

THE DAILY CHECK-IN WITH GOLDMAN SACHS

GUEST: Kate McShane, Equity Analyst, Goldman Sachs Research

HOST: Liz Bowyer, Global Head of Content

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**Liz Bowyer:** Hi Kate.

**Kate McShane:** Hi Liz.

**Liz Bowyer:** You've just launched a new four-part series for Goldman Sachs Research called *The New Digital Age of Retail*. Your first report focuses on last mile delivery, which is a very competitive space and one that's obviously been impacted by the pandemic. But just to set the scene, talk about last mile delivery pre pandemic.

**Kate McShane:** Sure. So, last mile delivery really means that you're paying a service to get you your goods within a couple of hours same day. And that wasn't really anything was prevalent across retail pre pandemic. It was something you saw for restaurants. And it was something you saw for grocery stores. But for the rest of retail, it was really focused on you going to the store and picking up your product to get it same day.

**Liz Bowyer:** And then how did things evolve during the pandemic?

**Kate McShane:** So, during the pandemic you had two phenomena going on. You had customers who weren't really willing to leave their homes. And you had retailers that weren't deemed essential that were just closed. So, there were two problems to solve. One was retailers had to figure out a way to get their product to consumers while their doors were closed. And the consumers had to figure out a way to get that product in a contactless way.

So, what emerged during the pandemic was curbside pickup, which is basically where you order it online. And you could just drive up to the store and they put product into your car. And that was rolled out by Best Buy, by Dick's Sporting Goods, and by Ulta during the pandemic.

And then another option that's evolved is the third party delivery. And that, again, is the opportunity to get your product same day, but the customer has to pay for it. And that is something that we see from the likes of Shipt, from Instacart, and from a company called Roadie. That company, Roadie, is in partnership with Tractor Supply and Home Depot,

where they are the third party fulfillment and delivering goods from those retailers to the consumers.

**Liz Bowyer:** So, talk more about the role of third party fulfillment providers and how they're working with retailers.

**Kate McShane:** Yes. So, it really depends, actually. Every third party fulfillment provider provides a different service. Some provide a picking option where they're going in and they're picking the product from the aisles and acting as your personal shopper and then delivering it to you. Others fulfillment services are really just about the delivery. And think breaking that down even further, the delivery can be specified to maybe smaller objects in grocery, that that's what they're providing as a fulfillment service. Or, you know, they're specializing in more bulky items or furniture or longer distances. And so, each fulfillment service that we've learned about is offering, not only the retailer something different, but the consumer something different as well.

**Liz Bowyer:** So, it sounds like they're providing a critical service in the delivery process. But what are some of the challenges?

**Kate McShane:** I think, some of the challenges are really stemming from the fact that this is outsourced for most companies. In the big box retail space, which is what I cover, the only retailer that owns their fulfillment, same day fulfillment service, is Target. Everyone else is looking at it as an outsourced opportunity. And so, the risk that stems from that is whenever it is outsourced, is you are counting on somebody that's not within the company to uphold the company's standards for everything to be in one piece. And so, that's probably challenge number one.

I think challenge number two is some of these third party fulfillment services have their own marketplace. And when they have that it is another platform in which you can access the retailer. Which is great for the consumer. It's great for the retailer. But it's also great for the third party fulfillment because they're gathering a lot of data. So, it does take some of that data that I think the retailer could maybe use out of their hands and into the third party fulfillment providers. So, that's another challenge.

**Liz Bowyer:** So, just given all of these challenges, how are retailers thinking about more fully integrated models where

they, themselves, own the last mile part of the delivery process?

**Kate McShane:** So, I think, you know, what is so attractive about the third party fulfillment for the retailers, whether it's owned by them or not, is that it is more profitable to them to have this go to the customer than it is to do the two-day free shipping. So, what I mean by that is, you know, if you order something and it comes to your house in a couple of days, like Amazon Prime, it's free for the customer. But for the retailer, it's costing them to pick that product, box it up, and ship it and pay FedEx or UPS to deliver it to you.

When it's doing the third party fulfillment, again, in some options they are picking it for the customer. So, it frees up the store employees. And it also gets to the customer in a shorter amount of time. And the customer is paying for it. So, it's a lot less costly for the retailer to have this third party fulfillment option than it is to do the traditional free two-day ship. And so, that is something that we think is pretty exciting within the world of retail. In addition to the fact that online only retailers can't do this. You know? You need brick and mortar retail to be able to fulfill within a couple of hours and be delivered to your house.

**Liz Bowyer:** So, finally you mentioned the buy online, pickup in store option, which obviously gained traction during the pandemic. How do you think about that as either a challenge or a compliment to last mile delivery?

**Kate McShane:** Yes, we're very much thinking about it as a compliment. We think every incremental initiative that the retailer has introduced, just increases the chances of the consumer shopping with them. It gives them more optionality. There are some circumstances in which buy online, pickup in store works for the consumer. You can think of a situation of when you're coming home from work or running out to the store and not wanting to wait in line. Where buy online, pickup in store works. You can get it in a couple of hours from when you've ordered it online.

What the third party fulfillment does is gives you the quickness that the buy online, pickup in store gives you. But you get the added convenience of not having to leave your house. You do have to pay for it, unlike buy online, pickup in store, which is free. But again, you're adding another convenience or more value to the experience.

**Liz Bowyer:** Thanks, Kate.

**Kate McShane:** Thanks, Liz.

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