**Alex Lieberman** What is up, everyone? This is Alex Lieberman, cofounder and CEO of Morning Brew. And this is Fresh Invest, your new favorite investing podcast sponsored by Fidelity Investments and powered by Morning Brew.

**Alex** Here’s what you can expect from Fresh Invest. Each week, I will dive into a massive business topic making headlines, and work through the impact that topic has on my portfolio. Fresh Invest is the jet fuel you need as a young investor. And today's topic is—drum roll, please—[sound of a drum roll] holiday shopping in the world of retail today.

**Alex** In 2019, holiday sales hit a record $730 billion, growing 4.1% over the same period in 2018. Not only is that a massive number, but specifically, holiday sales in November and December average about 19% of total annual retail sales. What that means is now until the end of the year is absolute crunch time for the retail segment of the economy, meaning it's crucial for investors like myself to think about retail exposure in our portfolios.

**Alex** But remember, this isn't like every other year. While a virtual Black Friday is around the corner, companies have been thinking for a while now about how to keep up in a world dealing with the constraints of a global pandemic. From ramping up their online presence to investing in technologies that can help them succeed through the pandemic, these companies are adapting to the times we're all living through.

**Alex** To better understand the implications of COVID on the consumer, I sat down with Katie Shaw from Fidelity Investments. She dives into the acceleration of e-commerce, the increasing role of tech in retail, and how to think strategically about these changes as an investor. Let's get into it.

**Alex** Katie Shaw, thank you so much for joining the conversation today.

**Katie Shaw, equity analyst and portfolio manager at Fidelity Investments** Great to be here.

**Alex** So, we are talking about retail. First of all, can you tell me why this is worth our listeners’ time and why you're potentially one of the most qualified people in the world to talk about this?

**Katie** Sure, Alex. I've been looking at consumer companies for the last 10 years. I've had a 20-year career in finance. My current role at Fidelity is as an equity analyst and a portfolio manager. I am the global sector leader for the consumer team, and I run several funds.
Alex Clearly, COVID has accelerated the trend towards e-commerce, but how has this changed the brick-and-mortar business recently? And how are retail businesses broadly adapting to a mostly remote consumer right now?

Katie In the pandemic, it changed overnight, on a dime. And the volume levels that we've seen have been surging, and have been surging for six months. The retailers and e-commerce companies have had to keep up with this change at just a frenetic pace. It has been a complete crash course in Strategy 101, with changing dynamics by the day—whether or not stores were open, whether stores could open, what hours could stores open.

Katie So all of this has been changing so fast between the dynamic of retail and e-commerce. And what that means for companies themselves is they've had to keep up with this change not only in volume, but also how consumers want to get product.

Alex So from a young investor's perspective, given all of the change that's happening in retail, just from a macro perspective as well as just as a function of COVID, how would you be thinking through evaluating companies in this industry if you were me?

Katie That's a great question. I think that one thing to keep in mind is the increasing role of technology. So companies and leading companies in retail are embracing technology and bringing it to the forefront of what they do—not just on e-commerce, but using it to inform what kind of inventory do they carry? Are they able to use demand prediction to drive pricing decisions? Drive better inventory on the shelves? How are they integrating technology? How good are they doing with buy online, pick up in store? Are they measuring their effectiveness?

Alex It is glaringly obvious to me now that there is increasing importance in technology being woven into the DNA of retail companies. I'd love if you could speak more specifically about individual businesses that have been particularly innovative in embracing technology in their business.

Katie Sure. So one of the areas that we're seeing increased need for an investment in technology is in the traditional, old, boring logistics and operations. So it's an in-and-through supply chain, or think about it as just what's right delivered at just the right time. And what we're seeing is, both across retail and restaurants, a number of companies using technology to better inform their businesses and help get product to customers in ways that sometimes don't even touch the store.

Katie So there are a couple of restaurants that have announced these concepts called ghost kitchens. And this has been powered by food delivery that has, again, aside from a handful of companies five or 10 years ago, you couldn't really get food delivered to your house. And now you can get just about anything delivered to your house from a restaurant. And what some restaurants are doing is saying, hey, maybe
the location that I have producing for customers who are coming in the store, it's really confusing to my logistics and my operations if I'm trying to fulfill demand for online orders from this unit too.

Katie So everything is coming at the same crunch time, and how can I fulfill to both my in-store customers and my online customers? And so they started taking this concept of what they call a ghost kitchen, which you could think of really as a warehouse that has cooking preparation equipment, and it will come to your doorstep. And it might be labeled by the restaurant that you've ordered from; it just hasn't come from that specific location. So it's still their chefs and their inventory and their food, and being prepared in a food production facility to get you your meal. But it's not coming from that restaurant.

Katie And companies are using software to help them figure out how to do that. So how do you know when your restaurant has reached capacity and you need to reroute some of those orders to another either restaurant or ghost kitchen? Or if you're a retailer, how are you going to fulfill a customer's order? Even though a store two miles down the street from me might be the closest location, if I've just ordered eggs and diapers—I have five young kids; we order a lot of diapers—maybe it doesn't make sense for the store two miles away from me to do that delivery if a store is seven miles away has extra diaper inventory.

Katie So companies are using software as well to help figure out what location should an order get routed to. Does it help with inventory that has built up on the shelves in one location, whereas another location that might be closer to me is probably not the right store to fulfill this particular transaction. How are all those stores talking to each other? Do they have the right software? Do they have the right warehouse management systems? Do they have the right logistics for delivery? Can they actually physically get that product to me from a store seven miles away to come to my doorstep, even though it's not from the store right down the street?

