Do Canadian Retailers Need Mergers and Acquisitions to Survive?

Description

Earlier this year, we learned that **Amazon.com, Inc.** (NASDAQ:AMZN) was acquiring Whole Foods and would now threaten not just electronic stores and other retailers, but grocery stores as well. However, according to the Whole Foods website, the company has just 13 locations in Canada, only in Ontario and B.C., and so there isn't a big risk to Canadian grocers just yet. This gives Canadian companies some time to prepare, because a more widespread expansion from the tech giant should only be an inevitability given its appetite for strong sales growth.

How Canadian retailers like **Loblaw Companies Ltd.** (TSX:L) and **Empire Company Limited** (TSX:EMP.A) will compete against a heavily backed Whole Foods could create a lot of uncertainty and apprehension in the industry.

Acquisitions may give companies a fighting chance

One way for companies to have a better chance of survival in the industry is through mergers and acquisitions, which can create synergies that could mean the difference between generating profits and posting losses.

Metro, Inc. (TSX:MRU) has acquired Jean Coutu Group PJC Inc. and its pharmaceutical stores which, like Metro, operate in eastern Canada and are based out of Quebec.

This is just the latest trend, where we've seen two Canadian companies join forces in the hopes of creating a stronger brand. In 2013, Empire acquired Safeway and its stores for almost $6 billion, while Loblaw acquired Shoppers Drug Mart the year after that for more than double that price.

Will more be on the way?

Unfortunately, the big losers are the consumers that end up with less competition and choice as more consolidation happens. However, as Sears Canada Inc. wraps up its liquidation, and Toys "R" Us is the latest to wave the white flag, the concern of being able to survive in a struggling retail industry is likely at the forefront for many companies.

As retailers fail to grow sales organically, pressure may mount from shareholders to take on acquisitions with the aim of growing a company's top and bottom lines. With many retailers struggling, it's no more a question of if we'll see another bankruptcy or acquisition, but rather which company will be next.

Metro and Jean Coutu's lack of growth likely made this move inevitable

In its most recent quarter, Metro saw sales growth of just 1%, while in its past fiscal year, the company's sales increased by just 4%. Jean Coutu had a bit of a better quarter with over 3% growth in its top line, although the company saw a 7% decline in its bottom line, and this is just part of a growing trend the company has seen the past two years.

This acquisition will allow the two companies to achieve much more dominance in Quebec and create a healthier bottom line overall. In some respects, focusing on a narrower market could be a recipe for survival, since the headaches and costs that go along with managing operations in several different provinces could make a company with limited resources much more vulnerable. By focusing on eastern Canada, specifically Quebec, that might give Metro and Jean Coutu better odds for long-term success.

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