



Loblaw Companies Limited Is Strengthening its Moat in the Canadian Grocery Space

Description

Loblaw Companies Limited ([TSX:L](#)) is a fantastic Canadian grocer that is taking steps to improve its operational efficiency. It's not a mystery that margins in the grocery business aren't great. In fact, they're razor thin, and anything short of operational excellence could result in tough times for businesses operating in the competitive Canadian grocery space.

Empire Company Limited is an example of a Canadian grocer that has been crushed over the last few years because of the complex organizational structure with sub-par operational efficiency.

Loblaw is a defensive name that has flat-lined over the past two years. Although the stock has slowed down, the business is firing on all cylinders. The company has promising organic growth initiatives to drive traffic to its stores as well as a plan to roll out new locations over the medium term.

The company plans to open 30 new stores and renovate over 500 existing stores with the hopes of widening its moat in the Canadian grocery space. Loblaw estimates that approximately \$1.3 billion will be invested as a part of its revamp and expansion plan.

Loblaw already has a huge presence in the Canadian supermarket space, and this move will make it even harder for its competitors to excel in the tough Canadian grocery market.

Why Click & Collect is the future

The management team also plans to invest in its "Click & Collect" e-commerce platform, which allows consumers to order things from the comfort of their own home with the intention to stop by a location to pick up their orders.

It's nice to see that the management team at Loblaw isn't shying away from investing in technology, but is Click & Collect really going to trump a home-delivery service? Galen G. Weston, the CEO of Loblaw, has considered the option of home delivery, but he thinks Click & Collect is a better option for the grocery business.

Not only would home-delivery services be expensive, but it could potentially be a liability nightmare if there's any sort of delay or mishandling in the delivery process. Just think about all the things that could go wrong with a grocery delivery service. The ice cream could melt, the meat could get warm, and the eggs could get crushed. The grocer would have to pay for these mishaps, and that would hurt margins.

Could AmazonFresh be a threat?

Amazon.com, Inc. ([NASDAQ:AMZN](#)) is jumping into the grocery business, but I don't think its home-delivery platform will be good for consumers or the company because of the issues I previously mentioned. If Amazon is going to enter the grocery market, they'll need brick-and-mortar locations, like its AmazonFresh pickup location in Seattle. I believe Loblaw's "Click & Collect" is the future, and it will be enough of a moat to keep competitors like Amazon on the sidelines.

Loblaw is a fantastic grocer that's putting its foot to the pedal with organic and inorganic growth initiatives. Loblaw and other defensive stocks have been out of favour late, so I think it's a fantastic time to pick up shares.

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