



Metro, Inc. and Loblaw Companies Ltd. Could See a New Frontier Open in the Conflict With Amazon.com, Inc.

Description

In early October, Quebec-based grocery retailer **Metro, Inc.** ([TSX:MRU](#)) announced that it would acquire pharmacy retailer Jean Coutu Group PJC Inc. for \$4.5 billion. The deal comes four years after the merger of Canadian grocery retailer **Loblaw Companies Ltd.** ([TSX:L](#)) with Shoppers Drug Mart. The deal helped Loblaw more than double its profit in the following years.

Shares of Metro are up 1.2% in 2017 as of close on November 1. Loblaw stock is down 5.4% on the year. In July, I covered the [fight](#) that both companies were in after the announcement in June that online retail giant **Amazon.com, Inc.** ([NASDAQ:AMZN](#)) had acquired Whole Foods Market, Inc. and was pursuing an aggressive strategy to enter the grocery retail market.

Metro and Loblaw have moved to cut staff in an ongoing push toward modernization. In October, Metro announced that it would eliminate 280 jobs over a five-year period as a part of this initiative. Loblaw also announced that it would cut 500 office jobs to fight rising costs. I have also detailed the [dilemma](#) faced by grocers after the Ontario government moved to hike the minimum wage in January 2018 and 2019.

Though these factors are enough to produce headaches for the leadership of both grocery retailers, Amazon is now reportedly opening a new front in the ongoing retail war.

Amazon targets prescription drug retail

The news that Amazon was beginning its foray into prescription drug retail was initially reported by the *St. Louis Dispatch*. The newspaper reported that Amazon had already obtained regulatory approval to sell pharmaceuticals in 12 U.S. states. U.S. drugstore chain stocks fell on the news, and rumours are swirling that **CVS Health Corp.** leadership is in talks with the health insurance company **Aetna Inc.** to move forward on a possible merger.

Amazon stock recently surged to all-time highs after impressive third-quarter results. The subsequent rally now makes founder and CEO Jeff Bezos the richest man on the planet. The success of Amazon

has been massively disruptive to traditional brick-and-mortar retail. The effect has been seen here in Canada with the recent collapse of Sears Canada Inc. as well as the bankruptcy of Toys “R” Us.

Do Metro and Loblaw really need to worry?

The prescription drug service from Amazon would likely be particularly attractive to U.S. consumers with a high dollar deductible. The low costs of prescription drugs in Canada could make the arrival of a powerful online retailer very interesting. However, Amazon obtaining regulatory approval in Canada would, in all likelihood, receive significant pushback.

For the time being, Metro and Loblaw should feel secure that recently acquired pharmacy retailers will be relatively safe from competition. The response consumers will have when it comes to online grocery retail is still uncertain. Whatever the case, holders of Metro and Loblaw stock should continue to keep a close eye on these developments.

CATEGORY

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2. TSX:L (Loblaw Companies Limited)
3. TSX:MRU (Metro Inc.)

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