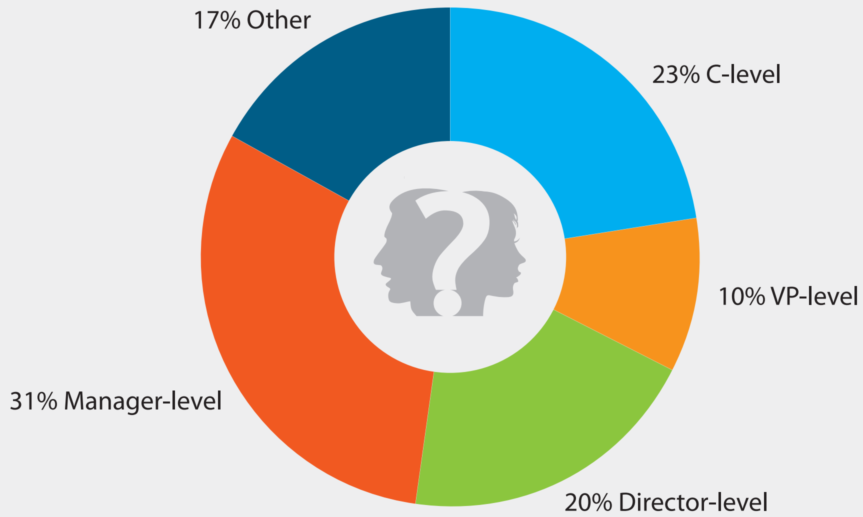
THE LAST MILE RETAIL STUDY, 2018

The 'Iconomization' of the last mile

Methodology

Eft surveyed 129 supply chain executives from retailers, manufacturers and brands alongside 194 executives from leading global logistics providers. The audience surveyed covered both North American and European markets. No individual responses were considered in any capacity to preserve anonymity of the respondents.

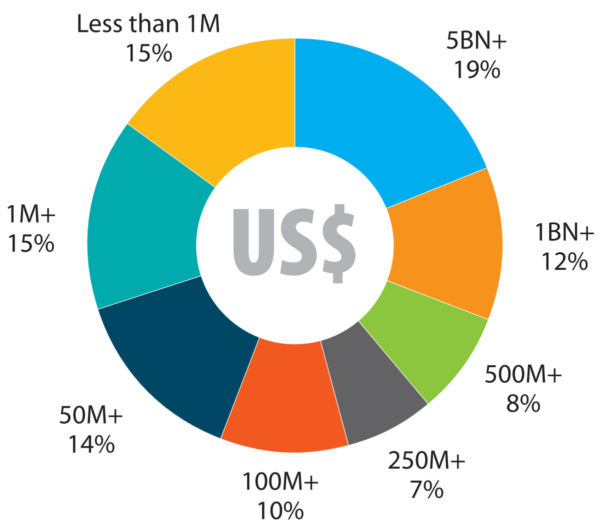
Seniority of respondents*



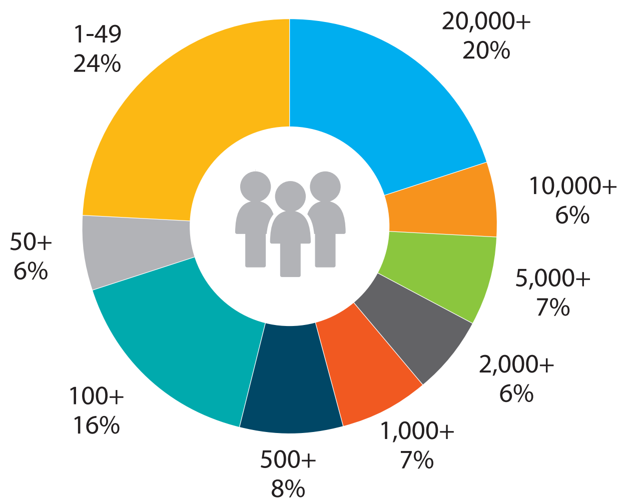
Size of respondents' companies based on revenue*

Demographics

Company size in revenue (USD)



Company size in employee numbers



* This is a breakdown of the whole database that eft used for this survey (stats are rounded to whole numbers)

Executive summary

eCommerce is booming and the last mile is taking the force of the impact:

- There has been a 50% increase over the last 18 months in last mile services
- Most demand is coming from B2C eCommerce

Retailers are facing a number of challenges to meet this growth using the last mile, through:

#1) Overall cost
#2) Adapting to customer demands
#3) Delivery efficiency

Retailers are demanding lots from their providers:

#1) Next day delivery
#2) Full visibility
#3) Same day delivery
(#4 = Returns)

Logistics providers are working hard to keep up with this demand, but interestingly are showing a different priority of items:

#1) Next day delivery
#2) Returns
#3) Same day delivery
(#5 = Full visibility)

Consumers are still demanding more:

- 65% want greater flexibility for deliveries
- 61% want faster deliveries
- 51% want real time visibility

And retailers are increasingly focussing on the customer experience over the last mile:

- 47% have implemented delivery feedback surveys
- 40% have increased last mile visibility for customers

So what does the future of last mile hold for retailers?

- 41% are considering using drop shipping
- 36% are looking at using drop-off lockers
- 35% are considering offering in-house deliveries

Hear from:

- **Johan Erlandsson**, CEO, **VeLove**
- **John Boulter**, Managing Director of Retail & Consumer, **DHL Supply Chain**
- **Dwain McDonald**, CEO, **DPD UK**
- **Paul Hamblin**, Editor in Chief, **Logistics Business Magazine**
- **Josh Gartner**, VP of Corporate Affairs, **JD.com**
- **Samantha James**, Logistics Development Manager (Omni Channel), **Screwfix**

The following pages break down the biggest challenges facing retailers and the logistics industry, and investigate what's coming next for this high-growth industry.

