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Delivering Happiness

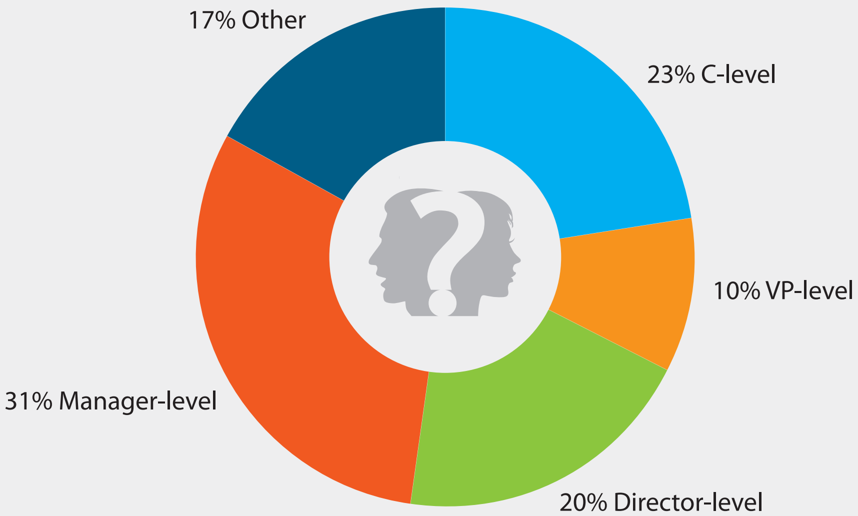
THE LAST MILE LOGISTICS WHITEPAPER, 2018

The Iconomization of the last mile

Methodology

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

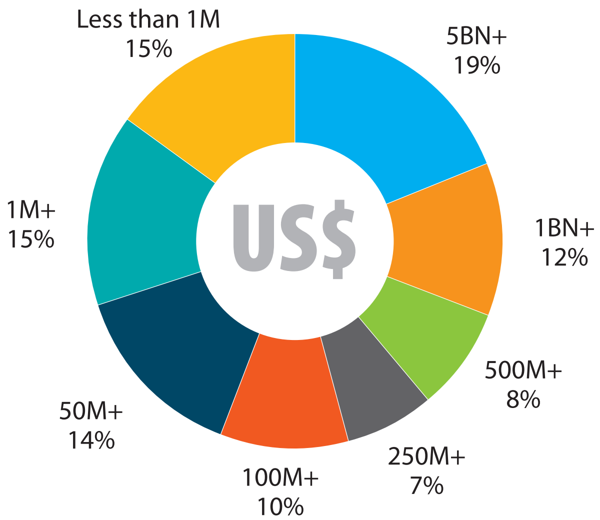
Seniority of respondents*



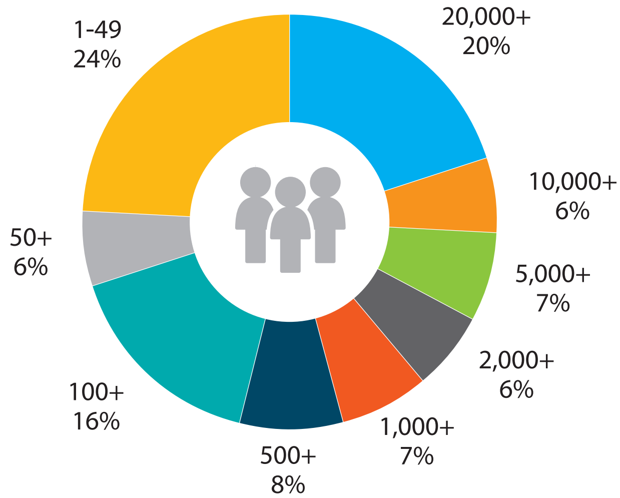
Size of respondents based on revenue*

Demographics

Company size in revenue (USD)



Company size in employee numbers



*this is a breakdown of eft's whole database which was used for this survey (stats are rounded to whole numbers)

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.

A dissemination of digital technology across all walks of life has been a key driver for the growth of eCommerce. This digital revolution serves as one of the critical tools logistics providers and retailers alike can use to succeed at the last mile. The rapidity and complexity of the resulting advancements have put last mile on its back foot. Delivery needs to catch-up to increasing expectation, and digital tools through automation, personalization and visibility have been playing a strategic role.

Ultimately, at the core of the last mile is the end customer (the consumer). Consumers are driven by the same level of experience, service and engagement from the places they shop as they have always experienced in-store, except in line with the speed of the digital world. For the first time, logistics is on the front lines 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 while losing that in-store contact?

For successful retailers and logistics providers, the answer to these questions is going to be via 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 logistics providers.

