In 1980, we spent $50,000 in Whitehorse and in Naniamo, we do not heat the warehouse, so there is a difference there.

Mr. Penikett: I am going to make an observation and I will ask you for a comment, rather than putting it in the form of a question. I think we have heard two witnesses before the Committee observe to us that the discrepancy between Vancouver prices and Whitehorse prices that we were talking about earlier has shrunk in the period since this enquiry was established. There may be certain people with that kind of intellectual bent to see that there is a cause and effect relationship between the two. I would ask you to comment on that possibility.

Mr. McLellan: I know that we did not do anything dramatic. I did say to you earlier that after our meeting with Mr. Lang, I decided, because of the complaints — that was the word used — I had a meeting with the consumer groups; we talked on the hotline, we talked on the radio and I had had some feeling that perhaps there had been some lack of proper retail discipline taking place. That is why I asked Mr. McAneeley to take charge of the store for us. In that responsibility, I asked him to review the produce and make sure we were doing what we were supposed to do; I asked him to check the pricing in the store and make sure that we were doing what we were supposed to do, the quality of the produce, the manloading at the front, purchases at the bakery and so forth and so on. I had a list a mile long. Mr. McAneeley got right on it and did a lot of work.

One item I know he did change the day we were here was Nabob coffee. I do know that he changed Nabob coffee. He has said to me that there has been some, very few, things that he found wrong in pricing. I think it is better that he answer the question from that standpoint.

Mr. McAneeley: Firstly, we had instructions to do something because we were criticized about the deals. I did get on that with a lot of people and with the help of a lot of people, we got the various deals in bing cherries with the Black Sage Orchard. We contacted them and got a price; we got a price from BC Tree Fruits; our transportation company correspondingly cooperated. We got a total effort to get a price in the Yukon on cherries, peaches, apricots, plums and Bartlett pears. We want to do this on further things. The fruit season is probably over, but as far as the prices are concerned, there has been no change in policy of the store but we have asked management to go over it with a fine toothed comb, and I have with him, of things that look wrong. Just like you mentioned this morning, you can spot some things just by looking at them; they are ridiculously wrong. There have been some adjustments made where we have found mistakes.

That works both ways, too. We found mistakes where they were too low.

Mr. McLellan: I think it is important that you understand that we had a change in managers here. Mr. Jorgensen purchased the store in Riverdale and the new manager had not been on the job that long. He is doing a good job, but, again, he has a staff to deal with. We are trying very hard to improve the operation of the store.

Mr. Penikett: Yesterday we heard your company's name being taken in vain a number of times. One of your competitors spoke of having increased his share of the market here. I would like to ask you, since you gave some figures about your retail/wholesale share, if those shares have changed in recent years or if there has been any pattern of growth of contraction that has caused you concern?

Mr. McLellan: I do not think there has been any great change. If you put another store in the market with a limited population you have here, certainly the market share will change. I do think that with a competitor coming in, certainly the convenience would perhaps take some trade. I think the store in Riverdale is doing a better job than it was doing than it was when it was operating as Lewes Market.

I think the Super A store does a good job out in Porter Creek. That is a new store to me, although it is not brand new, but it is new to me. Riverdale is an old store but it has a new manager in it.

I think Mr. Palamar does a super job in his store. I do not see any big difference in the market share. I do see a difference but I can account for it.

Mr. Penikett: Let me ask a question in a different way, one that may be more fair. You began this morning by talking about your historical relationship with this community going back to the Gold Rush. Could you give me some idea of what your position has been in the market. I do not mean year-by-year since then, but did you at one time have the whole market to yourself or has your position been relatively similar to what it is now or has it gone up or down?

Mr. McLellan: No, I would think that when we are dealing with the Gold Rush days and the start of this company, largely because of the success they had in the Yukon — but only because of the Gold Rush — Yukon was always an Edmonton-based source. The reason is because Edmonton is closer. Edmonton has much lower rates in the food industry than what we have in British Columbia. In British Columbia, we have a much more militant attitude in unions than what they do in the prairies. I think it is catching up, but I think Kelly Douglas was not a factor in Yukon until it got involved in its wholesaling operation after if bought Tourist Services. That is my opinion; it may not be the fact.

