

# WALMART'S NEW E-COMMERCE PLATFORM DELIVERS SHOPPERS, NOT GOODS

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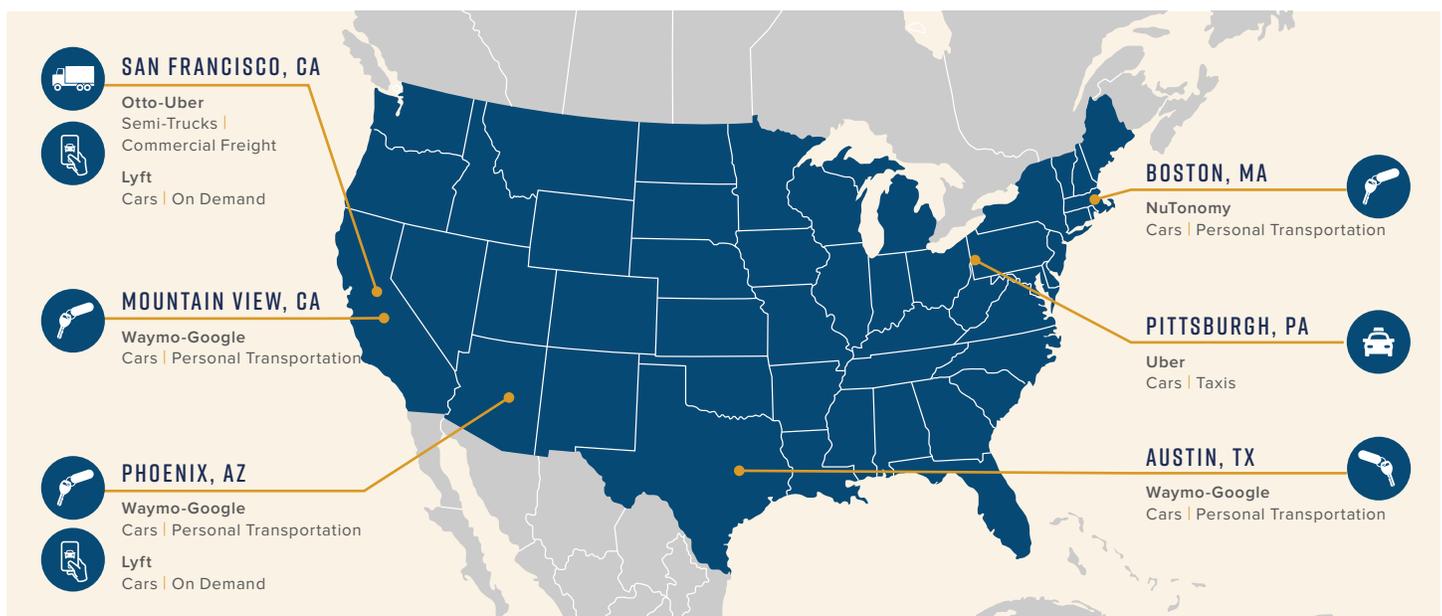
Walmart's recently announced partnership with Waymo takes a surprising and innovative approach to providing quick, cost-effective grocery delivery to consumers' homes. In a departure from the traditional e-commerce model, Waymo will deliver shoppers from their homes to a local Walmart location using a fleet of self-driving cars. Waymo, Google's self-driving car project, has been piloting operations in the Phoenix area since its inception in 2015. Following the Waymo partnership announcement on July 25, 2018, Tom Ward, Walmart's head of digital operations, explained that "...we're learning how we can make Walmart online grocery pickup even more convenient."<sup>1</sup> Meanwhile, the Waymo team has publicized how this initiative fits with their strategy of developing "...a network of partners when we launch in new cities down the road."<sup>2</sup>

Here's how it works: first, one of Waymo's 400 "early riders" in the Chandler, Arizona, pilot program places an order through Walmart Grocery's online portal. Next, the Waymo vehicle – a Chrysler Pacifica or Jaguar I-PACE outfitted with self-driving technology – picks up the shopper and transports him to a nearby store where Walmart employees are busy picking and packing his order. After the customer collects his groceries, a Waymocar drives him home. This innovative approach

eliminates last-mile labor costs and invites shoppers to make additional purchases upon arrival at the local Walmart location.<sup>3</sup> When combined with Walmart's recent advances in a robotic order filling system and the expansion of curbside click-and-collect stations to 1,000 store locations, the automation of Walmart Grocery's online platform seems imminent.<sup>4,5</sup>

One of Walmart's key competitors in the grocery sector, The Kroger Company, has meanwhile taken steps to implement its own driverless delivery program. Through a partnership with Nuru, a Silicon Valley start-up founded by former Google driverless engineers, Kroger hopes to automate the traditional e-commerce model of delivering groceries from local stores or fulfillment locations to consumers' homes. When a customer places an order online through Kroger's ClickList, a Nuru vehicle will deliver the products to the shopper using a fleet of small, low-speed, battery-powered vehicles (which critics describe as "giant toasters") that carry multiple orders in individual compartments to reduce the retailer's last-mile delivery costs.<sup>6</sup> On August 17, 2018, Kroger rolled out its pilot program at one of its Fry's banner supermarkets in Scottsdale, Arizona, signaling future potential for the supermarket chain's 2,800 stores nationwide.<sup>7</sup>

FIGURE 1: AUTONOMOUS VEHICLE INITIATIVES <sup>13</sup>



Waymo and Nuru's underlying technology is well ahead of the current legislative framework surrounding driverless vehicles. Currently, automated driving programs are regulated at the state level, and some states have been more permissive than others in allowing driverless cars to share the road. A proposed bill that would have set national standards for implementing driverless technology programs, the "SELF DRIVE Act," stalled in the Senate in early 2018. Additionally, consumer trust in driverless cars has declined in the wake of two high-profile fatal crashes of Tesla and Uber self-driving vehicles during a two-week period in March 2018.<sup>8 9</sup> However, Waymo vehicles have driven over 8 million miles since inception with only a few reported incidents. Given that the average American is involved in a collision every 165,000 miles, Waymo vehicles are therefore statistically far safer than human drivers.<sup>10</sup> Brian Collie, head of Boston Consulting Group's automotive practice, notes that "...Waymo has developed a phenomenal system and is ahead of the pack."<sup>11</sup> Ultimately, though, the success of the program will depend on Waymo and Walmart convincing customers that this option is safe and convenient.

Advances in automated vehicle technology have also attracted the interest of real estate operators, including DDR Corporation, a publicly-traded REIT that owns and operates open-air shopping centers around the country. DDR has partnered with Waymo to pilot an initiative like the Waymo-Walmart project to drive traffic to its Ahwatukee Foothills Towne Center in Chandler, Arizona. According to Glen Hiemstra, founder of Futurist.com, changes in the regulatory framework will likely precipitate a wider adoption of driverless applications by retail-related businesses including real estate. Waymo is already exploring opportunities with Dominos, AutoNation, Avis, Pizza Hut, and Element Hotels.<sup>12</sup>

The Walmart-Waymo partnership is another example of the potential synergies between online retail and brick-and-mortar stores. At Longpoint Realty Partners, we continuously monitor the evolving relationship between the retail sector and technological change in seeking investments that meet the real estate needs of the modern consumer.

## REFERENCE NOTES

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