Introduction

The last mile is bearing the brunt of the eCommerce boom. This is creating a set of unique challenges for all those involved. For example, as shoppers head online, retailers find themselves without the comfort and stability of brick and mortar for managing the customer experience. Logistics providers also face their own set of challenges. The last mile might be one of the highest growth sectors in the logistics industry, but it is also one of the most expensive.

The dissemination of digital technology across all walks of life has been a key driver for the growth of eCommerce. Digital tools have become critical for logistics providers and retailers to succeed in the last mile. The rapidity and complexity of the resulting advancements have put last mile on its back foot. Delivery standards need to catch up to meet increasing expectations, and tools that allow automation, personalization and greater visibility will play a strategic role in achieving this.

Ultimately, the most important factor in the last mile is the experience of the end customer (the consumer). Consumers have the same expectations of service and engagement from the places they shop online as they do in-store, except they expect it faster, in line with the speed of the digital world. For the first time, logistics is on the front line of the customer experience as retailers take a step behind the scenes. In essence, can logistics effectively provide good last mile customer experience at an affordable price? Can retailers maintain control of the customer experience even without in-store contact?

For successful retailers and logistics providers, the solutions to these challenges will come through innovation, modernizing processes, digital transformation and the effective use of technology. This whitepaper seeks to provide insight into the state of last mile delivery for retail providers.

Background: Last mile disruption

Companies in the retail and logistics industries are being forced to adapt to meet the fulfilment demands of their consumers. The minimum expectation is now:

What **I** want, where **I** want and when **I** want it.

We are now in the age of the Individual Economy ('Iconomy' for short). Retail and logistics providers are in the category of 'Iconomy Fulfilment'.

Technology
Localz is the leading provider of software services that help enterprises in the logistics and retail sectors rapidly transform their businesses to thrive in, not just survive in, the Iconomy.

Consumers have their fulfilment expectations molded by a digital, connected world. We swiftly adopt new technologies and transfer the expectations created through these to other situations. For example, if I can check myself onto a flight, why can't I check myself into a store? If I can nominate an hour time slot for my supermarket order, why can't I set the hour for other deliveries?

Iconomy Fulfilment
The consumer now expects real-time transparency throughout the whole fulfilment process. It is not sufficient to provide details of where a parcel was yesterday or the last time it was scanned. Rather, where is it now and precisely how long will it be until it gets to me?

54% of shoppers recently surveyed said "fast shipping" means delivery in two days or less. About 35% said they consider three to four day shipping "fast", down from 63% in 2015*.

The individual consumer is driving the growth of the Iconomy. They are demanding to define the delivery time (to an ETA window level of one hour), but that doesn't necessarily mean right now. It might be 4pm tomorrow after school pick up, 8am on Monday before work or 10am on Saturday.

As this research shows, retailers are increasingly focusing on customer experience over the last mile. Logistics companies are changing to meet growing demand with new delivery models, like delivery slot selection, crowd-sourced delivery, rescheduling and same day, evening delivery.

Retailers and logistics providers seeking to thrive (not just survive) must invest in last mile technology that enables them to provide their products where customers want them and when they want them, with transparency at every stage.

Tim Andrew, CEO, Localz

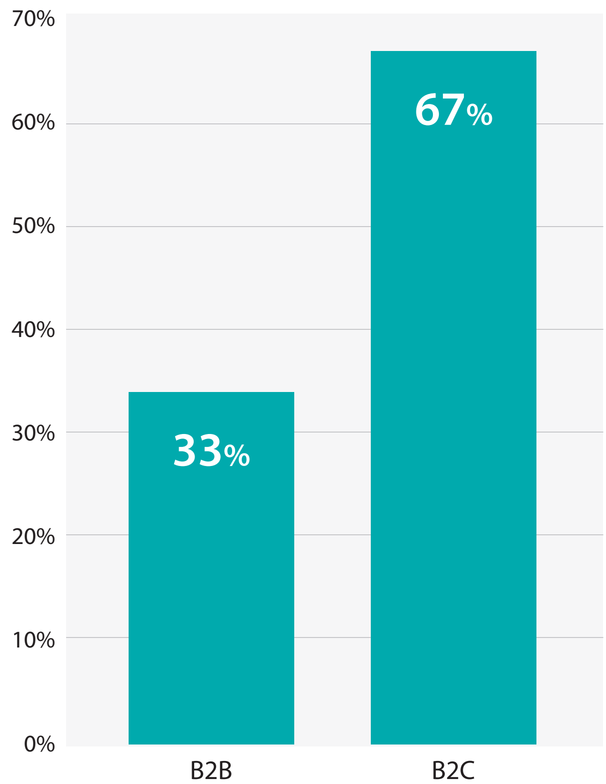
* Deloitte 2017 Holiday Retail Survey - https://www2.deloitte.com/us/en/pages/consumer-business/articles/holiday-retail-sales-consumer-survey.html?id=us:2el:3pr:hol17:eng:retail:102517

Why are we looking at the last mile?

Demand for last mile services has increased by 50% in the last 18 months. This has been driven primarily by B2C commerce. B2B, however, is still driving a significant percentage of the growth. This is an important distinction given the fact that B2B represents a significantly bigger market than B2C and that increasingly, regardless of market, customers want the same consumer-like experience. As on-demand becomes standardized across markets, we can expect to see continued strong growth in the last mile. It is worth considering the fact that brick and mortar commerce for consumers is still significantly bigger than eCommerce, meaning significant room for future last mile growth.

Source: www.retaildive.com/news/why-many-shoppers-go-to-stores-before-buying-online/441112/

Where has this demand come from?