Background: Last Mile Disruption

Companies in the logistics and retail 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, the Iconomy.

Consumers have their fulfilment expectations molded by a digital, connected world. We swiftly adopt new technology and transfer the expectations created from these to other situations. For example, if I can self serve check-in to a flight, why can't I self check-in to 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 1 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, 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.

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 last mile?

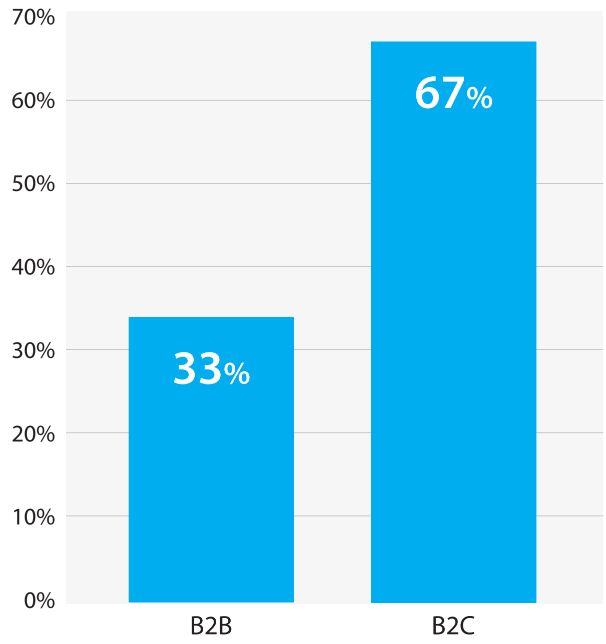
How has demand for last mile services changed over the last 18 months?

+50%

Demand for last mile services has increased by 50% in the last 18 months. This has been driven primarily from 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 standardised across markets, we can expect to see continued strong growth in 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?



Executive Summary

eCommerce is booming, and last mile is taking the brunt of the growth

- 50% increase in last mile service use over the last 18 months
- Most demand is coming from B2C eCommerce

Last mile logistics providers are facing a number of challenges, through:

#1 Delivery efficiency
#2 Maintaining margins
#3 Meeting customer demands

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)

In fact, retailers report:

- 48% of consumers are demanding next day delivery
- 23% of consumers are demanding same day delivery

Increasingly, logistics providers are also providing DTC (Direct to consumer services)

- 52% are now providing this service

Overall, retailers are actually quite satisfied with their logistics providers

- (4.5/5 stars)

So what does the future of last mile delivery hold?

Hear from:

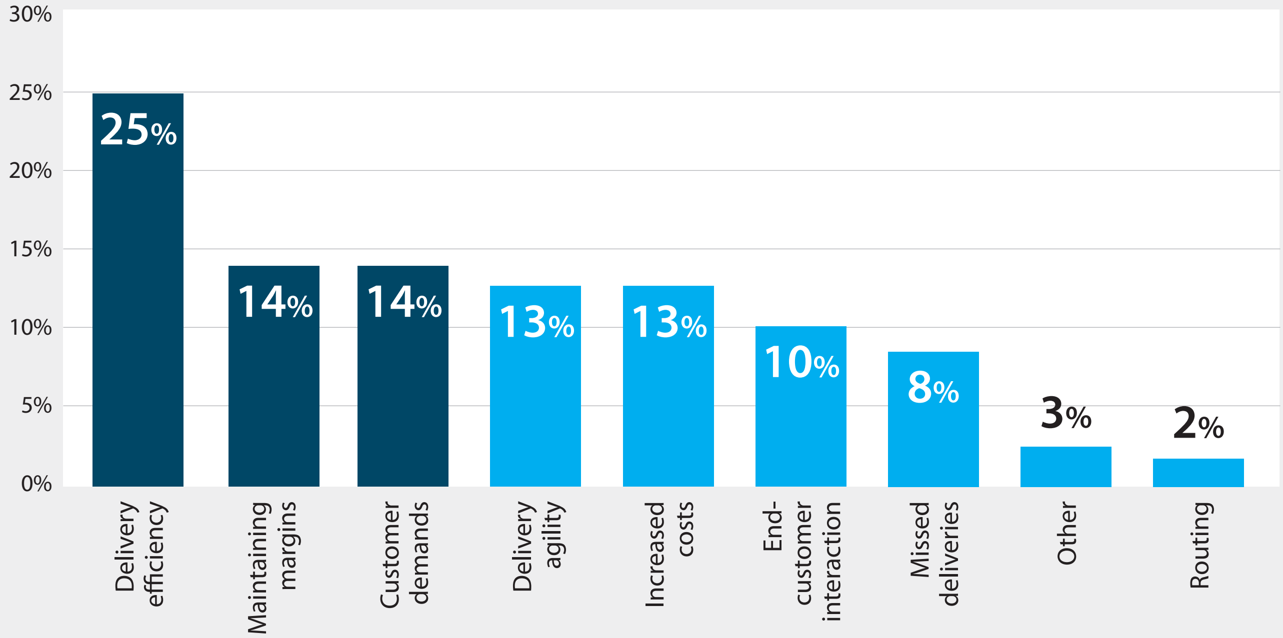
- **Johan Erlandsson**, CEO, **VeLove**
- **John Boulter**, Managing Director of Retail & Consumer, **DHL Supply Chain**
- **Dwain McDonald**, CEO, **DPD UK**
- **Paul Hamblin**, Editor in Chief, **Logistics Business magazine**

