This Canadian Company's Moat Is Going to Erode Fast Over the Next 5 Years

Description

Warren Buffett once coined the term *moat,* referring to businesses that are well positioned to deal with pressures brought forth by new competitors. In an age of accelerating technological innovation, owning shares of companies with wide moats has become increasingly important for long-term investors.

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Technology is changing the way business is done in traditional low-tech industries that were once thought of as insulated from technological innovators. The most boring and lowest of tech industries are starting to become vulnerable, and if management teams aren't quick to adapt to the tectonic shift towards tech, they'll simply be left for dead.

Consider **Loblaw Companies Limited** (TSX:L) a Canadian grocery operator behind Superstore, No Frills, and Shoppers Drug Mart. The company has fared quite well in an unforgiving low-margin industry thanks to its vast number of stores across its markets of operation, which have served as a wide moat up to now. To many Canadians, convenience and low prices are the main two factors that determine which grocery store is selected for weekly grocery hauls.

Loblaw's stores have an ability to maintain some of the lowest prices out there, and for many Canadians, there's a Loblaw-operated grocery store in close proximity to them. These are two durable competitive advantages that Loblaw has possessed for decades, but as we enter the technological age, these two advantages are likely going to diminish over the next decade, as **Amazon.com, Inc.** (NASDAQ:AMZN) and other technologically advanced firms go all-in on online grocery ordering and delivery.

Although Loblaw's management team is planning to innovate to keep up with the incoming digital disruption, I believe such efforts will not be nearly enough to offset long-term headwinds. Amazon, meal-kit delivery platforms, and other innovators are coming after Loblaw's market share, and I believe they'll be very successful, as Loblaw is miles behind in both the technology and logistics departments.

As I've emphasized in the past, Amazon is no stranger to low-margin industries, and given its vastly superior tech, it's likely that it will have no problem offering Canadians a cheaper and more efficient way to obtain their groceries while providing a customer service experience that will put Loblaw to shame.

Loblaw has a Click & Collect platform, which I think is barely usable in its current state, and if this is an indicator of how the tech is going to go, then Loblaw is a sitting duck, and Amazon has it right in its cross-hairs.

Once Amazon’s grocery delivery service is available in select Canadian cities, Loblaw will likely experience a catastrophic hit to its top- and bottom-line numbers.

Think about it. Free same-day grocery delivery with a Prime membership, and the guarantee of the lowest price for every item? Well, there goes Loblaw’s moat, which took years to build, but it will essentially vanish in a puff of smoke. Welcome to the digital age.

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