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Last-Mile Delivery
Finding the Right Balance

Content

Introduction

In the not too distant past, say 25 years ago before the rise of e-commerce, *"Please allow 4-6 weeks for delivery"* was the standard lead time for just about anything you ordered via mail or telephone. Even a book or clothing item took that long to deliver.

A lot has changed since then.

The customer is now at the center of the supply chain. The only distinguishing factor between similar brands is the customer experience.

Take e-commerce, for example (and Amazon, in particular). They have radically changed customer expectations with regards to delivery. Two-day, free delivery is now the standard for many items, with next-day and even same-day delivery becoming more common.
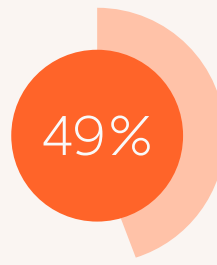
METAPACK 2018 SURVEY

with more than 3,500 consumer respondents from around the world,
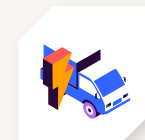
2017 SURVEY

more than

62%
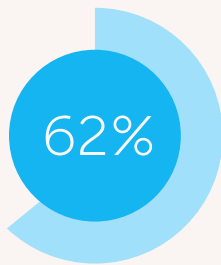
of shoppers said free delivery is the top consideration for the majority of purchases they make

49%

don't expect to pay for standard delivery any longer."[1]

50%

respondents ranked fast delivery as their top or second most important priority.[2]

This shift in customer expectations has put the spotlight on the last mile and has laid the foundation for cutting-edge innovation. Adelante SCM, a supply chain research community, and Locus, a future-ready platform that automates supply chain decisions, partnered on a research survey of supply chain and logistics executives to understand the intricate relationship between last-mile and customer experience.

[1] *"Outstanding Customer Experiences from Order to Delivery Keep 61% of Shoppers Loyal, New Research Finds,"* Metapack press release, November 29, 2018
[2] *"Half of Online Shoppers Abandon a Purchase if They Can't get the Delivery Choices They Want According to New Research,"* Metapack press release, November 14, 2017

Competing on Customer Experience

Julio Hernandez
September 2016, KPMG report.

"Organizations are investing record amounts in enhancing the customer experience,"

"Analysts predict that over the next five years, customer experience will overtake price and product as the number one brand differentiator. Almost 9 /10 organizations expect to be competing primarily on the basis of customer experience."[3]

2020 SURVEY

62%

Agreed or Strongly Agreed that customer experience will overtake price and product as the number one brand differentiator

Adelante SCM research confirms this trend. In a 2020 survey we conducted with 233 industry executives, 62% of the respondents Agreed or Strongly Agreed that customer experience will overtake price and product as the number one brand differentiator over the next five years.[4]

Delivery, of course, is tightly linked with customer experience. As this Indago member commented:

"In a home delivery transaction, the people making the final mile delivery have the only in-person contact with the consumer. Those people must be professional and courteous, or they may ruin the customer's experience."[5]

Not surprisingly, a majority of our Indago members -- who are all supply chain and logistics executives from leading manufacturing, retail, and distribution companies -- "Agree" (38%) or "Strongly Agree" (31%) that last-mile delivery will become a greater competitive differentiator for companies in their industry over the next five years. Only 10% disagreed and 21% were undecided.

[3] *"How much is customer experience worth?"* Julio Hernandez, KPMG, September 2016
[4] *"On Tony Hsieh, Customer Experience, And Logistics Outsourcing,"* Adrian Gonzalez, Talking Logistics, November 30, 2020
[5] *Ibid.*

Do you agree or disagree with the following statement:

Over the next five years, customer experience will overtake price and product as the number one brand differentiator.
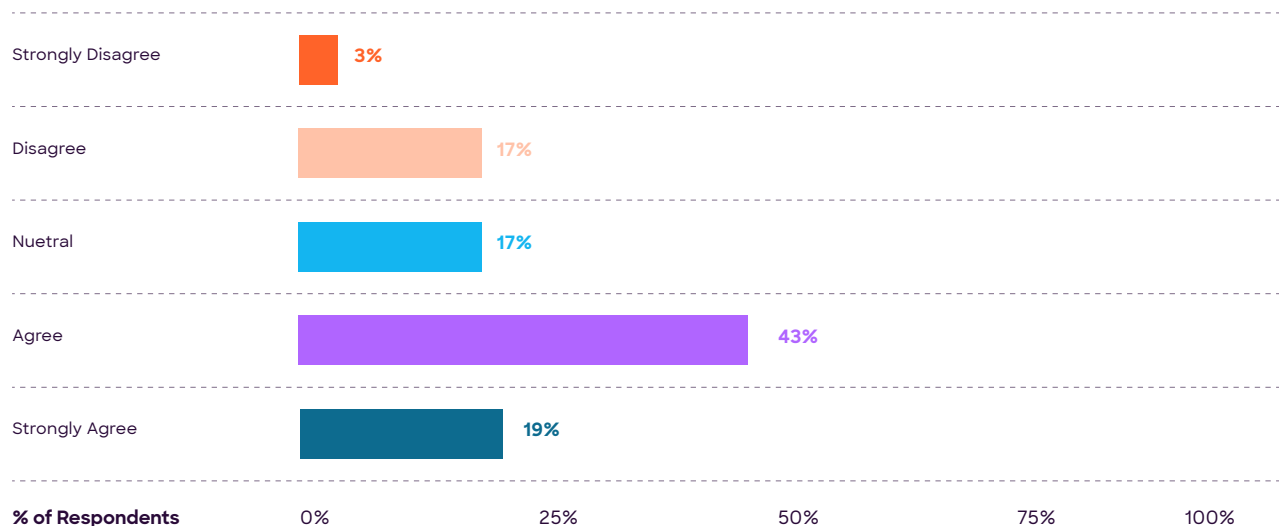
Responses

