



How Big Is the Moat for Canada's Grocery Retailers?

Description

Warren Buffett has famously spoken at length about the importance of a competitive advantage, or “moat,” for businesses in any industry as a way to maintain excess profitability over the long run.

With the recent acquisition of Whole Foods Market by **Amazon.com, Inc.** (NASDAQ), grocery retailers in both the United States and in Canada are beginning to get a lot more worried; the disruption that many other industries have seen with the entrance of Amazon is very scary and is now apparently coming to food retail, an industry which many once believed could not be easily touched by e-commerce.

The moat, once considered to be very wide for grocery retail, has been eroded to a much smaller version of its former self, perhaps small enough for Amazon to jump over. An invasion of massive proportions is expected for the U.S. market, so why are Canadian grocery retailers being sold off so aggressively of late?

For starters, Canada has been Whole Food's largest (and fastest-growing) market outside the U.S. for some time now. Canadians have welcomed Whole Foods's branded products and stores for years. The idea that Whole Foods could continue to expand in Canada, particularly in large urban centres (which have been particularly welcoming to the famous American brand) is very worrisome for the “Big Three” Canadian grocery retailers: **Loblaw Companies Ltd.** ([TSX:L](#)), **Metro, Inc.** ([TSX:MRU](#)), and **Empire Company Limited** ([TSX:EMP.A](#)).

Amazon has been building its presence in Canada for some time, and unlike rival **Target** and other large American brands that have unsuccessfully expanded to Canada, it is more likely that Amazon will continue to follow in the successful footsteps of **Costco Wholesale Corporation** and **Wal-Mart Stores Inc.**, which have very profitably expanded operations in Canada and threatened the market share of the Big Three Canadian retailers for years.

Bottom line

The three major Canadian grocery retailers have sold off meaningfully of late, although not necessarily to the extent of retailers in the U.S. market. Investors looking to buy on the recent weakness may do

so; however, I believe that the recent sell-off is warranted and indicative of a changing long-term trend in the industry. For those who believe that this sell-off has happened too fast too soon, getting in now may make sense. I believe, however, that this sell-off has only begun, and investors should stay as far away from Canadian grocery retailers as possible.

Stay Foolish, my friends.

CATEGORY

1. Investing

TICKERS GLOBAL

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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