The following pages breakdown the biggest challenges from both the retailer and logistics standpoint, opportunities and what's next for this high-growth industry.

Results

Biggest challenge for logistics providers in last mile

What is the biggest challenge with last mile?



1 Delivery efficiency

The growth in last mile has been rapid, competitive and complex. The consequence has been a laundry list of challenges logistics providers face. Surprisingly, the age-old challenge of routing takes a back-seat to far more pressing challenges such as margins, customer demands, agility and increased costs. However, one of the main drivers for this might be that delivery efficiency is now the biggest challenge for last mile providers. That is, the challenge of routing has evolved into delivery efficiency. Because delivery efficiency covers everything from interacting with the end-customer to solving the travelling salesman problem, simple routing is no longer on providers' radars.

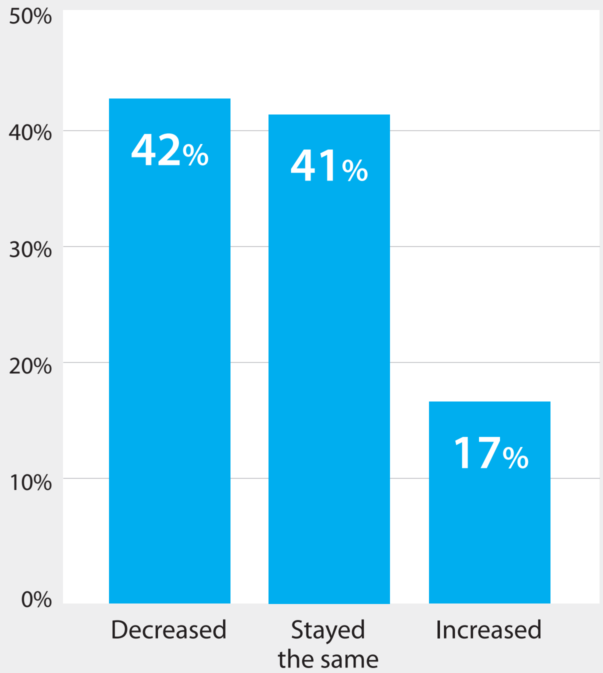
The Smart City Solution

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

2 Margins

Have your margins on last mile increased or decreased or stayed the same over the last 18 months?

