MULTICHANNEL MERCHANT

OPERATIONS SPECIAL REPORT

Making Last Mile Work in an Omnichannel World

by **Brian Kelly,** Multichannel Merchant

In 2020, COVID-19 energized online sales. Consumers shifted to ecommerce in response to stay-at-home edicts and retail restrictions, growing spending to 21.9% of total retail sales or $969.4 billion in 2020, according to the National Retail Federation (NRF).

One of the lasting outcomes of the pandemic is that it accelerated the retail industry's pace to become truly omnichannel. Consumers have gotten used to the convenience, fulfillment options and product selection afforded, with industry experts predicting that millions of new ecommerce shoppers – many in older age brackets – have learned how to order online and are likely to continue to do so. Millennials and those in generations X-Z were already there, and are likely not going back to brick-and-mortar stores in any significant way for many purchases.

This trend isn't going away anytime soon. NRF forecasts that 2021 retail sales will reach $4.33 trillion to $4.4 trillion, with ecommerce growing between 18% and 23% to $1.14 trillion-$1.19 trillion. Many have likened ecommerce growth in 2020 to a hockey stick, with 5-10 years of increase crammed into months, forcing retailers to quickly pivot and invest in technology and strategies built for the new reality.

In 2020, omnichannel companies were truly navigating uncharted territory as they struggled to ensure business continuity by managing previously unheard-of shipment volumes, carrier capacity constraints on that volume, shortened delivery windows and inventory shortages. Most of these challenges are persisting into 2021 and beyond.

While retailers understandably welcome the surge of online orders, the increased sales lead to significant increases in last-mile delivery costs. It's complex, as it is seen as a standalone mode because of the difficulties in delivering to residences. But these challenges must be addressed, as delivery speed and accuracy are now irrevocably tied to customer satisfaction and brand loyalty.

Compelled to Compete

It's even harder when retailers feel the need to compete on last-mile delivery with 800 lb. gorillas such as Amazon, Walmart and Target. Omnichannel commerce sounds great, but it's a real challenge when considering how to best compete with industry giants offering next-day or same-day delivery on an enormous range of products.

But even giants like Amazon experienced severe delays and delivery failures in 2020. An October 2020 report from CommerceHub found that over 33% of con-

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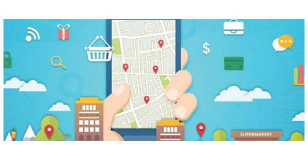

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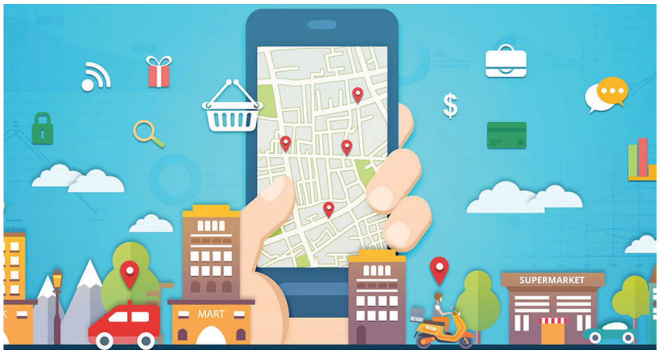

sumers were shopping online at places like Walmart, Target, Home Depot, Lowe's and eBay instead of Amazon due to stock-outs and shipping delays.

A key piece of last-mile success is the ability to provide accurate, timely and transparent communication of delivery dates, as well as real-time product availability and fulfillment as close to the customer as possible to cut down on painful stock-outs and shipping costs, respectively.

Retailers need to focus on technology solutions and strategic adjustments to handle the increased demand for delivery speed, visibility and accuracy. To meet these challenges, many are turning to a multi-carrier parcel shipping management system that can be fully integrated with their current software stack.

Pandemic Forces a Rethinking of the Last Mile

During the pandemic, retailers were forced to quickly onboard new last-mile carriers in order to meet customer demand. They often found they had to line haul from distribution centers on the coasts, and depending on their location, onboard and engage with regional carriers as UPS and FedEx imposed increasingly higher peak charges and imposed volume limits and other restrictions.

