



Are Canadian Grocers in Big Trouble After the Latest Amazon.com, Inc. Deal?

Description

Canadian grocers took a hit on the chin last Friday as **Amazon.com, Inc.** ([NASDAQ:AMZN](#)) announced that it plans to acquire the brick-and-mortar grocery store chain **Whole Foods Market, Inc.** (NYSE:WFM) in a US\$13.7 billion deal. I think Canadian grocers will inevitably feel the pressure once Amazon sets its sights on the Canadian market, but for now, there's still plenty of time for Canada's grocers to adapt to the Amazonian storm that'll be coming around the corner.

The American grocery market is considerably different from the Canadian one. There are three main grocery players in the Canadian grocery scene, and a bunch of competitors duking it out for market share south of the border.

As a Canadian, you may not be familiar with Whole Foods, as there are only a few locations in select urban areas. It's an American supermarket chain which specializes in selling organic foods without any artificial ingredients. Because almost everything is organic, the prices are quite expensive compared to your local **Loblaw Companies Limited** ([TSX:L](#)) supermarket.

What will Amazon do with Whole Foods?

It's not a mystery that Amazon wants to get its grocery delivery platform up and running. AmazonFresh has small stores in Seattle, but there's no way Amazon would make a huge disruption in the grocery space like it did in the general retail market without brick-and-mortar locations in the areas it wants to take over.

The Whole Foods deal will give Amazon over 430 locations across the U.S., Canada, and the U.K. which will serve as pick-up points as well as sources for delivery to homes in the surrounding area. In a few years, I believe American grocers will be squeezed, and there's a real possibility that we'll see a lot of grocers fall to their knees in the same way that some of the weaker brick-and-mortar retailers have been doing today.

What does this mean for Canadian grocers?

It's apparent that Amazon is going to take over the American grocery market first, and Canada may be

next in line. Amazon will either start creating opening new locations, or it may acquire a Canadian grocery store chain to get immediate exposure like it did with Whole Foods in the U.S. market.

Loblaw has responded to the threat of grocery home delivery by investing heavily in its "Click & Collect" platform, but it's really hard to say if the initiative will be able to fight off the rising threat of Amazon.

The recent Amazon-Whole Foods deal shed a bit of light on how Amazon plans to take on the grocery market, but it's still not very clear if Canada's grocers will be able to adapt over the next few years as headwinds pick up.

There's a lot of uncertainty in the Canadian grocery space right now, and volatility should be expected over the next few years. It's quite possible that all Canadian grocers will experience a nasty sell-off because of Amazon's future impact, so I'd be cautious if you're considering loading up on grocery stocks right now.

Stay smart. Stay hungry. Stay Foolish.

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