3 Reasons Canadian Grocers Will Thrive Even With the Challenge of Amazon.com, Inc.

Description

Amazon.com, Inc. (NASDAQ:AMZN) announced that it had seen online purchases of $500,000 worth of product from its recently acquired Whole Foods Market, Inc. locations in the very first week it took control. The acquisition on June 15 sent shockwaves through the grocery retail industry. There is a concern among established retailers that Amazon could disrupt the grocery industry in the same way that it did other forms of retail.

However, Canadian grocers shouldn't panic just yet. Let's look at some reasons to be optimistic about the future.

Ontario legislation is forcing modernization

This year, the Ontario government announced that it would hike the provincial minimum wage to $14 in January 2018 and $15 in January 2019. Grocery retailers were some of the biggest critics. **Loblaw Companies Ltd.** (TSX:L) estimated that it could lose $190 million in the first year as it adjusts to this policy. The grocer Sobeys, which is owned by the Canadian conglomerate **Empire Company Limited** (TSX:EMP.A), has projected that it will add up to $95 million in costs over the next two years.

However, the legislation is also forcing grocers to chart a path that will involve accelerating automation and focusing on growth in e-commerce. By fostering an environment of urgency, grocers will be forced to innovate, which will prepare companies for the challenge from Amazon.

Companies are taking big steps on the e-commerce side

Grocers are taking steps to grow e-commerce — something all retailers are being forced to embrace in this new environment. Sobeys has already established a strong online presence in Quebec. **Metro, Inc** (TSX:MRU) expanded its "Fast and Fresh" online shopping offer, which began in Montreal and Quebec City this September. The service has seen early success with Metro reporting 98% satisfaction with the freshness of the products delivered.

Loblaw is also exploring a possible partnership with Instacart, a same-day grocery delivery service.

This would allow customers to place their orders online and have them delivered a la conventional retail. If grocers can maintain the satisfaction numbers that Metro has reported in Quebec, this is a method that could see huge success.

Rising food costs will keep established brands performing well

Low inventories have propelled a rise in meat prices across Canada that have exceeded general food price inflation, which has remained between 3% and 4% in 2017. According to the report from Dalhousie University, seafood, eggs, and dairy were some of the few selections to see a price reduction. Meat prices were reported at an 11% rise, and fruit and vegetables climbed between 8% and 9%.

Empire has seen its stock increase 40.8% in 2017 and 13% year over year as of close on October 2. It offers a dividend of $0.10 per share with a 1.9% dividend yield. Shares of Loblaw have declined 3.4% in 2017 and risen 1.3% year over year. The stock also provides a dividend of $0.27 per share, representing a dividend yield of 1.6%.

Like other retail industries, grocery is poised for big transformations in the coming years. I still like the potential of Canadian grocery retailers in the long term with the advances being made in light of the threat that Amazon represents.

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3. TSX:L (Loblaw Companies Limited)
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