WHITE PAPER

How to Overcome **"Last Mile" Delivery Challenges**

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Introduction

In today's marketplace, keeping up with the competition is crucial. For regional distribution centers, however, there's more competition than ever before.

Customer service expectations and the increasing cost of commercial carriers have driven many such DCs to take on delivery to customers themselves. But can these new "couriers"—can you—compete with UPS or FedEx in terms of dependability, transparency, and efficiency?

- Are you concerned that you are giving your top customers low quality courier service because you lack tools such as proof of delivery and online self-service portals, benefits they could enjoy with larger commercial carriers?
- Do you have the ability to identify a delivery problem well before it becomes a customer disaster?
- Do you desire to more effectively handle processes and serve customers in a manner that goes beyond "keeping up" to become a differentiator?

It can be done. But first, it's essential to recognize and acknowledge this shift in roles—and to understand that new playing fields have new rules.

Wanted:
Expertise, Visibility, Technology

Not that long ago, distribution networks happily and conveniently operated through strategically placed distribution centers, delivering, say, a pallet a month through LTL (less-than-truckload) carriers. Things might have seemed complex at the time, but there was no real thought of what possibly could happen next. Back then, the large orders might have been on a three-to five-day timeline.

But customers began wanting items more frequently. Rather than once a month, why not once a week? And if they arrive once a week, why not reduce that delivery timeline to two or three days? The challenge wasn't that the volume increased—just the order frequency.

The trend continued. Order size decreased and decreased some more, and frequency went on rising. Also on the rise: transportation and shipping costs as a percentage of the total cost of goods sold.

The Cost of Shipping

Consider the regional distributor formerly delivering a pallet a month to his customer. That $500 monthly order used to cost perhaps $50 in shipping. Today, that customer is still ordering $500 a month; it's just in 25 smaller orders in individual boxes, and they cost at least $8 a piece to ship by a courier.

In that example the cost of shipping has quadrupled, eating into margin; worse yet, today's customers are not interested in taking that cost on themselves. If they're not willing in the B2C marketplace, why would they be willing in Business-to-Business (B2B)?

Then:

1 order = $500
Shipping = $50

Now:

25 orders = $500
Shipping = $200

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We Have **a Solution?**

But a solution was at the ready. Regional distribution centers already were in close proximity to a large percentage of the customer population. With those customers clamoring for ever-faster delivery, many distribution centers began running their own courier vans.

On the surface, it seemed the most elegant answer: Bob, a trusty employee, could make the rounds in his van, offering a better quality of service at a lower cost than a commercial carrier.

Or could he?

Customer experience, after all, has become king. Gartner has predicted that by 2018, more than 50 percent of organizations would "implement significant business model changes in their efforts to improve customer experience."[1] In large part, Amazon may well be the one to thank; as reported at the Internet Retailers Conference and Exhibition in mid-2017, there are now 80 million Amazon Prime members. That's 64 percent of the households in the U.S.,[2] meaning Prime delivery timeframes have become the norm.

As customer demands are increasing, the number of distribution network employees and the amount of building space are on the decrease.

"An Evaluation of Warehouse Operations & Trends," a 2017 report by Peerless Research Group for Logistics Management and Modern Materials Handling, states that the average number of employees in the distribution network dropped from 278 to 228 between 2016 and 2017; in 2015, it was 287. 33 percent of survey respondents had fewer than 25 employees, compared to 23 percent a year prior.

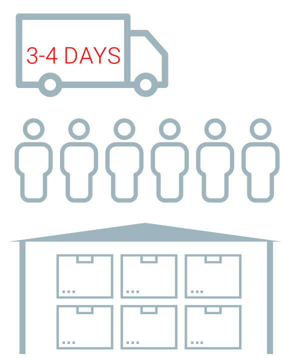
As for average square footage of all buildings in a respondent's distribution center network, that fell from 539,000 in 2016 to 473,400 in 2017.[4]

According to Deloitte's 2016 Holiday Survey,

89 percent of consumers considered one- to two-day delivery to be "fast." Two years prior, 92 percent of online shoppers said so. Some 42 percent of consumers considered three to four days fast in 2016; 63 percent did two years before.[3]

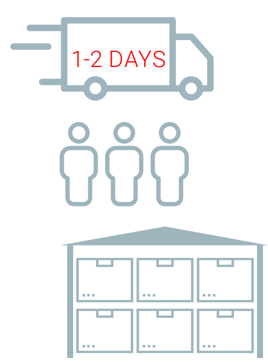
Then:

3-4 days considered fast delivery; larger warehouse and more employees



Now:

1-2 days considered fast delivery; smaller warehouse and less employees



Delivering **on Expectation**

Truly competing in delivery today means so much more than just getting a package from Point A to Point B. Key components to handling the increasing complexity include:

Delivery tracking and visibility

Consumers have been trained to ask—and to receive a ready answer for—"Where's my stuff?" Knowing the movement of each item in a delivery network has moved from a "nice-to-have" to a "must have". In addition, modern distributors also must answer a more difficult question: "When will I get to see my stuff?" The level of control needed to predict delivery times and track against estimated delivery times often is beyond the informal courier systems in place at distributors.

Security and accountability

In addition to real-time traceability, added controls may include signatures, employee badge proof-of-activity, and breadcrumbs throughout the delivery process to guarantee the ability to backtrack and resolve delivery issues.

Cross-dock management

Items must move through warehouses, from regional distribution to other centers, and then on to customers with 100 percent accuracy. Grouping, pre-sortation, truck loading, and other practices can make or break the efficiency of a successful delivery operation.

Driver management

Is the company aware of where all drivers are, at all times when on the clock? Is the company aware of what those drivers are doing? Do they have the information on hand to perform all needed actions with every customer and every delivery and/or return pick-up? Are checkpoints in place to ensure drivers are completing all needed tasks? Today the requirements for courier flexibility, white glove services, customer appointments, and so on often are the key differentiators between competitors. Giving the driver all the information he needs to provide these special services at each customer stop is a vital part of the success or failure of such personalized service.

Courier dispatch

When an on-demand call comes in, are the capabilities in place to dispatch and track the needed actions, such as drivers already out on routed calls—without affecting overall customer service?

Efficiency

Sustainability in today's distribution logistics market requires a streamlined, seamless, consistent, efficient operation. Proper pre-sortation into totes and onto pallets, for example, allows drivers to deliver numerous orders and packages with a single scan. Advanced routing techniques allow the sorting and staging of orders and packages with similar destinations. Detailed instructions allow drivers to maximize their time and efforts at every stop. Real-time, on-route tracking allows visibility into all deliveries and pick-ups.

Best-in-class resource management means the right size vehicle is used on every route, and the driver makes the right number of stops to provide the best level of customer service. This goes beyond the concept of dynamic routing. That idea—building each route every day based on least miles traveled—seemed good at the outset. But it has been destroyed by home delivery in the Business-to-Consumer (B2C) market. Customers increasingly are insisting upon appointment delivery, with items to arrive within a set timeframe to match their personal schedules. It matters not that a customer's home or business may be the most efficient first stop. (On a positive note, some companies are learning to insulate themselves from additional costs of delivery: if the customer misses the appointed time, it's increasingly common that the company will charge a fee for the repeat trip.)

McKinsey & Company's 2016 report, "Parcel Delivery: The Future of Last Mile,"

stated that just 25 percent of consumers were willing to pay a premium for same-day delivery—and it must not be more than $3.[5]

Here is where distributors are increasingly finding themselves. They're caught between catching up and taking the lead, between worrying about too much versus not being worried enough. Things will not just work themselves out. On the contrary, those who don't work on these challenges now will be the ones who are out.

These challenges are likely to continue. Global parcel delivery, according to the report (not counting pickup, line-haul, and sorting), is now a 70 billion euros (over US$83 billion) market.

"However, the market is not just large, it is also highly dynamic, with growth rates in 2015 ranging between 7 and 10 percent in mature markets, such as Germany or the U.S, and almost 300 percent in developing markets such as India," the report states. "This means that, in mature markets, volumes could double over the next ten years, reaching roughly 5 billion and 25 billion parcels per year in Germany and the U.S. respectively."

In addition, "the last mile's hefty share in total parcel delivery cost—often reaching or even exceeding 50 percent—makes it a key process step for those seeking to gain a competitive advantage. At the same time, it is precisely at the last mile that many incumbents are struggling, as they often shoulder significant labor cost disadvantages and therefore, all else being equal, competitive disadvantages."

Given consumers' reluctance to pay, the report continues, "sellers or senders will probably have to pay the additional cost of delivery if the instant delivery segment is to significantly expand its share of total last-mile volume. In any event, same-day and instant delivery will likely reach a combined share of 15 percent of the market by 2020… and are likely to significantly grow further beyond this date thereafter, especially if the service is extended to cover rural areas to some extent."