Results

Biggest challenge for retailers in last mile

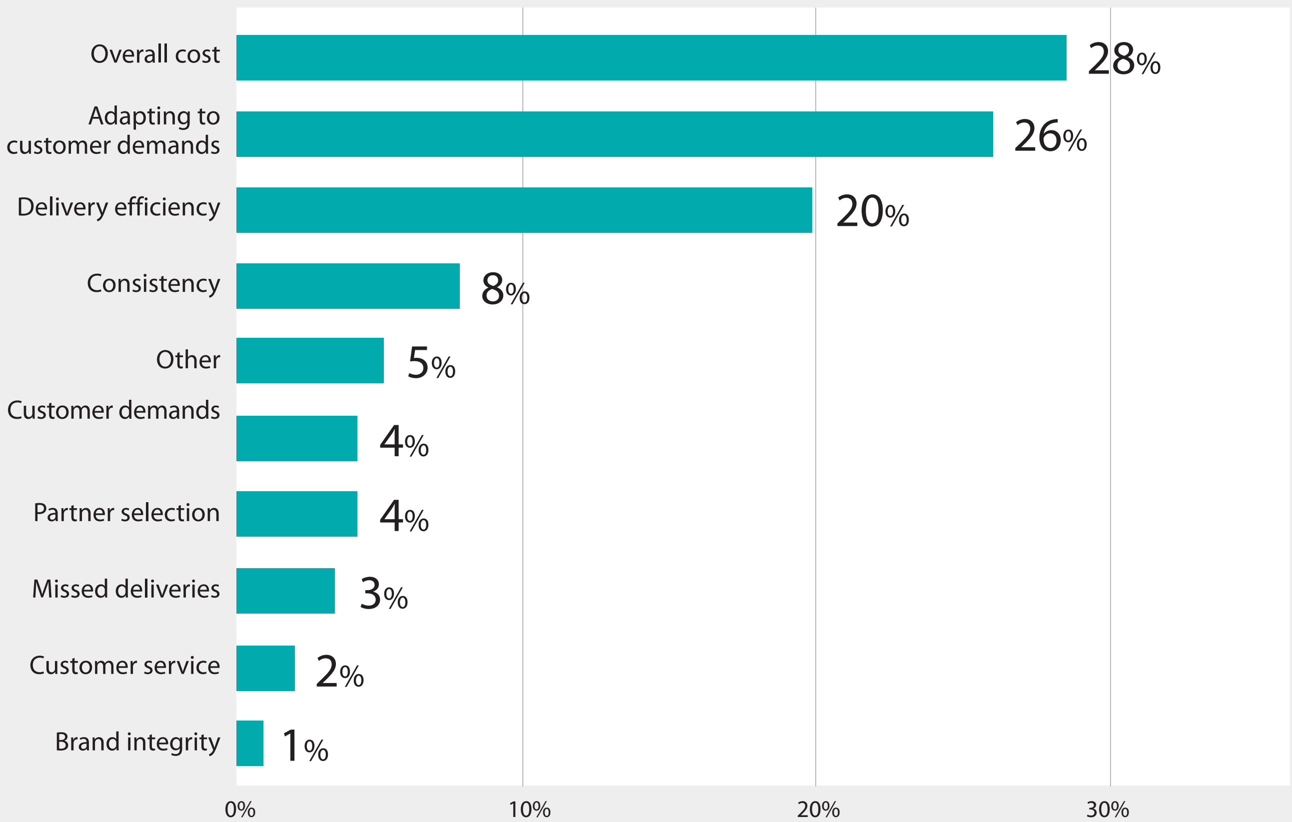
Cost is the biggest challenge for retailers when it comes to the last mile. This is in contrast with logistics providers, who reported the need to drive greater efficiency in last mile operations their biggest challenge. The suggestion here is that last mile providers are passing on some of the costs of their services to retailers who are in turn struggling to accommodate the higher cost of fulfilling the last mile (compared with traditional in-store sales) within their margins. Following this thinking, retailers should consider working closely with their last mile providers to help find a balance between cost and margin. That is, working collaboratively on solutions and innovation to ensure the last mile is sustainable for all involved.

The biggest challenge in the last mile is matching increasing cost against spiralling consumer expectations. Next-day is already almost standard, same-day is hot on its heels. Who's going to pay for all this?

Paul Hamblin, Editor in Chief, Logistics Business magazine

LOGISTICS BUSINESS

What is your biggest challenge with the last mile?



How have your last mile costs changed in the last 18 months?

+12%

In the logistics last mile report, there was a disconnect of some degree between logistics providers and the end consumer. That is, last mile providers had other priorities beyond the customer experience. Retailers, though, see themselves on the front lines. As mentioned in the introduction, there's a sense that retailers understand the importance of the customer experience, but are struggling to translate that into the new world of eCommerce.

What is your biggest challenge in the last mile?

By 2020 more than 900 million people around the world will be international online shoppers. While offering huge opportunities, this also presents enormous logistical complications as supply chains stretch to meet new delivery demands.

As businesses develop their front-end customer promises and delivery options to remain competitive, it is crucial they have the back-end operations able to fulfil these new requirements as efficiently as possible. Delivering to the unique addresses of millions of customers is costly, complex and time-consuming. Delivering individual shipments to remote urban locations and dealing with failed deliveries is costly and can be hugely inefficient.

Logistics providers face the challenge of developing a supply chain network that can service their customer delivery demands, while being as time and cost efficient as possible.

John Boulter, Managing Director of Retail & Consumer, DHL Supply Chain

The Smart City Solution

Exchanging the van to fewer bigger vehicles for getting goods into the city centre and smaller vehicles, like cargo bikes, for last mile delivery increases efficiency and lowers cost. Productivity increases and total cost of ownership goes down, especially in last mile delivery. Energy use drops by a factor of 15 in last mile delivery.