However, retailers quickly ran into capacity constraints even with regional carriers, who suddenly found themselves flooded with massive new business and closed the doors to new clients. These capacity constraints meant ecommerce shippers found themselves cut off when they exceeded carriers' weekly contractual volumes, resulting in orders left on docks and disappointed customers. To circumvent constraints, retailers often tried a new strategy and shipped trailers east or west daily to push volume into the appropriate stream.

In response, retailers had to take on a slew of new distribution tactics, including experimenting with micro-fulfillment, and examining new carrier modes that sprung up in response to the massive new demand.

Micro-Fulfillment as an Option

Micro-fulfillment is a growing solution to the last mile dilemma, notably for major grocery retailers, but certainly not an option for most SMB shippers. It's easy to see how it works for major players like Walmart, Target and Kohls, who can ship many orders from store inventory. MFCs (Micro-Fulfillment Centers) place inventory closer to the end customer, cutting down on the cost of shipping to higher-priced zones. The location from which an order is shipped is Zone 1. The destination zone depends on how far it is from the point of origin, with Zone 8 being the farthest away and most expensive.

"Micro-fulfillment centers put product within select major markets, with fewer SKUs," explains Dean Maciuba, managing partner at Last Mile Experts. "Medium-sized stores can use 3PL-operated MFCs that service multiple clients. Instead of building more fulfillment centers, retailers can now use significantly more MFCs. However, this strategy as of now is untested, unproven and expensive. No one has demonstrated how profitable it can be. These centers carry limited SKUs, with smaller buildings of only 10,000-50,000 square feet. And they are strictly focused on SKUs with high turnover."

Using unconventional, outside-the-box fulfillment approaches could offer high rewards. For example, the use of localized 3PLs, retailer-owned MFCs or even popups or warehouse-on-demand providers – who offer fulfillment space and services for shorter terms than a typical 3PL lease – allow retailers to offer same-day or next-day service levels that drive increased conversion, customer satisfaction and repeat business.

Warehouse on Demand and Popups

Warehouse on demand or popup fulfillment centers are one option that can remove significant friction and get orders routed and delivered quickly. They are smaller facilities that can be set up in various locations on a temporary basis, placing inventory closer to customers.

Traditional fulfillment strategies often are aligned with costly rollouts and long-term commitments. Warehouse on demand, on the other hand, offers the flexibility to quickly and cost effectively stand up a fulfillment operation in a high-demand location. This focus on regional fulfillment is crucial in the aftermath of COVID-19, shortening the supply chain and delivery timeframes by strategically positioning inventory and routing orders more efficiently.

Retailers and brands today require not only the flexibility of short-term fulfillment space, but also the ability to provide at least two-day shipping to most of the country to satisfy consumer expectations set by Amazon Prime. Some providers in this area include Flexe, Flowspace, Ware2Go, Darkstore and Warehouse Exchange.

Traditional and Hybrid Last Mile

For last-mile deliveries, retailers can turn to traditional players like FedEx, UPS, the U.S. Postal Service or startups like Bringg, Postmates, goPuff, Uber and increasingly, Instacart, which is expanding beyond its grocery base into general ecommerce. They can also choose hybrid offerings like UPS SurePost through the USPS's Parcel Select service, or FedEx Ground Economy, formerly SmartPost, but now integrated into FedEx's own network. Other hybrid last-mile services include DHL eCommerce and direct DDU injection through a regional carrier or parcel consolidator like Pitney Bowes or OSM Worldwide.

Cost is an issue for many retailers using traditional last-mile providers, as capacity has driven rates up. "I work with high-growth, emerging ecommerce brands, and one problem is that FedEx and UPS are not budging on the price," said Matthew Hertz, co-founder at Second Marathon. "They're not dropping rates, because they don't have any extra capacity; it's a seller's market."

With hybrid services, there are always additional touches involved. For example, DHL eCommerce is a hybrid courier service, which means it utilizes multiple shipping companies to handle its deliveries. Domestically, the primary partner is the USPS. DHL manages the initial pickup and package sortation, then delivers it to the USPS, which moves it on to its sorting facility, to the DDU and finally to the customer.