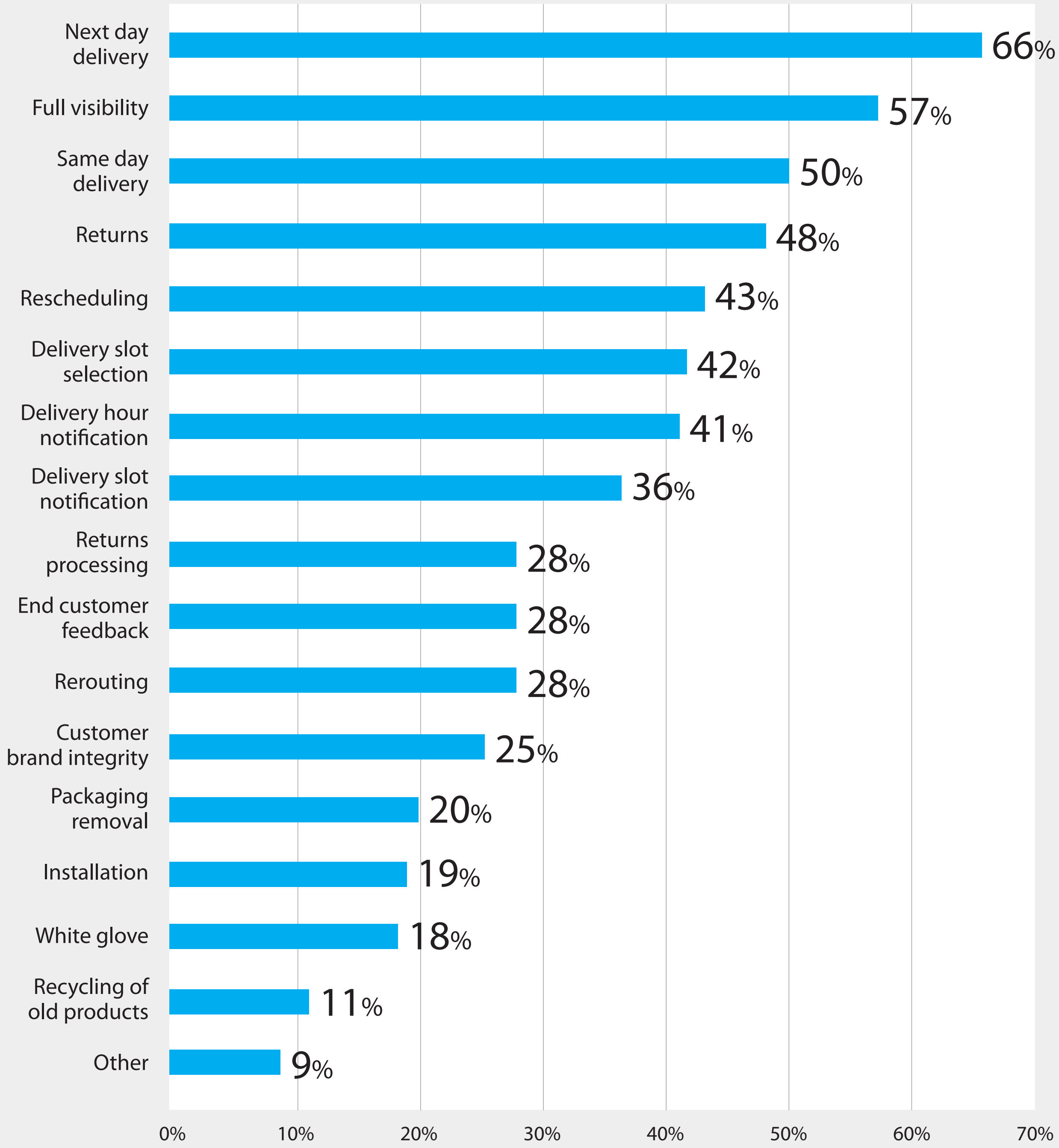


There were some surprises in the data for last mile challenges. For example, maintaining margins and increased costs ranked significantly lower than delivery efficiency. This could be due to recent rate increases amongst some major last mile providers that have helped shift last mile rates, the high demand for last mile services allowing for profits on low margins or even the relatively steady price of oil over the last few years. Looking further at margins, providers indicated that the majority of them had actually seen stable or increased margins with only 42% seeing their margins decrease. In fact, some tweaks to the last mile network can have some significant benefits - especially in complex areas such as urban delivery.