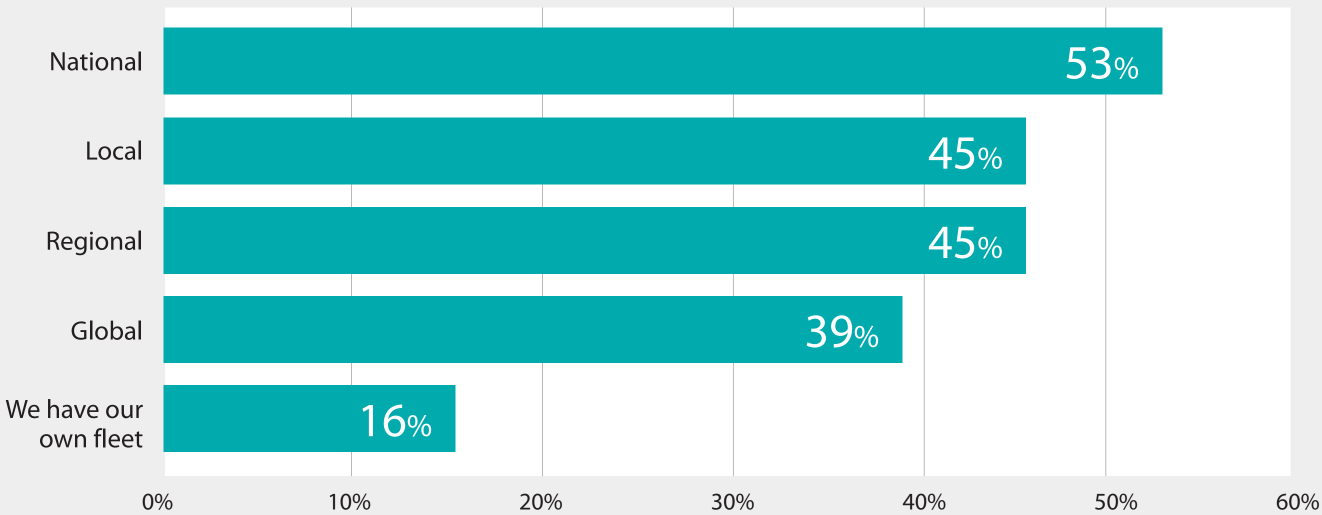
Johan Erlandsson, CEO, VeLove

Last mile provider selection

How satisfied are you with your last mile provider(s)?

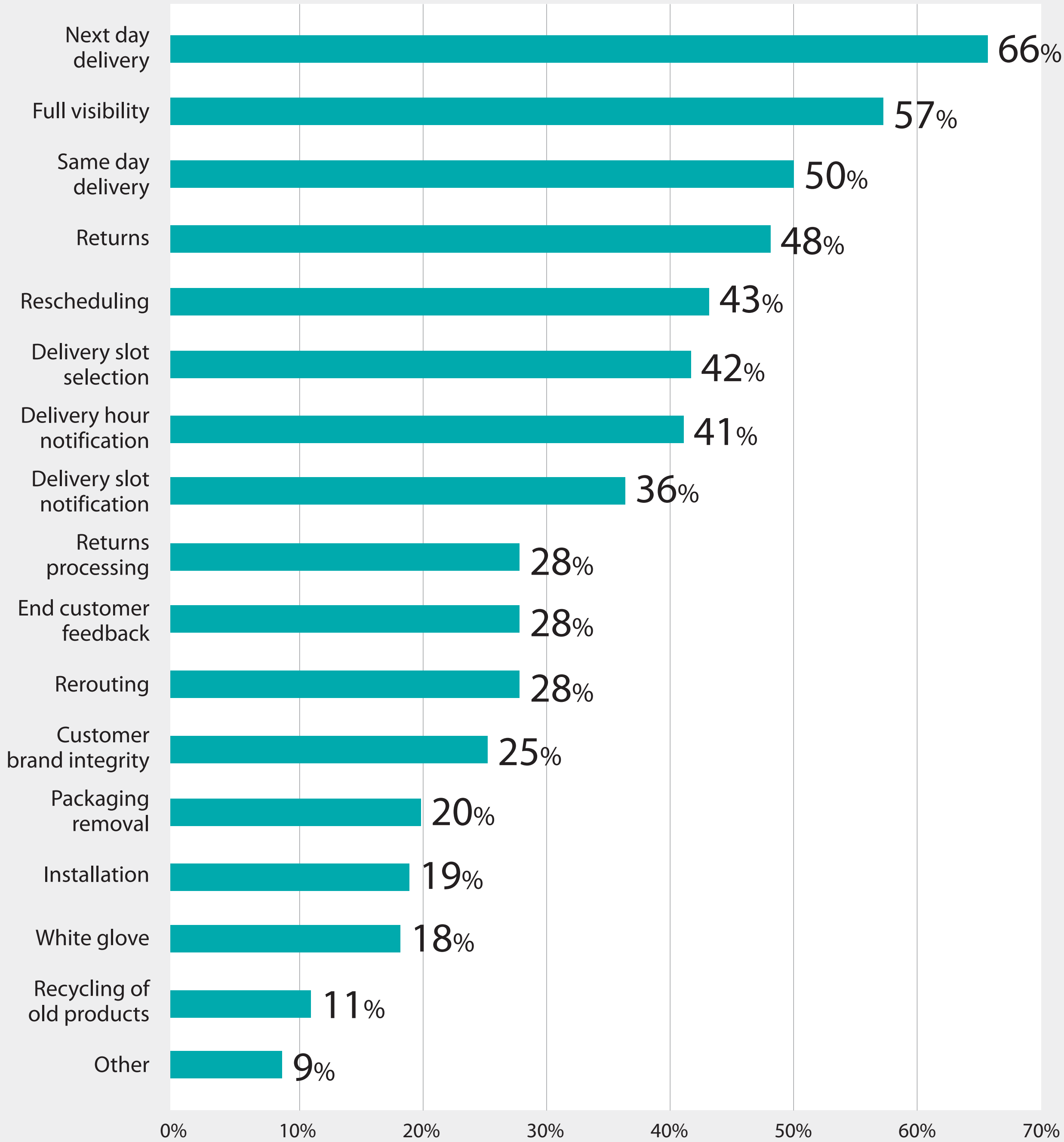
The last mile has a level of complexity beyond traditional logistics. That is, local knowledge or expertise can be a significant asset when it comes to rural or urban delivery. Interestingly, retailer respondents split their choices between national, local, regional and global last mile providers. This means that a significant number of retailers are using a combination of providers. For a market often considered dominated by three significant providers, this should emphasise the opportunity for regional expertise.