Katie Another example would be in grocery. How are my groceries going to come to me if I'm an online grocery person who's placing an order? Are they actually coming from the grocery store? They might be coming from a warehouse. There's a lot of investment going on right now. Large grocers, like Kroger or Walmart, that are trying to figure out how they can use robotic technology in off-location premises.
**Katie** They're looking at ways to use robotic technology. And that's a whole new wheel set for retail companies where retail, again, used to be about having stores and having well-curated items and having good customer service. And now you're asking retail companies to get smart on software, to route different orders, how to use robotics. Using machinery is not what retail companies used to use, and so we're seeing a lot of investment in areas like logistics, both across retail and restaurants.

**Alex** Absolutely. A few final questions. The first is thinking less about what's happening and more thinking about what's going to happen. Do you think retail will ever go back to what it was prior to the pandemic?

**Katie** I think retail today is the new reality. And there might be some backtrack in the sense that when the world opens up again and it's safe to go out, that footfall goes a bit back to where it was. But I think that we have pulled forward years of change. E-commerce has been penetrating the retail landscape for decades. And I think that what we're going to see in 2020 is a significant step function, most of which I think is going to hold. So I think that consumer habits and shopping patterns have changed in ways that they're probably not going to change back to the retail that we think of from 2019 or 2018.

**Alex** So let's play out one last scenario. Alex Lieberman has just graduated from college. Instead of 2015 when he actually graduated, it's 2020. He's 21 years old. He's moving to New York City to work in financial services. I would say he's financial markets proficient, not fluent, and he has been just dropped into incredible market and macro change. If you were Alex, how would you start thinking about navigating this ever-changing financial market as well as retail landscape as a young investor?

**Katie** Yeah, that's a good question. My 21-year-old self looks a lot like yours. I went to New York City as a young 21-year-old college graduate as well. In the year 2000, it was the tail end of the technology bubble, and I watched that burst. And a year later, I lived through September 11th there. So a couple pieces of advice that I would give to people are words of wisdom that I've sort of gathered over the years.

**Katie** Number one, there will be dark times. So having gone through September 11th, having gone through the financial crisis, and like so many other people, watching my retirement savings get decimated, the consumer is going to go through hard times. It's OK to feel terrified. But there is usually a tomorrow. At least so far what I've seen is, the world has ended many times.
Katie Try to learn as much as you can. The on-the-job learning from new college graduates in terms of what you know today versus what you're going to know a week from now—your learning curve is going to be exponential. Keep asking questions. Keep learning. Companies didn't hire you for what you know today. They hire you for the potential of what you're going to become. And the faster that you can become that more educated and high-valued employee, the better. So keep asking questions, keep learning, and keep learning about yourself too.

Katie One of the best pieces of advice that I got young in my career was to look up and to ask, is that a job that I want to have? Is that a life that I want to have? People can get caught up in titles or their perception of financial success. And at the end of the day, I think that success is really personal. So what kind of home and family life do you want to have? I have five little kids, and I turned down a job that might have paid me more money coming out of business school because I didn't want to have to travel as much as that job was going to require. That was an entirely personal decision. And I think I was able to make that choice because I got to know myself in my early years.

Katie And the last thing that I would say is be nice to people. There are a lot of smart people in the world today who didn't get to where they are just because they're smart. So hard work, lucky breaks, and the help of so many people, from teachers to mentors—try to help other people if you can. We're all the beneficiaries of so many hours of other people's help that if you can pay that forward and help somebody else, you never know what that person is going to become. But you might have something to do with it. So try and take the time to be nice. Bad behavior often comes back to bite people. Try to be a good corporate citizen. And again, have fun, be proud, and enjoy life.

Alex Absolutely love that. Katie Shaw, thank you so much for the time the insights. Really appreciate it.

Katie It was great to be with you.

Alex Katie made it crystal clear that there is more to holiday season than Black Friday and Cyber Monday deals. Yes, the role of the consumer is essential when thinking about retail sales and what Q4 will mean for investors. But that's just one side of the equation. Katie helped us pull back the curtain and think about all the ways that the retail industry is reinventing itself before our eyes as a result of the pandemic and the proliferation of technology.

Alex We must think actively about the move from brick-and-mortar to e-commerce, and the acceleration of that move that has occurred this year. We must think about data sophistication and the ability of retailers to be smarter as technology becomes part of the DNA of their businesses. And we must think about the fringes of
retail, like food and grocery, where a number of other structural differences mean rapid change for businesses, which means rapid change in thinking for investors.

**Alex** Thank you, everyone, for tuning in to Fresh Invest. Check out Fidelity.com/FreshInvest for more information and resources.

**Alex** Be sure to join me next week for a conversation about the great migration of millennials, like myself, to suburbia. Take it easy, everyone.

**Morgan Chmielewski, producer of Fresh Invest** Hey everyone, this is Morgan Chmielewski from Morning Brew. And as the producer of Fresh Invest, I am here to let you know that this podcast was created on behalf of Fidelity Investments by the Morning Brew Creative Studio, and does not reflect the opinions or point of view of the Morning Brew editorial team. Sources are provided for informational and reference purposes only. They are not an endorsement of Fidelity Investments or Fidelity Investments' products.

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