



Worried About Bankruptcies? Avoid This Surprising Sector

Description

If you're worried about bankruptcies, be sure to avoid cinemas, cannabis, and grocery retail. "Whoa, whoa, whoa," some of you may think. "Grocery retail is in the same bucket as movie theatre and cannabis businesses?"

Anyone who has read any of my previous work over the past couple of years knows my thoughts on the long-term future of the mass cinema/movie theatre business. (Hint: I think [Cineplex will be a zero](#) within five years).

Many also know my thoughts on the Canadian cannabis industry. I think most small producers will go bankrupt or be acquired within the next two years. However, lumping grocery retail in with these obviously distressed sectors with little in the way of real, long-term, secular growth catalysts may seem nuts. (By the way, cannabis is a commodity like corn or wheat. Cannabis does not have a secular growth trend).

Let me explain.

Innovation during tough times

This tragic coronavirus pandemic has resulted in a very real, negative societal and economic shock. I cannot underscore this enough. However, as with many terrible tragedies, we can often find a silver lining at the end of a very painful road.

For example, Henry Ford was spurred by the Great Depression to innovate car manufacturing nearly 100 years ago. Therefore, innovation may be jumpstarted again as a means to get us out of the darkness in this case.

Our grocery retail system is coming under scrutiny. More consumers than ever have either begun to consider using or have full-out switched to e-commerce as a replacement to traditional grocery shopping at brick-and-mortar locations.

Here's my bold prediction: retailers that do not heavily invest in e-commerce today will go bankrupt in the next decade. Alternatively, they will be acquired. The industry will aggressively consolidate into a consortium of retailers who meet the needs of tech-savvy shoppers.

The role of e-commerce

I'm not going to predict precisely which retailers may or may not go under. However, I do know that razor-thin margins of grocery retailers will only hurt them long term. This is especially true in light of the cost-reduction function that technology has played in nearly every sector penetrated by the likes of **Amazon.com**.

One day, e-commerce retailers will likely have food delivered to your door in almost the same time as it would take to do a round trip shopping foray to your local **Loblaws**. When e-commerce is able to charge the same price or less as big-box stores, these businesses will be in trouble.

Bottom line

These changes aren't going to happen overnight. But it does bother me that Canadian retailers aren't meaningfully invested in growing their e-commerce presence to the same extent as American, Chinese, and British retailers.

Canadian retail needs to adapt or face the fate of the **BlackBerry** smartphone. Something better will come along, and Canadian consumers won't care that the company or product isn't Canadian. They'll just reach for the product (or platform) that's better.

Stay Foolish, my friends.

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