Do you use local, regional, national or global last mile providers?



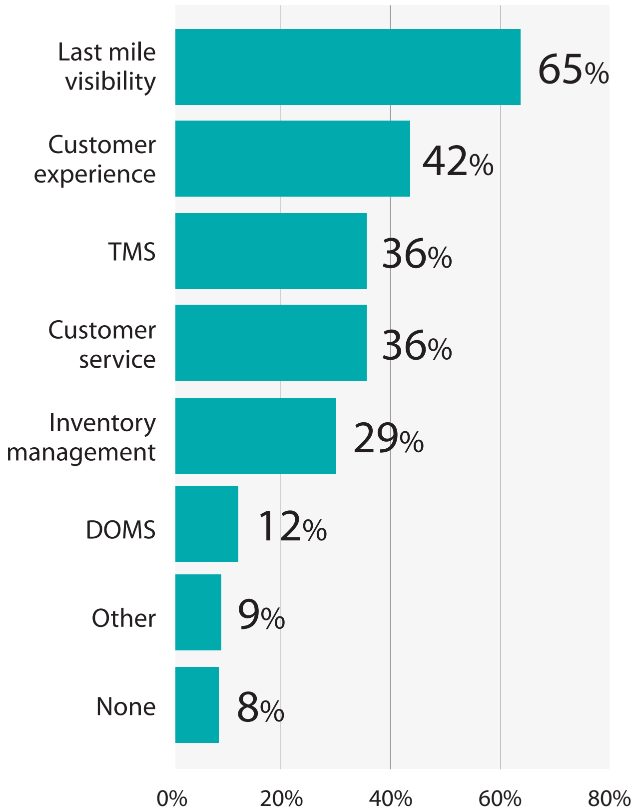
Last mile services

Which services are you looking for from your last mile partner(s)?