Mr. Penikett: Have you improved your position in the market since then?

Mr. McLellan: We have improved our position because we have a warehouse; we have a distribution centre. It comes back to my point this morning to Mr. Hanson. If I could take a minute, I could do it a different way and explain that if all of these stores were buying, first of all, direct from the vendor, it would be impossible for them to be supplied. But for them all to buy from an Edmonton wholesaler or a Vancouver wholesaler, the freight would be outrageous, so the wholesale does perform the distribution function in the food system that is economical to the consuming public. I just want to make sure that we understand that. In other words, why a wholesaler? A wholesaler is a cesspool, if that is what you want to call it, of all of the suppliers' products where they can be distributed to all of the retailers, big and small.

Because we have the warehouse in Whitehorse, we are doing a greater share of the market.

Mr. McAneeley: You are talking about other wholesalers and so on, other wholesalers or other people — like, there is the Hudson Bay wholesale, they sell cigarettes, chocolate bars and gum and so on. That is why we have 54 point something percent of the wholesale share that we are taking in relation. Those people still ship into some of these places and some places may pay more for their merchandise but that is who they want to buy from.

Mr. Penikett: I have one last question on this topic. I have heard, and I am sure you have, the word "monopoly" used in reference to Kelly Douglas, even though — I do not know how many people would use 54 percent as describing a monopoly. I always think of it being closer to 100 when you use the word. Apart from that, do you see — I do not know what the plans for your company are — any problems in terms of consumer relations or relationships with outfits like ours, if your market share continues to increase as you say it has done.

Mr. McLellan: First of all, I think the word "monopoly" is certainly wrong. There is no monopolistic position that we have in Yukon. The fact that we built a warehouse here, and the fact that that warehouse made it economical for a lot of the retailers to deal with us does not say that we have a monopoly. Those retailers are free to buy from wherever they want. If they are buying from us, they are buying from us because that is the best deal they can make. Why should they pay freight on items from Edmonton when they can get them from us when they are prepaid or partially prepaid by the supplier? It does not make any sense. So you could not ever say that we have got a monopolistic position as a wholesaler.

Similarly so, we have a retail store and we just happen to have a nice store; it is as good as any supermarket in North America: 33,000 square feet, in-store bakery, delicatessen, produce, meat. What was here before we built that store? The Tourist Service supermarket was the best thing that you had. Instead of being given some credit for what we have done for the people of Yukon, it seems that the people of Yukon are tearing us apart for doing something for them. It just does not make any sense to me. From that standpoint, you cannot say that we have a monopoly. Anybody can come in here and build a store; anybody can come in here and build a wholesale house, but I suggest to you that they have not done it because they have done the numbers and perhaps the viability question is before them. How can anybody say that we have a monopoly? Question.

Mr. Penikett: Let me put a question back to you — or at least an observation about the problem in this. I would think the environment in which you get such charges and accusations is an environment where you have a desperate shortage of facts. I think part of the reason why this Committee exists is exactly that reason. The basic question we are trying to find out about why the costs are so high, or relatively high, has to do with a deep uncertainty in the community about the causes. Whatever the myths are about freight or profiteering or whatever they think it is, they have not, up until now, and I hope that we will be able to go some way in this, felt satisfied that anyone has given them the answers or that they have enough information to know the answers.

Mr. McLellan: I know, and Yukon is not alone. This problem goes on every day in Vancouver. The people in Vancouver think that the food markets are charging too much money for food. They cannot understand it. It is just a basic fact of life that things are increasing in price. Look at the interest rates; look at the mortgage rates; look what you pay for a suit of clothes, your eye glasses, shoes, gasoline for your car, an automobile. Everything goes up in price. The people want more money. You have to pay them more money or you do not get the work done. The growers want more money; the farmers want more money; the packing houses where they put the stuff in the cans want more money; the guy who makes the cans wants more money for the cans; the guy who prints the labels wants more money for the labels; the guy who makes the cases wants more money for the cases; the guy who trucks it up wants more money for the freight; the guy who supplies the gas for the truck wants more money for the gas; the guy who sells the truck and the tires for the truck and the batteries for the truck, his prices are all escalating. How can you not face the facts that food prices are involved in that skyrocketing problem that we have?

