



## Is it Time to Throw in the Towel on Canada's Grocers?

### Description

The **Amazon.com, Inc.** ([NASDAQ:AMZN](#)) deal to buy **Whole Foods Market, Inc.** (NYSE:WFM) sent shockwaves through the grocery industry as nearly all grocers, Canadian or American, pulled back on fears that Amazon will become an even bigger threat with its newfound brick-and-mortar locations.

The general public already knew that Amazon intended to jump in to the grocery scene a while ago with its AmazonFresh delivery service, but Amazon's plan is becoming more apparent. If you've got a Whole Foods location in the vicinity, then you'll probably be eligible for Amazon's grocery delivery service in the future.

I think Amazon is a serious threat to U.S. grocers, but what about Canadian grocers? There aren't that many Whole Foods locations here, so are the Big Three Canadian grocers safe?

Unlike in the U.S., Canada's grocery industry is dominated by just a few major players: **Loblaw Companies Limited** ([TSX:L](#)), **Metro, Inc.** ([TSX:MRU](#)), and **Empire Company Limited** ([TSX:EMP.A](#)). These three behemoths have a large moat in the form of many locations across the country, but this moat could easily be penetrated by Amazon if it decides to make its move into Canada.

Sure, these Canadian grocers could prepare themselves for the coming storm that is Amazon's arrival to the Canadian grocery industry, but I believe all grocers will take a hit on the chin in the form of increased pricing pressure. Margins in the grocery business are already razor thin, and if Canadian grocers aren't operating in the most efficient manner, then things could get ugly really fast.

I believe Amazon will make these margins even thinner, and inefficient grocers could suffer the same fate as some of the brick-and-mortar retail stores that are closing their doors because of their inability to compete with e-commerce giants like Amazon.

**Canadian grocers can adapt though, can't they?**

Loblaw has invested in its “Click & Collect” platform to make it easier for customers to pick up their groceries. The platform will help it weather the storm, but I do not believe this initiative will be able to offset all the pressures presented by Amazon.

It’s difficult to see what the fate of Canadian grocers will be as Amazon continues to become a rising threat. There’s a lot of uncertainty following the grocery scene right now, but one thing is for sure: Amazon will continue to disrupt the industry in the years ahead.

### **A cloud of uncertainty over Canada’s grocers**

Personally, the rise of Amazon is too big a headwind for me to invest in Canadian grocers at current levels. In the medium term, Canadian grocers won’t be hit too hard, and the general public may forget about the threat of Amazon, but it will always remain a splinter in the side of the Canadian grocers.

It’s also likely that Canadian grocery stocks will pull back in response to the American grocers’ struggles to compete with Amazon, so investors should be aware of the potential systematic risk that comes with investing in the Canadian grocers at current levels.

If you already own shares of one or more of Canada’s grocers, then you should probably hold your shares and take a step back. Ask yourself if the rising threat of Amazon fundamentally changes your original long-term investment thesis. If it does, it may be time to do some selling.

If you’re still bullish on the grocers, then you should probably opt to invest in a well-run company like Loblaw or Metro over the less efficient Empire.

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1. NASDAQ:AMZN (Amazon.com Inc.)
2. TSX:EMP.A (Empire Company Limited)
3. TSX:L (Loblaw Companies Limited)
4. TSX:MRU (Metro Inc.)

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