Loblaw Companies Ltd. Is Taking 3 Calculated Risks: What Does That Mean for Investors?

Description

We've seen some interesting news recently for **Loblaw Companies Ltd.** (TSX:L) and its subsidiaries. What does this mean for investors? First, let's take a look at the news.

The latest

The most recent news is Loblaw's plans to close 22 unprofitable stores. The company hasn't listed all of these stores yet, but it says they run across various brands. Loblaw expects the closures to be done by the end of first quarter of 2018.

The other major piece of this announcement is Loblaw's plans to enter the home delivery market for groceries. This is a complete 180-degree turn from what the company said in 2016. At the time, Loblaw claimed there wasn't a big enough market for home delivery. What made the company change its mind? A renewed pushed by **Amazon.com Inc.** (NASDAQ:AMZN) to gain a larger hold in the grocery market is a likely culprit, along with Amazon's recent purchase of Whole Foods Market, Inc.

There are other players in the grocery delivery game, most notably Grocery Gateway, which has been doing home delivery in the Toronto area for over a decade. Even if the market is small, it's clearly enough to sustain at least some business. Loblaw plans to use California-based company Instacart for its online order and home delivery service and will start in its two biggest markets: Toronto and Vancouver. Assuming all goes well, the company plans to expand after that, but it has not laid out definitive plans to the public yet.

Another reason for the change might be that Loblaw is facing a margin squeeze in an already tight market with so many jurisdictions making large minimum wage increases now and into 2018. (We talked about that issue here.) The delivery plan may be to help offset the increased payroll expenses.

Shoppers Drug Mart plans for marijuana

Other interesting news this week was a job posting on the Shoppers Drug Mart (a Loblaw subsidiary) website for a medical marijuana brand manager. This is curious because pharmacies do not currently have federal government permission to sell medical marijuana. The ad describes the job as helping Shoppers market its medical marijuana activities to doctors and other healthcare providers.

Either the company is gambling on a federal regulation change, or it is hoping to move into the recreational marijuana market once pot is legalized in July 2018. Loblaw applied for a medical marijuana permit in 2016, so it will be interesting to see how this new strategy plays out. (See here for more analysis from the Motley Fool on key marijuana stocks.)

Investor takeaway

What does this mean for investors? This shows that Loblaw is committed to making necessary changes to keep itself profitable. The company isn't just planning to wait and see what happens in the grocery and marijuana markets.

Getting rid of stores that bleed money is good. Home delivery may not be a huge market yet, but with people feeling increasingly squeezed on time, an order-and-delivery option may be just what they are looking for.

The marijuana gamble will take longer to pan out, since it would require rule changes, and the entire recreational market is still a bit of a question mark less than a year out from legalization.

Either way, a company willing to make necessary changes and take calculated risks is usually a good thing for investors, because it shows management's commitment to maintaining and increasing profitability.

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