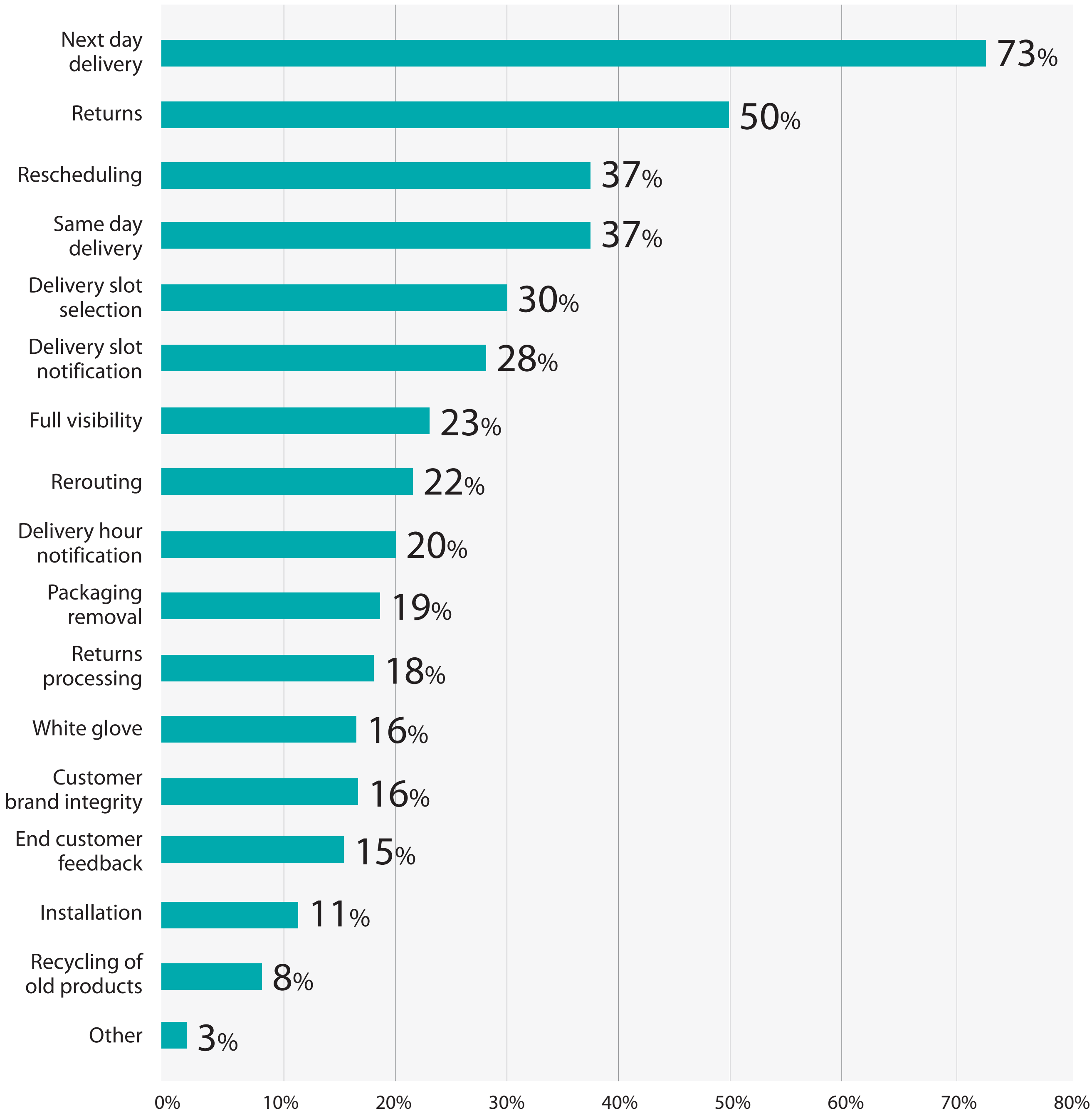


Between the services that retailers are looking for and the ones that are being offered, one gap in particular stands out: full visibility. It would be interesting to dive deeper into why full visibility is such a priority for retailers. This is probably because of the demand for 'Uber-like' visibility from consumers and the retailers' desire to meet this. With retailer costs in the last mile increasing it may be a method for them to maintain some control. Using analytics, retailers can leverage full visibility to understand where costs are increasing and how to create efficiencies. On top of seeking this service from providers, last mile visibility is also the top investment for retailers, with the ever-present customer experience coming in as second highest investment priority.

What technology are you looking to invest in to improve your last mile services?



Which services do you currently use from your last mile partner(s)?



The other top choices for services sought and services used were same and next day delivery. Interestingly, given how much the topic comes up in the news, only 48% of retail customers are demanding next day delivery. One possibility is that the highly competitive nature of retail has meant that retailers have realised they need to provide this service. An option would be to measure the growth of this percentage over the years - and that of the desire for same day delivery, to see how much they have changed. Regardless, they emphasise the importance of customer-centric thinking in retail.

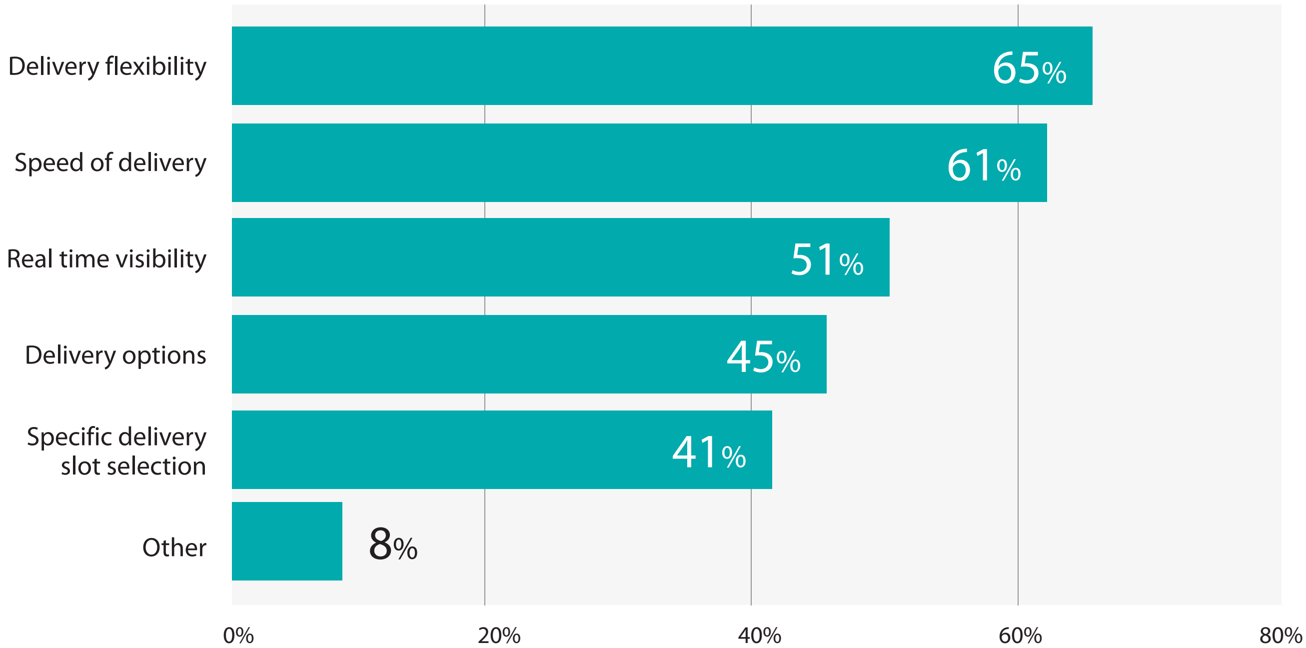
What percentage of your customers ask for same day delivery?

23%

What percentage of your customers ask for next day delivery?

48%

What are your customers demanding most from their last mile services?



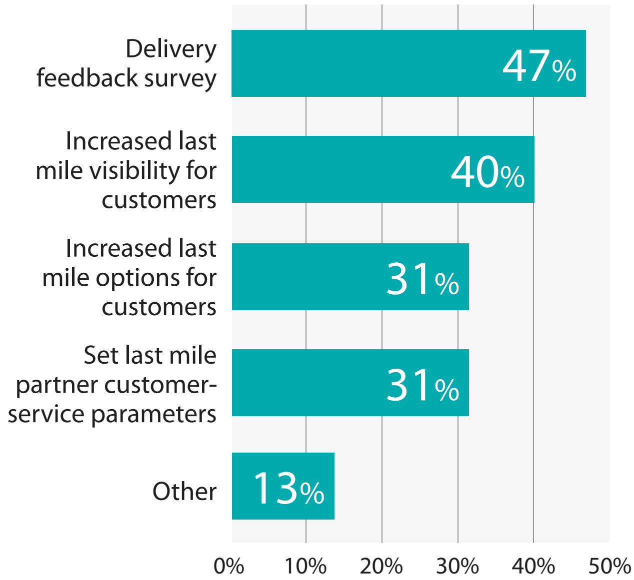
The expectations of the customers are going up pretty quickly and that goes in terms of speed but also in terms of overall user experience.

We're looking at things like white glove service for luxury products or scheduled delivery. It depends a little bit which market you're in and where you are in the development. But getting that superior service is really I think where the big opportunity is.