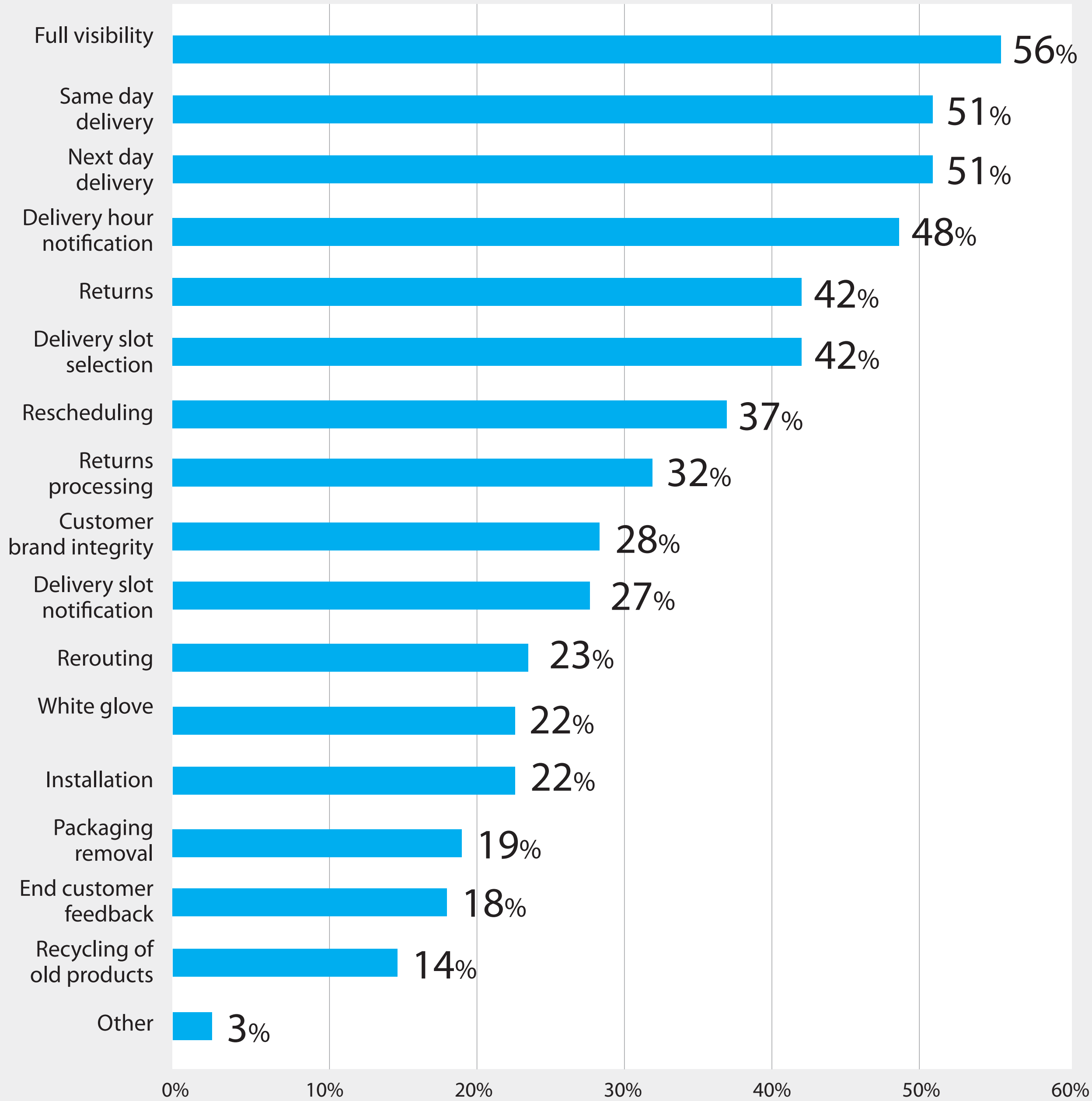
3 Customer Demands

Services demanded

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



What are your customers demanding most from their last mile services? (from logistics respondents)



Another major surprise in the last mile challenge data was how low customer demands ranked. It would require some tracking across time to properly understand this data-point, but one explanation could be that customer demand differentiation could be a recent addition for last mile providers. That is, as the last mile has become more strategic for retailers, last mile providers are only now realizing that accommodating customer demands can be of critical importance. In fact, we are increasingly seeing leaders in the industry concentrating significant resources and strategies towards the customer experience including DHL and DPD.

How has demand for your last mile services changed over the last 18 months

Demand has been incredibly strong. Volumes continue to grow. The peak period just gone illustrated this with volumes higher than anticipated from 2 weeks before Black Friday right through to the end of the year as retailers reported a further shift towards online shopping.

Personalisation and choice were the big themes. The new services we launched in this period were all aimed at solving these challenges and have been hugely popular. The Your DPD app gives recipients total control over their delivery and 2m people have download it in the last 18 months. Precise – which lets customers choose their own one hour delivery slot - has proved a big hit with major retailers, while we've also seen more customers using their 'in-flight' options to divert parcels to our shop network (DPD Pickup) which now includes Sainsbury's, Matalan and Halfords.

Dwain McDonald, CEO, DPD UK

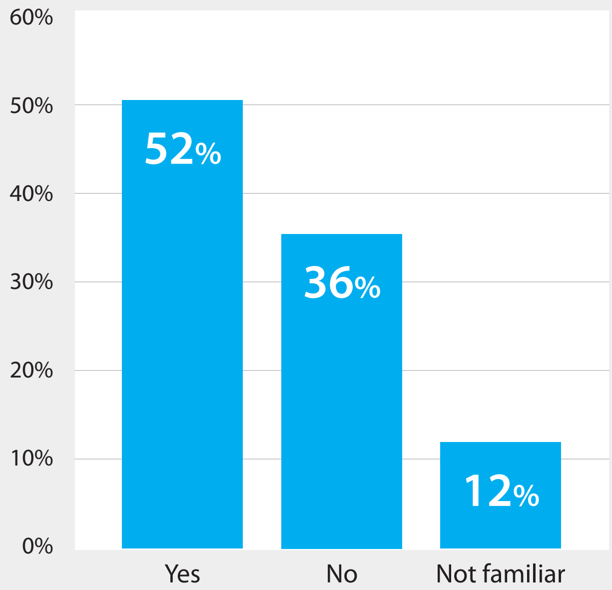
There are significant alignment discrepancies between logistics last mile services provided, services retail customers are demanding and services retail customers say they are using. For example, 43% of logistics companies provide a full visibility service (see figure page 13). Yet, 56% of these same respondents indicate that their customers are demanding this as a service. This is much more in-line with retailers, where 57% are demanding visibility. Such discrepancies represent clear opportunities for last mile logistics providers. For example, 28% of retailers are looking for end customer feedback from their last mile providers while only 18% of such providers are facilitating such a service.

