



Which Canadian Grocers Are Best Equipped to Adapt as E-Commerce Disruptions Mount?

Description

The Canadian grocery industry is about to undergo a massive shift over the next five years due to the rise of e-commerce giants that are hungry for the business of Canadian grocery shoppers. It's not just **Amazon.com, Inc.** ([NASDAQ:AMZN](#)) and similar [e-commerce giants](#) that are set to capture a chunk of the Canadian grocery market; the rise of meal-kit delivery services is also a growing trend that Canada's grocers should be wary of.

With so much disruption that the Canadian grocery industry is poised to experience over the next few years, does it make sense to own them for the long term anymore? Or is it finally time to throw in the towel?

It's already a tough business to excel in

Even without technological disruptions, the Canadian grocery market is still a tough industry to thrive in. Margins are razor thin, and there's zero room for anything less than perfection when it comes to operations. As we've seen with **Empire Company Limited** ([TSX:EMP.A](#)), the company had nobody to blame but its own management team for its ~52% peak-to-trough plunge experienced just over a year ago. With many large e-commerce giants and meal-kit delivery players closing in on Canada's grocers, such mishaps going forward could potentially put a grocer on the brink.

Canadian grocers have been battenning down the hatches of late

For Canadian grocers, the war sirens are already blaring. E-commerce giants and innovative meal-kit platforms are serious threats that are growing by the day. **Loblaw Companies Limited** ([TSX:L](#)) and **Metro, Inc.** ([TSX:MRU](#)) have been making smart moves over the last year to prepare themselves for the imminent battle against new entrants.

Loblaw and Metro have both pledged to beef up their e-commerce platforms to better compete with Amazon's grocery-delivery business and the like. While both Canadian grocers have invested a tonne of effort in e-commerce, it's important to note that they're moving outside of their comfort zones and

into Amazon's circle of competence.

Both Canadian grocers still have a narrow moat when it comes to the number of locations in select markets across Canada, which could allow the grocers to better compete with e-commerce disruptors. Loblaw and Metro will really need to create top-notch e-commerce platforms that'll offer Canadians a huge amount of value to win their business. That means affordable, fast, and reliable shipping on an e-commerce platform with an intuitive user interface and a tonne of offerings to win over the business of Canadian consumers.

There's no question that the rise of e-commerce disruptors will cause an immense amount of pricing pressure on the grocers. It'll be a lot of near-term pain, but in the end, Canadian consumers will win, since the technological shift in the grocery market is forcing Canada's traditional grocers to up their game and increase the value for Canadian shoppers.

Which Canadian grocer is best equipped to thrive in the new era of Canadian grocers?

As of today, Loblaw and Metro are the two grocers that appear to be best prepared to fight off Amazon and other digital disruptors. It's tough to say which one is the best until their respective management teams shed more light on their e-commerce platforms.

With Metro's recent acquisition of Jean Coutu Group PJC Inc., both grocers have a solid drugstore chain that will [hold up well](#) as headwinds gradually mount. Right now, it looks like Empire is the stock I'd avoid like the plague, since it's clearly lost the battle against Loblaw and Metro over the last few years, even without a meaningful disruption from e-commerce giants.

Loblaw and Metro are down ~13% and ~15% from their 52-week highs, respectively, due to uncertainties in the industry. While both grocers are solidifying their defences, I'd still avoid both at current levels, since I suspect the fears over Amazon's entry are still lingering and a further correction could be in the cards once Amazon announces new developments in its expansion into the Canadian grocery market.

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