Naturally, Amazon has driven the trend for faster—and free—shipping. Many have looked to the e-commerce giant as a model. But thanks in part to Amazon Prime free two-day shipping, Amazon's net shipping costs—the difference between what Amazon pays and charges for shipping—were $2.6 billion in the fourth quarter of 2016 alone.

In addition, Amazon announced in mid-January 2018 that it was raising its monthly fee for Amazon Prime from $10.99 to $12.99, though maintaining its $99 annual fee, as set in 2014. Revenue from subscription fees including Prime rose 59 percent to $2.4 billion in the quarter that ended in September 2017, as reported by MSN.[7]

According to SEC filings, as reported by GeekWire.com in 2017,

Amazon's overall net shipping costs were $7.2 billion in 2016, compared with $5 billion in 2015. Amazon has also been building out its own infrastructure for ocean freight, air transport, semi trucks, local delivery, and drones in an effort to give itself an alternative—not a replacement, execs insist—to UPS, FedEx, and other third-party logistics and shipping companies."[6]

Competitive **Advantage**

Top-performing distributors are beginning to use logistics—and last-mile logistics in particular—as a key competitive advantage. An example of this is in electrical parts distribution; regional distributors are under pressure from an overcrowded marketplace and increasing sales through the big online retailers. They fight back by differentiating themselves through logistics. That might enable, for example, a policy of "order by noon, and you'll have it at your jobsite before work tomorrow morning." It means that electricians no longer have to worry about the cost of carrying inventory or planning for long-term inventory; they simply can order each day for the next day's work.

Just What **the Doctor Ordered?**

Knowing where to turn for help presents challenges on its own. There are necessary functionalities in driver management systems, courier management systems, telematics, and supply chain solutions. But not necessarily all of the components are needed—especially for medium-size to smaller operations.

An ideal answer might involve taking the most relevant parts of each, and combining them for greatest effect. The healthcare industry provides a great example: For years now, healthcare networks have managed the last mile of delivery with courier fleets providing real-time, online traceability of shipments; dock control; driver management; dispatch capabilities; and management analytics. Due to the nature of the healthcare industry, security and accountability are inherent.

"With accelerated adoption of the online buying economy, many industry supply chain organizations have acknowledged needs to transform processes toward what is often termed as 'digital transformation.' The challenge up to now has been readiness, resources, and timing,'" states the Ferrari Consulting and Research Group's January 2018 Research Advisory Report, "2018 Annual Predictions for Industry and Global Supply Chains." "We predict that in the coming year, digital timetables will accelerate because of more compelling business forces accelerating such changes. One relates to the current speed and scope of multi-industry disruption."[8]

Transformation will be both customer-facing and supplier-facing, according to Ferrari, and small to mid-sized business have the most potential for positive impact: they won't be hobbled by legacy processes and supporting systems, and can "move toward digital transformation with fresh thinking and a quicker pace."

"The future on-demand economy," according to the Ferrari Consulting and Research Group,

"is now an unstoppable force, where customers and consumers will continue to expect a seamless buying experience, and where continuous industry disruptors strive to market, influence, and distribute innovative experiences directly to consumers and businesses."

Key Takeaways

- As distributors take on the role of couriers, they must understand that it's no longer enough to simply deliver from Point A to Point B. Expectations of traceability, security, efficiency, accountability, and dependability continue to rise.
- There are significant advantages to be found in using logistics as a differentiator in distribution; those who discover these advantages can become top performers.
- Options abound for individual components of best-in-class operations; disparate solutions, however, may be costly, may provide excess functionalities, and may not work well together.
- Distributors must understand that surviving today likely will not be enough to thrive tomorrow. Those who hope to lead will explore and invest in timely, agile, and relevant solutions.

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About **Tecsys**

Since our founding in 1983, so much has changed in supply chain technology. But one thing has remained consistent across industries, geographies and decades — by transforming their supply chains, good organizations can become great.

Our solutions and services create clarity from operational complexity with end-to-end supply chain visibility. Our customers reduce operating costs, improve customer service and uncover optimization opportunities.

We believe that visionary organizations should have the opportunity to thrive. And they should not have to sacrifice their core values and principles as they grow. Our approach to supply chain transformation enables growing organizations to realize their aspirations.

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