DTC (Direct to Consumer)

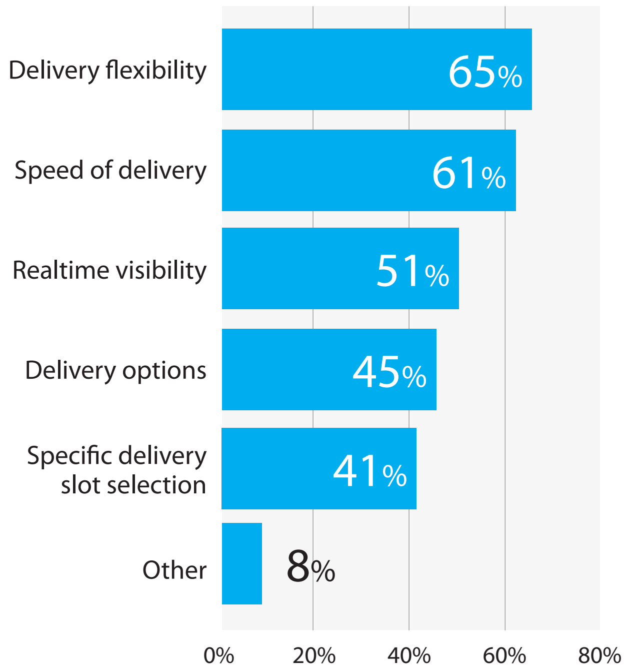
eCommerce has increased the complexity of supply chain networks. With marketplaces online, the objective is fundamentally getting products to customers in the easiest most cost-effective way possible. Sometimes this means directly from manufacturer to consumer. Beyond that, digital tools are allowing some suppliers to skip retailers entirely and sell directly to consumers.

Logistics providers are warming to this concept also with just over half already providing DTC services for their manufacturing customers. It will be interesting to see how this service evolves. Will it just be good enough for logistics providers to facilitate deliveries? In other words, can logistics providers begin to leverage their expertise with eCommerce customers to enable seamless DTC roll-outs for manufacturers?

Do you offer direct to consumer as a service (DTC as a service) for your manufacturer customers?