Josh Gartner, VP of Corporate Affairs, JD.Com

A customer-centric last mile

What measures have you implemented to improve customer service for your last mile delivery?



There's been a move probably in the last year on our part to look at how can we reach customers everywhere they want to shop. Even with online retail penetration being much higher in China than it is in other parts of the world - almost double what it is in the US, for example - there is still a market for physical store retail.

Josh Gartner, VP of Corporate Affairs, JD.Com

How important is the customer experience in the last mile for your retail customers? How do you help them in this area?

In terms of customer experience and brand integrity, the stakes are high with final mile delivery. Customers increasingly make decisions based on delivery options, and failing to fulfil these promises to a high standard can leave a lasting impression. Retailers that are able to offer and successfully fulfil personalized delivery options to a consistently high standard will achieve a competitive edge.

In order to support our retail customers, it is crucial that we provide the back-end supply chain capabilities to fulfil their front-end customer promise. As the final touch point with the customer, it is fundamental for brand reputation that the standard of service is high and reflective of the in-store experience. We are constantly developing our service, offering and developing creative solutions to ensure we can do this, whilst taking the time to understand each of our individual customers' needs and developing tailored logistics solutions.

John Boulter, Managing Director of Retail & Consumer, DHL Supply Chain

How important is the customer experience for your last mile services?

4.2

Retailers are clearly very customer-focussed. The average rating for retailer respondents is 4.2/5 when it comes to how important customer experience is for their last mile services. As such, monitoring the customer experience is going to be a critical challenge.

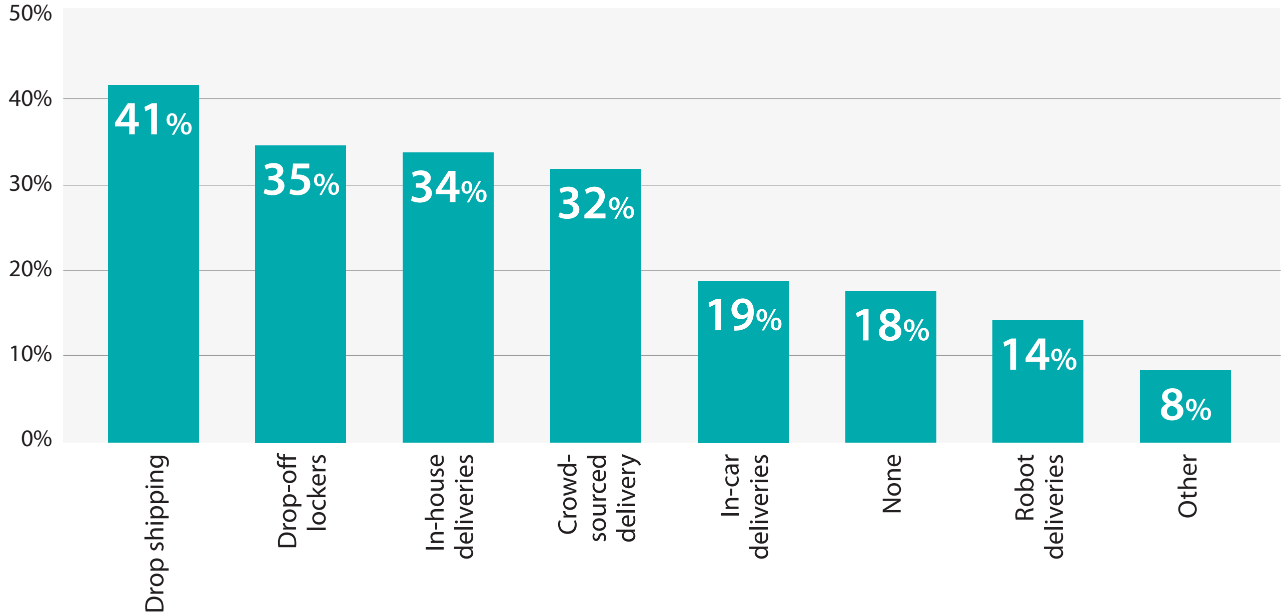
Without the in-store experience, how are retailers maintaining a high standard of customer experience? Feedback survey mechanisms are critical, say retailers, but so is visibility. Effectively, retailers are seeking to solve the challenge of customer service on their own, while 'setting service-level parameters with last mile providers' ranks a lowly 31% in the study. It would seem that there is an opportunity here for collaboration with retailers to fulfil the last mile. A last mile provider that can help retailers connect with customers could be a huge asset that promotes the retailer's competitive standing.

There are so many disrupters bringing exciting solutions to market, the last mile landscape is changing at a rapid pace. As retailers, we must focus on only those solutions that are relevant to our specific customer base and not get distracted by all of them. We should direct our attention to ensuring that we have robust and flexible Order Management and Carrier Management solutions in place, providing us with a solid base that allows us to be fast to market with whatever solutions we choose to switch on.

Samantha James, Logistics Development Manager (Omni Channel), Screwfix

The future

Which future last mile developments do you have your eye on?



The last mile is still in its youth. Retailers and logistics providers alike are still learning to cope with capacity, finding ways of creating efficiencies and ensuring their businesses function. As eCommerce continues to grow, innovation through technology is going to be key to success in the last mile.

Paint us a picture of the future of last mile delivery

I think we'll see a lot more shared economy services in the last mile, as the Uber or Airbnb model takes a foothold in delivery. We've seen how those businesses have been challenged on labour and other policies. How the model adapts to last mile will obviously impact on how existing providers operate. The industry will need to grasp this nettle somehow – last mile is going to grow hugely as long as online shopping continues to be more attractive, more convenient, more customer-friendly and less stressful than a trip to the High Street.