Mr. Penikett: The problem is that people want to know where it is going to stop and the only answer they get is that it is not going to.

Mr. McLellan: I cannot answer where it is going to stop. The last part of your question was: what do I see, and I can only reiterate what I have said from the very beginning. Everytime I have been asked to come to Yukon to talk to the people, the government, or the consumer groups, I have responded. I have never backed away. I have always come up and told exactly the truth as far as I am concerned in any questions that have been asked. I cannot do any better than that. We do not walk on water because we are Kelly Douglas. We are very, very proud of the job we have done in Yukon and I hope that we continue to do a good job. It is this myth that I would like to get through myself, but I am afraid we never will, but I am willing to try.

Ms Brown and Mr. McAneeley have been very helpful with me. I have come up here - I have taken Mr. Palamar at the Sands Motel and had consumer groups there and showed them the source of the product from the very beginning, how the farmer had to pay for everything, and then to the processor and to the various stages: the transportation, to arrive at how we get to a selling price of product. I am prepared to do it again if I have to. Somewhere along the line, because we are big, it means that we are bad, and that is not necessarily so, because we are really not big. We are really not big. In British Columbia, we are a very small part of the market when you consider Safeway. Safeway are the domineering market position in retail and wholesale in retailing food in British Columbia. Kelly Douglas enjoys perhaps 21 percent of the market in BC, and Safeway enjoys perhaps 40 percent. We are a small company compared to them.

Mr. Penikett: Let me ask you one last question on that subject, because you almost raised it as a new concern. The George Weston chain of companies is your parent and is not a small concern by anybody's standards. I would like to ask you about the relationship between your company, Kelly Douglas, and that parent, to the extent to which they provide some kind of direction or policy or supervision of Kelly Douglas?

Mr. McLellan: Kelly Douglas is a subsidiary of Loblaws and Loblaws are a subsidiary of the Weston Company. Our company is responsible to the Loblaw president, Mr. Currie. His position involves all of the distribution companies that are operated by the Loblaw company.

They have a wholesale operation in Nova Scotia; they have a wholesale operation in Ontario. We have Kelly Douglas which embraces the prairies, British Columbia, Denver, Colorado and Albuquerque, New Mexico. There are operations in Buffalo, New Orleans and St. Louis. From that standpoint, Mr. Currie is the chief operating officer for the distribution companies of the Weston Company. If you want to get into those numbers, I would say that we do represent a fair market position. Kelly Douglas is a subsidiary; Kelly Douglas has not changed its lifestyle, its operating style or its relationship with people, because it is now in that fold. We still operate with perhaps 89 percent autonomy from the Loblaw group.

Mr. Penikett: You do not compete with Loblaws anywhere, do you?

Mr. McLellan: No.

Mr. Chairman: I do not really have any other questions. It was interesting that in the August 24 issue of the *Financial Times*, Mr. Currie is on the front page where he states that labour costs finally broke through in the Super Valu chain for Kelly Douglas and company, consequently resulting in the Super Valu stores in BC being sold off. It was a question posed to me: why were the Whitehorse operations not sold? Obviously, the question is going to be: are you making too much profit to get rid of it, or was there some other reason.

Mr. McLellan: In 1980 in British Columbia, we sold off the last remaining group of stores. Prior to that, we had sold them off in smaller numbers. The reason we did it was because we feel that competition is very keen and the independent owner/operator seems to be able to get better productivity; he has a better relationship with his people than the corporate manager seems to attain. It just seems to us that we have more success with the independent owner/operator than corporate.

We operate this store as a corporate store; Pine Point is a corporate store; we still have stores in Saskatchewan and Manitoba that are corporate stores. We sold them off in Alberta and we really did not have any reason not to sell the store in Whitehorse; we did not have any reason why we did not sell the store in Pine Point; they may come along and they may not; it depends on certain things.

I think the real big problem we have got here is that it is a tremendous amount of investment. The inventory in the store is a half a million dollars, the fixtures and so forth in the store are worth a lot of money and we want to be sure that what happens to our wholesale, that that distribution link is continued and we do not want to put anybody in there that is not going to allow us to maintain that.