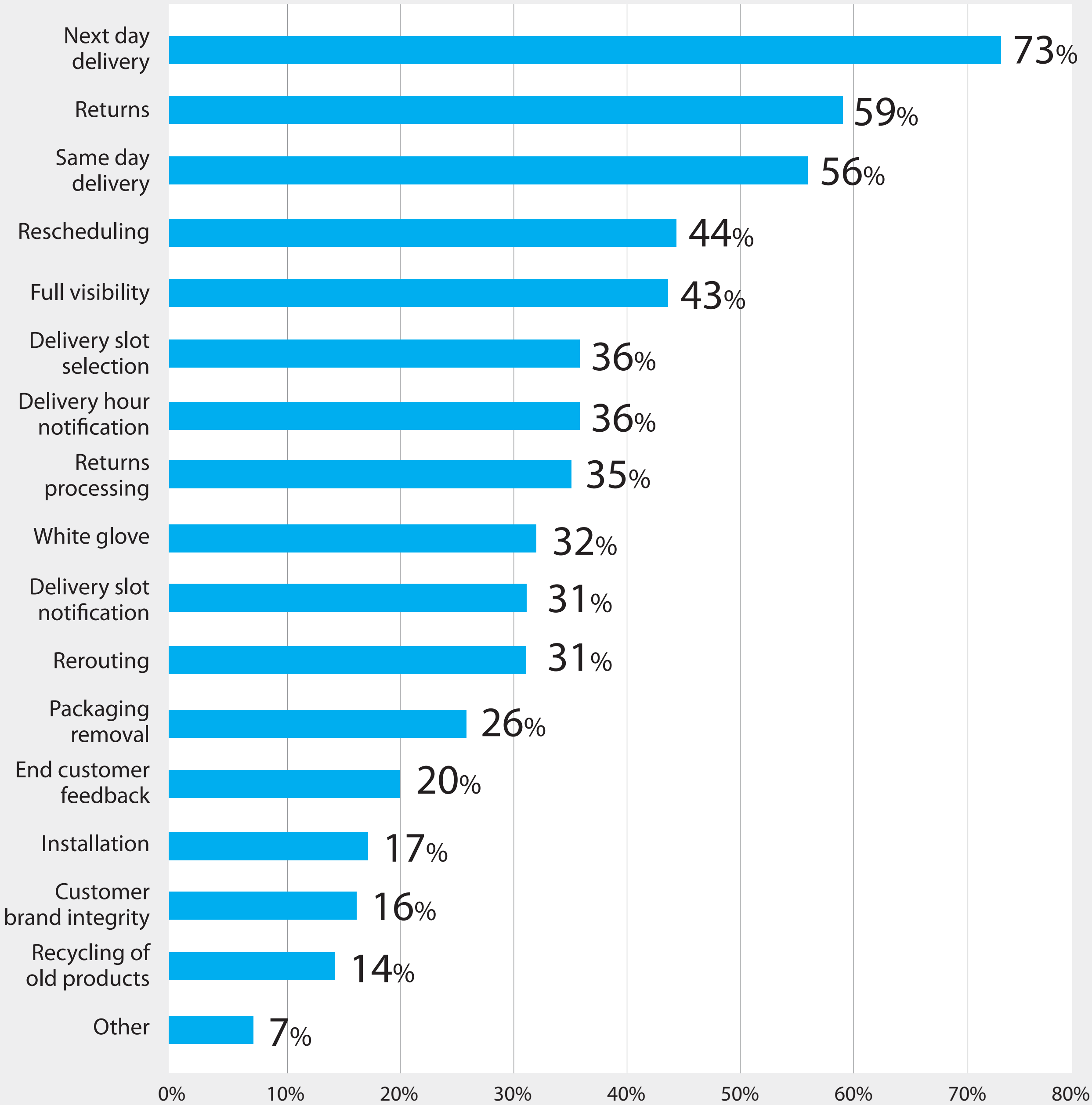
What are your customers demanding most from their last mile services? (from retailer respondents)



Services provided

Which services do you currently provide for your last mile customers?

The answer to the question of Which Services do you Currently Provide to Last Mile Customers was Next Day Delivery at 73%, Returns at 59% Same Day at 56% and Rescheduling at 44%. State-of-the-art Full Visibility is at 43%.



As last mile begins to mature, what services are being offered? In one of the retail industry's biggest 'told-you-so' moments, or perhaps more accurately, its 'Amazon effect', the service that is currently most often provided by last mile providers is next day delivery. In fact, retailer respondents indicated that 48% of their end-customers (i.e. consumers) were demanding next day delivery with 23% demanding same day delivery. Consequently, 56% of last mile logistics providers were also providing same day delivery services. The more next day becomes standard and same day becomes desired, we can expect to see these numbers increase.

What percentage of your customers ask for next day delivery?

56%

What percentage of your customers ask for next day delivery? (from retail respondents)

48%

What percentage of your customers ask for same day delivery?

35%

What percentage of your customers ask for same day delivery? (from retail respondents)

23%

Returns was the only other service that over half of last mile companies were providing. This critical service, while often overlooked, is key for providing a comprehensive customer experience. It turns out that brick and mortar returns are almost half of that of eCommerce with various sources siting 8-9% for stores and 20-30% online.

Source: www.invespcro.com/blog/ecommerce-product-return-rate-statistics/ or https://www.shopify.com/enterprise/102947142-how-to-reduce-your-return-rate-predict-exactly-what-customers-want

Customer experience

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

Customer experience is only a mid-level priority for last mile service providers. It is surprising then that retailers are generally very satisfied with their last mile service providers. This dichotomy is puzzling given how important - and how increasingly important - customer experience is for the last mile. One of the reasons for this could be the number of challenges logistics providers face across last mile. In other words, logistics providers are focussing on driving efficiencies and margins as we saw earlier, and only moderately on customer demands.