Paul Hamblin, Editor in Chief, Logistics Business magazine

LOGISTICS BUSINESS

Our customers are increasingly interested in alternative delivery methods. As the public become more accepting of autonomous delivery technology, we will see a rise in the use of autonomous delivery vehicles in the last mile space. We can also expect to see technologies such as drones and robots involved in delivery.

John Boulter, Managing Director of Retail & Consumer, DHL Supply Chain

So, what is the future of last mile logistics? Undoubtedly, efficiency is going to be a major priority moving forward, at the very least to enable same day delivery as standard. Additionally, last mile providers will need to facilitate even more bidirectional communication with customers to make missed deliveries a thing of the past. But that's only the tip of the iceberg. Here is a selection of forward-looking last mile predictions from executives around the industry.

The Inner City Delivery Challenge

The van remains the standard solution for last mile delivery of small goods in dense areas. This is not the optimal solution considering the ever-increasing demand for fast eCommerce deliveries. Vans have too little capacity to efficiently bring in large amounts of goods from external terminals to the city centre. In the city centre vans get stuck in traffic as well as causing congestion. This uses too much energy because of a lot of dead weight in start-stop traffic. Electrifying does not change these facts.

City Terminals

Borrowing from the same idea behind the shipping container, the City Container makes shifting goods from one vehicle to another efficient and safe. VeLove is already providing containers and talking to city logistics operators and vehicle manufacturers about making them a standard offering. Operators can set up individual terminals to service this model. The most efficient solution would be for the city to provide these terminals and we are seeing a willingness of cities to do this. Improved bike infrastructure is a priority for most European cities.

The VeLove Armadillo cargo bike is only 86cm wide, just slightly more than a regular bike and less than family cargo trikes.

The Future of the Last Mile

Five things are needed to make this future happen on a large scale:

- *A standardized, secure city container for small goods distribution*
- *Centrally located terminals*
- *Bike infrastructure*
- *Narrow, fast cargo bikes that work with the bike infrastructure*
- *Software that securely and efficiently passes parcel data along between different operators.*

Johan Erlandsson, CEO, VeLove velove

Paint us a picture of the future of last mile delivery

More personalisation, greater operational efficiency, smarter deliveries - all driven by great tech! We're particularly looking at ways of channelling more data between the consumer and the driver to improve the last mile experience for both parties. For example, creating new solutions to locating hard-to-find addresses or enabling deliveries direct to the recipient when they aren't at home, using the latest GPS developments.

Which technologies are you looking to invest in right now to improve your last mile services?

I think even our competitors would agree that DPD has led the market in last mile services in recent years. Our one hour delivery slot service Predict is still the best in the business, over seven years after we launched it. We've improved it every year with fantastic add-ons like Follow My Parcel and improving and have added to our in-flight options so that recipients can tell us exactly what they want us to do with their parcel if they can't be at home to accept it. That work continues.

In 2018 we will also be implementing MapBox; a mapping platform that will help us locate difficult-to-find addresses. This dynamic tool allows us to capture details of hard-to-find or remote locations and incorporate them into our system for future deliveries.

Dwain McDonald, CEO, DPD UK

The last word on the last mile

Today's connected consumers demand both choice and flexibility when it comes to receiving their online orders – and will not hesitate to move loyalty if they encounter unsatisfactory delivery options.

The delivery experience itself drives long-term satisfaction that differentiates a retail brand and keeps customers coming back for more.

Putting the consumer at the heart of the last mile process is key for logistics companies to satisfy their needs and those of the brands they work with. The most responsive logistics companies work with us developing innovation to meet the consumer demand.

Good customer communications throughout the fulfilment and delivery process sets clear expectations about when an order will arrive. This goes a long way to reducing customer anxiety and boosting customer satisfaction.

Successful delivery includes customer reminders and updates

Localz significantly improves last mile delivery service and increases first time delivery rates. The different communication channels available, from iOS and Android apps to responsive web, email and sms notifications allow customers to track deliveries and update their delivery preferences in real-time. Real-time updates of unexpected delays are sent to customers by text, push notification and email. Localz Delivery uses the latest in location technology to check whether a customer is at their provided address and, if not, enables them to reschedule. The driver is informed and can reschedule the delivery in real-time.

Last Mile Delivery is part of the brand experience

Today's connected consumers will not hesitate to broadcast their disappointment when they perceive a poor delivery experience. In fact, they will take to social media to voice their woes. Delivery can 'make or break' a brand's reputation. Ideally, retailers want faith that their provider will 'deliver once, deliver right'. Brands are looking for last mile confidence in their logistics provider.

Localz Value

Localz solutions significantly impact their clients' bottom line. By increasing first-time delivery of goods and services, they improve customer and driver engagement while reducing inbound calls.

Made in Melbourne, Australia and sold globally, Localz are experts in UI, design, location and mobile technology. We have the knowledge and proven ability to rapidly integrate with enterprise legacy systems when required or operate independently as determined by their clients needs.

hello@localz.com

UK

(+44) 2033 899 766
Level 3, 12 Hammersmith Grove,
London, W6 7AP

AUSTRALIA

(+61) 3 8899 6916
Level 9, 412 Collins Street, Melbourne Victoria 3000

localz.com

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Delivering Happiness

About eft

eft Supply Chain and Logistics Business Intelligence is the global leader in business intelligence and C-level networking for the transport, logistics and supply chain industry. We specialize in connecting senior industry executives with their industry peers, and with the crucial information they need to excel in their work.

For 16 years, eft has provided the industry with essential business intelligence in the form of news, reports, benchmarking data, white papers and C-level events. Through constant direct engagement with industry leaders, we ensure our products and events are directly tailored to meet the industry's needs.

With our unique industry position, we're able to leverage our global executive and expert contacts to produce unique high-level research, events, analysis and intelligence for the industry.

As supply chain and logistics jumps into Industry 4.0, eft will be providing unique perspective, exclusive executive insight, and the very latest thinking in this space.

Contact us at
E: info@eyefortransport.com