Regional Carriers Getting a Lot of Interest

More than ever before, the 2020 capacity crunch led many shippers to multi-source carriers to prepare for the same in 2021. This includes regionals like LSO, PCF, OnTrac, Lasership, Pitt Ohio and others, as well as DHL and the major consolidators. Most require a daily number of pieces to be shipped, although even some regionals have been starting to hit capacity limits.

But when retailers turn to new carriers there are always significant risks. A last mile provider is seen by your customer as an extension of your brand. If delivery personnel are unprofessional in their attire or demeanor, if deliveries are late, or if they don't perform expected services, customers will certainly take notice and can subsequently form negative associations which damage brand loyalty.

Nate Skiver, founder of LPF Spend Management and a former transportation executive with Gap and Abercrombie & Fitch, dismisses concerns of unprofessionalism from startups. "Consistency of delivery will matter more than what vehicle they're delivering in, or how they're dressed."

Based on anecdotal feedback, Hertz feels the jury is

still out on regional carriers. "The service hasn't been that great," he said. "Service standards are lower, and it's hard to compete with FedEx and UPS. They may be inexpensive, but you get what you pay for."

Retailers can hardly ignore regional carriers and other last-mile options, however, as a single carrier approach just didn't cut it in 2020, given the historic volumes. In 2021 and beyond, they should seriously consider a multi-carrier strategy to ease capacity constraints and avoid increasingly congested shipping networks.

Integrated Solutions Needed

Unfortunately, none of the above solutions is completely effective on its own, and a combination of the three may be the best path forward for omnichannel retailers.

"Without coordinated change at retail, fulfillment and shipping operations, the challenges that remain in 2021, are the same ones from 2020," said Skiver. "Carrier pricing, carrier capacity and having the right delivery services in place to meet the expectations of customers are just some of the challenges shippers are facing."

Technology Addresses Last-Mile Issues

Multi-carrier shipping solutions can tie into retailers existing software stack and offer those companies some relief from delivery headaches.

"Retailers need to ensure they're enabling all delivery modes, lanes and carriers," said Justin Cramer, a co-founder and head of sales and marketing at ProShip Inc., a provider of multi-carrier shipping software. "Everyone was fine with the big three carriers until now, but with capacity constraints and cost issues, retailers need to be able to quickly enable other carriers."

Retailers also need a good order management system (OMS) that can analyze inventory location and multiple execution strategies in conjunction with a multi-carrier shipping platform to find the lowest cost delivery solutions. Once an order has been moved, whether from a 3PL, an MFC, a store, a manufacturer or a fulfillment center, the shipping software can rerun all evaluations to ensure the retailer is consistently meeting customer expectations at the lowest cost.

There are technology solutions specifically designed to quickly handle the complexities of onboarding new carriers. "In a multi-carrier environment with high volume, it's best to have a capable multi-carrier shipping solution and an OMS that uses logic to fulfill contracts and dynamically manage volume," Skiver said. The only complexities that remain for SMB retailers would be determining whether new doors or staging platforms are needed to transfer packages to new shipping partners.

When considering adding regional shippers, retailers need to be aware of their potential new partners' ability to meet agreed upon service levels. It must be determined if retailers, and their customers, will have the visibility to track packages from origin to destination, and meet targeted delivery dates, in a cost-effective manner.

A good shipping system should give retailers the power to choose from all available carriers. "Packages should be assigned to the cheapest carrier offering the service levels needed until the capacity number is met, and then the next cheapest, to make sure all carriers are getting their proper volumes," said Kenneth Moyer a partner and vice president of Supply Chain Strategies. "The most important thing for a retailer to do when choosing carriers is to maintain flexibility."

"Whether shipping from store or from a warehouse, carrier selection via carrier volume balancing and advanced rate shopping techniques should be seamless to the end user," said Cramer. "But remember, one size doesn't fit all. Mixing a variety of these approaches into an all-encompassing parcel shipping strategy unique to your company will determine success."

It's undeniable that we have seen a seismic online shift in consumer behavior, and it seems unlikely we'll ever see anything resembling pre-COVID days. The impact on shipping has been undeniable as well. Retailers need to rethink and research all last-minute options when managing increased omnichannel demand, no matter what the future may hold.