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

7/10

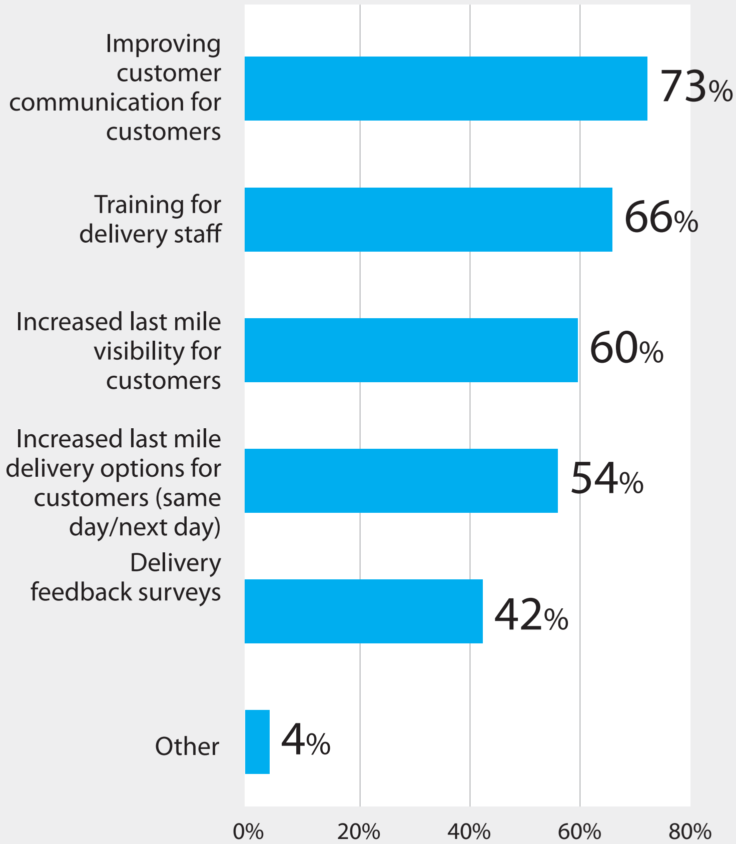
What have you implemented over the last 18 months to improve the customer experience in your last mile delivery?

Within the last 18 months we have invested heavily in our two-man home delivery services. As the demand for home delivery of large big-ticket items grows, there's a need for delivery crews to enter customers' homes and provide services that go beyond door-step drop off, such as installation or recycling. This final mile service can have a huge influence on the overall customer experience. It is crucial that delivery teams are sufficiently skilled to deliver excellent customer service as well as delivery services.

To do this, we've redesigned the recruitment and training of our delivery crews with a customer-centric focus to ensure that this intrusive last mile service results in a consumer experience that is 100% positive and reflective of our customers' in-store service standards.

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

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



The list of services consumers are demanding from last mile services is extensive with delivery flexibility and speed ranking very highly. In fact, over 40% of retailer respondents indicated that specific delivery slot selection, delivery options and real-time visibility were all being demanded by customers. The fact of the matter is that customers are demanding more. They are looking for a seamless online experience, and many of those customer touchpoints are in the hands of logistics providers. We can expect to see customer experience become a key differentiator for logistics providers as efficiencies mature and last mile providers look to differentiate themselves.

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 personalised 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 able 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 a tailored logistics solutions.

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

How do you measure the success of customer experience in your last mile operations?

To ensure a positive customer experience, we benchmark all our last mile solutions and customer interactions using 'Net Promoter Score', which allows us to measure customer loyalty. This is particularly important in evaluating our two-man home delivery services, where our crews have direct contact with customers, entering into their homes and personal spaces.

All insight drawn from our NPS is evaluated and turned into actionable feedback and shared with our driving crews and two-man home delivery employees. This helps them to identify specific areas of their service which could help improve the customer experience when they deliver, but also to highlight when they've had a positive customer response so they can build and repeat a high standard of best practice.

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

The future

Last mile is still in its nascence. Retailers and logistics providers alike are in the midst of coping with capacity, creating efficiencies and ensuring their businesses function. eCommerce growth and the power of technology for disrupting business speak to one of the keys for last mile moving forward: innovation is going to be a key to success.

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

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

City Terminals

Borrowing from the same idea behind the shipping container, the City Container makes shifting the goods from one vehicle to another efficient and safe. VeLove is already providing containers and are talking to city logistics operators and vehicle manufacturers on making it a standard. Operators can set up individual terminals to service this model. The most efficient solution would be for the city to provided for these terminals, we are seeing a willingness for 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 over a regular bike and less than family cargo trikes.

Johan Erlandsson, CEO, Velove

So, what of 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 are going 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's a summary of forward looking last mile predictions from executives from around the industry.

The Future of Last Mile

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

- *A standardised, 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

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 adding 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 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 processes 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 - customers want reminders and updates

Localz significantly improves last mile delivery service and increases first time delivery rates. The different communications channels available, from iOS and Android apps to responsive web, email and sms notifications allows customers to track deliveries and update their delivery preferences in real-time. Real-time updates are sent to customers of unexpected delays 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 then 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; they 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 our clients' bottom line by increasing first time delivery of goods or services improving customer and driver engagement (NPS) and reducing inbound calls.

Made in Melbourne, Australia, sold globally, Localz are experts in UI and 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 our clients needs.

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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.

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