



How Long Is the Slide for Loblaw Companies Ltd.?

Description

Loblaw Companies Ltd. ([TSX:L](#)), as Canada's largest grocery retailer, has been getting a lot of bad press in recent weeks due to the merger of **Amazon.com, Inc.** ([NASDAQ:AMZN](#)) and **Whole Foods Market, Inc.** (NASDAQ:WFM), which is set to close Monday. Upon completion of the deal, Amazon has signaled its intention to slash prices on everyday items, further increasing pressure on other grocery retailers attempting to compete with an Amazon grocery model, which is growing in scale and scope.

By attempting to get rid of the Whole Foods's persona of "expensive organic" or "whole paycheck grocery shop," Amazon's management team will be aggressively pursuing a cost-leadership strategy along with value creation through merging the brick-and-mortar retail locations with the robust e-commerce and Amazon Fresh initiatives, which have yet to take off. This strategy, combined with Amazon's deep pockets and penchant for disrupting industries, has grocery retail investors very worried on both sides of the border.

Why does this merger matter for Loblaw?

With Loblaw's operations centred in Canada, the question of how prevalent the new Amazon-Whole Foods business model will be in the Canadian market remains to be seen. Some analysts suggest that rolling out an e-commerce grocery model in Canada may ultimately be suicide, given the geographic hurdles the expansive country provides from a distribution standpoint. Others suggest that the merging of e-commerce and brick-and-mortar business models is only beginning, and the trend will eventually take hold globally; Amazon may just be speeding up the process with this acquisition.

After all, Whole Foods has seen impressive growth in the Canadian market and has indicated it will continue to grow its presence in this market due to the relative attractiveness of Canada in terms of proximity and similarity to the U.S. market. The Whole Foods brand has taken well with Canadians, and the indication that the company's brick-and-mortar growth within Canada will speed up is another reason investors in Loblaw have largely been exiting of late.

Bottom line

Loblaw's long-term strategy of providing low-cost grocery options to blue-collar Canadian consumers is one which appears to be getting stretched from both ends of the spectrum. With other discount retailers encroaching on Loblaw's cost-leadership position, and previously pricey chains such as Whole Foods set to expand and provide lower prices, backed by an e-commerce platform which is second to none, the headwinds are real and remain a significant problem for Loblaw in its long-term ability to maneuver in this space.

Stay Foolish, my friends.

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