



Is Amazon (NASDAQ:AMZN) About to Disrupt Alimentation Couche-Tard (TSX:ATD.B)?

Description

One of Wall Street's top analysts thinks **Amazon.com** ([NASDAQ:AMZN](#)) should expand into the gas station business.

Tim Forte, managing director and senior analyst at Wall Street research firm D.A. Davidson, sees a number of reasons why Amazon should make the move. He told *BNN Bloomberg* advantages would include convenience stores giving consumers an easy place to pick up packages, the lower cost of delivery to commercial locations versus residential ones, and Amazon could use technology to enhance the traditional convenience store experience.

The advantages don't stop there. Gasoline is a predictable business that would add a nice boost to Amazon's top line. Giving Prime members a discount on gas would really enhance that program as well, which would lead to even greater penetration.

Forte sees Amazon having an approach to gas that mirrors **Costco's**, which uses fuel as a loss-leader to help gain memberships. It's obvious Costco's gas strategy is a massive success; anyone who has ever filled up there can attest there's always a lineup.

How exactly would **Alimentation Couche-Tard** (TSX:ATD.B) fare if Amazon entered the gas business in a big way? Here are two possible scenarios.

The bear case

There's the possibility Amazon could do significant damage to Couche-Tard if it started selling gasoline.

Amazon has generally tried to expand into a market organically before doing anything major like acquiring their way in. Just look at the company's attempts to enter grocery with Amazon Go before finally giving up and buying Whole Foods.

Let's face it. Gasoline is a commodity product. Consumers simply don't care what type of gasoline

ends up in their tank. It all works about the same.

Despite this, gas stations still get loyal customers. They all have their own unique loyalty programs that reward consumers for sticking with one brand. Some shoppers go to one station above others because they like the convenience store or perhaps just because of geographical convenience.

Amazon has shown they know a thing or two about operating customer loyalty programs. Amazon Prime is one of the world's largest. And if it views gas as a loss-leader, it could easily undercut traditional stations by anywhere from 5-10 cents a liter or even more. Costco is doing just that right now.

The only issue would be expanding across the U.S. in a hurry. It's hard to build a chain of gas stations from scratch.

The bull case

Here's where things get interesting. Alimentation Couche-Tard would probably be the perfect choice for Amazon to acquire if it was looking to immediately enter the gas business.

Couche-Tard has some 10,000 convenience stores across North America, including 7,800 locations spanning 48 states across the United States. Stores are located in every state except Utah and Nebraska.

What's easier — building a network from scratch or simply acquiring one already in place? Couche-Tard is already well represented in North America, and let's not forget its presence in Europe as well. Amazon could let Couche-Tard's management team run the gasoline business while it focuses on making the existing real estate compatible with package delivery.

It would be an easy transition overall — much easier than building a network one station at a time. Acquiring a world-class management team would be a big win as well.

Sure, Amazon could acquire other regional gas station chains and build its network that way. But bidding is fierce. There's no guarantee the tech behemoth would out-bid Couche-Tard or other potential buyers.

The bottom line

Ultimately, I don't think Amazon's move into the gas station business is going to come anytime soon. The tech giant has other priorities, and I'd wager it would rather grow its retail presence by expanding Whole Foods.

But at the same time, there's definitely potential for the company to acquire Couche-Tard if it was serious about getting into the space. This potential is just another reason to be bullish on a company with a lot to like.

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Date

2025/09/10

Date Created

2019/01/07

Author

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