Mr. Penikett: Could I just ask you about that? You talk about the wholesale or retail link. If I have a retail store someplace, Porter Creek, and I am dealing with you for most of my groceries, am I still free to buy anything else I want from any other wholesaler?

Mr. McLellan: Are you asking if you have an independent store in a town —

Mr. Penikett: Yes, let us assume it is an independent —

Mr. McLellan: Mr. Palamar can buy wherever he wishes to do so; Mr. Jorgensen and his partner can buy wherever they wish to do so. Anybody who is in the retail business can buy wherever they want. If they are in a franchise group, which Super Valu are, there is an understanding that Super Valu will be their supply house but there is nothing in any formal contract that makes it absolutely illegal to buy from another source. We have to be sure that we do our wholesaling homework to make sure that you as an operator are satisfied with us as a supply house in every area that you expect from us.

Mr. Chairman: I do not have any other questions so I guess that concludes our questions of you people. If you have any comments that you would like to make to us —

Mr. McLellan: I have only one comment. This question of the squash has really gotten me. I bet you $50 that the person who made the observation saw the ticket and the ticket may have been for some other item and squash was underneath it. That is another possibility. That really bugs me that you would have that discrepancy. That is beside the point.

I just want to say that I repeat again that we are willing to work with you people and try to get this problem straightened out. I think if you have questions or anything that you want from us, all you have to do is let us know.

I know that Mr. McAneeley and Shirley Anne Brown share my view. We have nothing to hide; we want everything on the table. You are welcome to come and visit our warehouse here. You are welcome to come into the store; I would show you the problems we have in retailing. I would show you the problems we have in wholesaling. If you want to come to Vancouver, I will show you our system there. You can come and see the Whitehorse loads being made up. You can go to California if you want. I would arrange for you to see our loads being made up there, the quality going on the truck. We will bend over backwards to make you feel that certainly you have got somebody who wants to show you what goes on. There is nothing to be hidden. I do not think it is unreasonable for us to take that attitude. What I would like to do is get this thing understood as quickly as possible.

Mr. Penikett: I would ask you, Mr. McLellan, not to make any offers to Mr. Graham to go to California. He is liable to accept.

Mr. McLellan: I said "if he wishes to go to California"; I did not say how he would get there. He can go in one of the empty trucks.

Mr. Penikett: Backhaul.

Mr. Chairman: On behalf of our Committee, we appreciate very much all three of you taking the time to come here. I know there was some concern in some quarters that this enquiry would turn out to be a witch hunt, that we would be pursuing Kelly Douglas alone. That, I hope, has not been the case in your experience. I know that in our minds it was never the intent. Hopefully we will be able to reassure the consumers in Yukon as well as come up with some solutions to lowering the price of food to consumers in Yukon. That is the object behind this enquiry.

Mr. McLellan: We are looking all the time for ways and means to cut the food costs. If anybody has any suggestions, we are certainly willing to listen to them.

Mr. Chairman: We appreciate your coming. Thank you. We will probably see you in the near future. If we have some other questions that do occur to us, I trust we can send you a letter and get some replies.

Mr. McLellan: What we are going to do is stay here today because the flight has gone, I think, this afternoon —

Mr. Chairman: We were trying to get finished by 3:00 so you could still catch it.

Mr. McLellan: We are going to stay anyway because we want to visit some stores and do a little bit of other work. We thought maybe we might come back tomorrow and sit in on the hearings, if we are allowed to.

Mr. Chairman: Most definitely. In fact, Dr. Peter Dooley who is serving as our consultant, will be giving us some observations based on the testimony that we have heard this week. By all means, you are welcome to come and sit with us.

Mr. Chairman: Perhaps tomorrow, if you have any questions during the lunch break, we would be glad to sit down and talk to you.

Mr. McLellan: Okay.

Mr. Chairman: Thank you. That concludes the hearings for today. The hearings will continue tomorrow morning at 9:30. The witness will be Dr. Peter Dooley, the consultant to the enquiry. Thank you.

Adjourned