



Loblaw Companies Ltd.: Should Investors Fear the Amazon.com, Inc. Effect?

Description

Loblaw Companies Ltd. ([TSX:L](#)) shares have been experiencing a roller-coaster ride of volatility over the last few years, exacerbated by the disruption by **Amazon.com, Inc.** ([NASDAQ:AMZN](#)) and its announced [entry into the Canadian grocery market](#). The grocery space is a tough industry to thrive in with its razor-thin margins, and it's about to get even tougher as Amazon attempts to steal customers from Canada's big grocers over the next few years.

Amazon is a threat that Canada's grocers should not take lightly

The retail industry is on its knees right now as a lot of brick-and-mortar stores are on the fast track to going belly up. While there are some retailers out there who have successfully adapted to Amazon's disruption, many of them are still feeling the effects of industry-wide headwinds that will likely continue to be a drag over the long haul.

With Amazon's superior logistics capability and ability to thrive in low-margin businesses, I have no doubt that Canadian grocers will inevitably start to feel the pressure.

Loblaw and other Canadian grocers are being forced to adapt

Simply put, the grocers that fail to adapt are going to be the ones to surrender the most market share in the early stages. Fortunately, the management team at Loblaw has been thinking about ways to adapt with initiatives such as Click & Collect. While Click & Collect may seem convenient, I don't believe the average consumer will favour it over Amazon's Prime grocery-delivery service.

The "stay-at-home" economy is here to stay. Consumers can now get everything delivered to their front door overnight (or in a matter of minutes, in the case of groceries). Loblaw will need to invest in a delivery platform of its own to really compete with Amazon, but even then, it won't be nearly enough to offset the [mounting headwinds](#) in the grocery market.

Loblaw is safe in the near term, but it's at risk over the long term

Loblaw still has a wide moat in the number of locations it has across the country. Many Canadians live

in close proximity to a Loblaw-owned grocery store, so Amazon has a lot of work to do if it plans to steal a meaningful amount of market share from Loblaw.

In addition, management's initiatives to adapt will likely stave off Amazon for the next few years; however, in five years or more, as Amazon becomes the easiest, cheapest way to shop for groceries, I think Loblaw's top and bottom line could take a devastating hit.

Bottom line

In the last quarter, Loblaw saw its revenue and net earnings grow by a fair amount on a year-over-year basis. It'll be business as usual for Loblaw over the short to medium term, but in the long term, I think Amazon will start to hurt Loblaw's numbers, and as a long-term investor, that has to be concerning.

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