



Can Online Shopping Revolutionize Canada's Grocers?

Description

On Thursday, Galen G. Weston, the CEO of **Loblaw Companies** ([TSX: L](#)), announced that his company would join **Walmart** and **Amazon** in offering online groceries to Canadian shoppers.

Consumers would go to the company's website, click on what they want, and then head down to their local store where employees would package the order and have it waiting for pickup. The project, which is scheduled to begin testing sometime later in the year, will be rolled out aggressively to all the company's stores if successful.

From a consumer's standpoint, Loblaw's version of online shopping has a few advantages and disadvantages. Customers will like that fresh and frozen items are available to buy. Walmart and Amazon can't offer those types of foods. But on the other hand, both Walmart and Amazon will deliver their order right to a customer's door, something Loblaw isn't offering.

Weston is confident in the program, saying, "We believe this is going to be a fundamental aspect of e-commerce in Canada. We expect the test to be successful and we would expect to roll it out quickly following that successful test."

While Weston thinks the program is a great idea, I'm not sure I agree with his lofty expectations.

Canada's grocery business is one of the most competitive in the world. Recently, we've witnessed **Empire Company's** ([TSX: EMP.A](#)) Sobeys swallow up **Safeway**, **Metro** ([TSX: MRU](#)) swallow up **Dominion** stores in Ontario, and Loblaw acquire **Shopper's Drug Mart**. Consolidation has been the major story in the Canadian retail landscape.

These companies didn't get bigger because these acquisitions were convenient. They needed to bulk up, thanks to competition from Walmart and **Target**, two formidable foes. Canada's incumbent grocers now have the size needed to strong-arm suppliers into better prices, and consolidating internal positions leads to cost savings.

Even after this consolidation, grocery is a low-margin business. How exactly is Loblaw going to pay someone to not only scan through an online purchase, but also walk around the store and collect

everything? Margins are so thin that this extra labor is going to take away most of the profit.

Besides, if customers have to drive to the store to pick up the order, they might as well get a cart and do their own shopping. The primary time-saving attraction of ordering stuff online is the delivery, not picking things out.

Loblaw is really good at setting up its stores so you are tempted to add things to your cart. I guarantee Loblaw the grocery store is going to be more successful at getting customers to impulse buy than Loblaw the internet retailer. Loblaw has had almost a century to get grocery stores right.

If the program has any amount of success, competitors will jump into the space. Don't be surprised to see Sobeys launch a similar program, since its customers have shown a willingness to pay more for the same products. Sobeys is a leader in produce and meat, and it's those higher margin products that will make a program like this successful.

Foolish bottom line

This pilot project sounds pretty cool, but I'm skeptical that it'll have a major impact on Canadian grocery buying habits. Local startups exist across Canada that allow consumers to order produce and other fresh groceries online, and will even deliver right to your door.

It's only a matter of time before competitors enter the space as well. Amazon is currently testing a similar project in California, and Walmart has seemingly infinite resources it can throw behind rolling out something like this. This is an interesting long-term trend, but for Canadian grocers, it'll be business as usual for the foreseeable future.

CATEGORY

1. Investing

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1. TSX:EMP.A (Empire Company Limited)
2. TSX:L (Loblaw Companies Limited)
3. TSX:MRU (Metro Inc.)

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