



Can Loblaw Companies Ltd. and Metro, Inc. Bite Back Against Amazon.com, Inc.'s E-Commerce Experiment?

Description

Shares of **Loblaw Companies Ltd.** ([TSX:L](#)) and **Metro, Inc.** ([TSX:MRU](#)) have been hit hard since **Amazon.com, Inc.** ([NASDAQ:AMZN](#)) announced its purchase of Whole Foods Market Inc. Loblaw and Metro have fallen 7% and 5%, respectively, in the past month.

But should these two Canadian grocery giants be worried about Amazon's business model devouring them the same way it has other retailers?

According to David Pierson of the *Los Angeles Times*; CB Insights, a venture capital database, reported that grocery delivery companies have raised \$713 million in worldwide funding through May. This puts it on track to exceed the \$1.4 billion raised in 2016. Amazon's purchase of Whole Foods serves the purpose of gaining its own infrastructure to reduce the massive investment required to store perishable goods and have them replenished on a regular basis.

Analysis by now-defunct mobile grocer Webvan demonstrated that consumers may not be so willing to outsource the essential purchase of their food. Analysts at HSBC showed that customers doing their grocery shopping care more about low pricing than they do convenience.

In Q1 2017, Loblaw reported a \$20 million increase in revenue from the same quarter in 2016. The company announced an increase in its dividend to \$0.27 per share. The stock has provided a year-over-year return of 4%, and it has experienced a marginal increase of 0.28% in 2017. It closed at \$71.04 on Monday, up 0.20%.

Metro announced its Q2 earnings in late April. The company reported net earnings of \$132.4 million, up 6%, and declared a dividend of \$0.16 per share, up 16%. The share price is up 5.75% in 2017 and closed at \$42.47 on Monday, down 0.16%.

Loblaw offers a "Click and Collect" online service for customers, and Metro has a similar option on its website. These services allow Canadian shoppers to reduce time in stores.

The immediate reaction to Amazon's move indicated that there was a sense of inevitability to grocery

services going entirely online in the same way that other retail services have. Recent history tells us that tech's foray into the grocery industry may be its toughest challenge yet.

Large barriers still exist in consumer comfort with such a model, and companies like Loblaw and Metro have managed to put forth alternatives that grant consumer convenience with the same pricing.

Strong results for both companies have seen gains wiped out by investor unease. However, the tech giant still has large obstacles to face in this industry before these companies are under any serious threat.

CATEGORY

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TICKERS GLOBAL

1. NASDAQ:AMZN (Amazon.com Inc.)
2. TSX:L (Loblaw Companies Limited)
3. TSX:MRU (Metro Inc.)

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