Strongly Disagree	3%
Disagree	17%
Nuetral	17%
Agree	43%
Strongly Agree	19%

% of Respondents 0%   25%   50%   75%   100%

Figure 1. Source: Indago survey, June 2021 (n=29)

One respondent

"At the moment, we take the tactic that delivery performance has a direct and substantial impact on customer experience and satisfaction, so everything we do is focused on making this more seamless or easier for the customer."[6]

Another member added

"As we provide a commodity product, delivery experience and customer experience are intrinsically linked. We provide a low-cost product, but the customer doesn't necessarily see a relationship between cost of product and cost of service; they expect the same delivery experience as a high value / high margin experience."[7]

[6] *Ibid.*
[7] *Ibid.*

Cost vs. Customer Experience: Finding the Right Balance

Based on findings and comments above, it is not surprising that **"To deliver an enhanced customer experience"** is (by a wide margin) the primary factor driving innovation in last-mile delivery at many companies today.

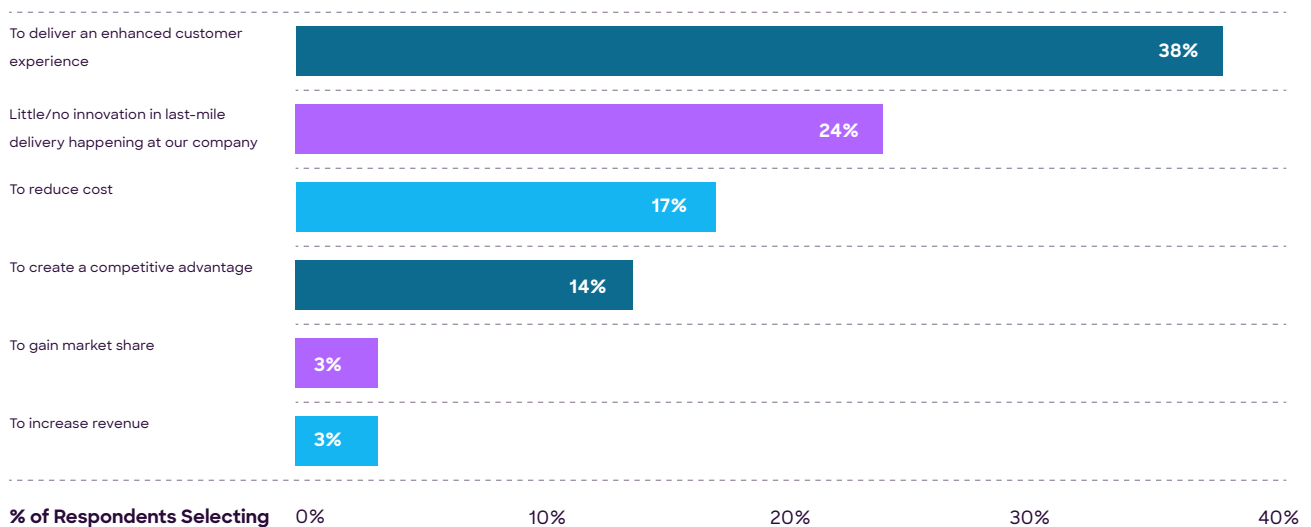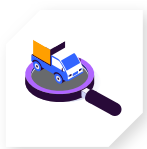**What is the primary factor driving innovation in last mile delivery at your company today?**

Factor	%
To deliver an enhanced customer experience	38%
Little/no innovation in last-mile delivery happening at our company	24%
To reduce cost	17%
To create a competitive advantage	14%
To gain market share	3%
To increase revenue	3%

% of Respondents Selecting 0% 10% 20% 30% 40%

Figure 2. Source: Indago survey, June 2021 (n=29)

CAPGEMINI STUDY

41%

Last-mile delivery is the biggest cost driver in the supply chain

(Interestingly, *"Little or no innovation in last-mile delivery is happening at our company today"* ranked second in our survey, which suggests some companies need to start looking at last-mile delivery seriously or else they'll be left behind.) The fact remains that companies have to take last-mile innovation seriously if they want to thrive in the present ecosystem where customer experience is king.

That said, managing costs is still very important. Last-mile delivery is the biggest cost driver in the supply chain, representing 41% of supply chain costs according to a Capgemini study.8

[8] *"The last-mile delivery challenge: Giving retail and consumer product customers a superior delivery experience without impacting profitability,"* Capgemini, January 2019

Therefore, the winners in last-mile delivery will be those that not only find a way to deliver an enhanced customer experience but do so profitably.

Finding the right balance between delivering an enhanced customer experience and controlling costs, however, is not easy. In fact, our Indago members ranked (also by a wide margin) *"Controlling costs of last-mile delivery as customer expectations become more stringent"* as the top challenge associated with last-mile delivery today.

What do you view as the top challenges associated with last-mile delivery today?
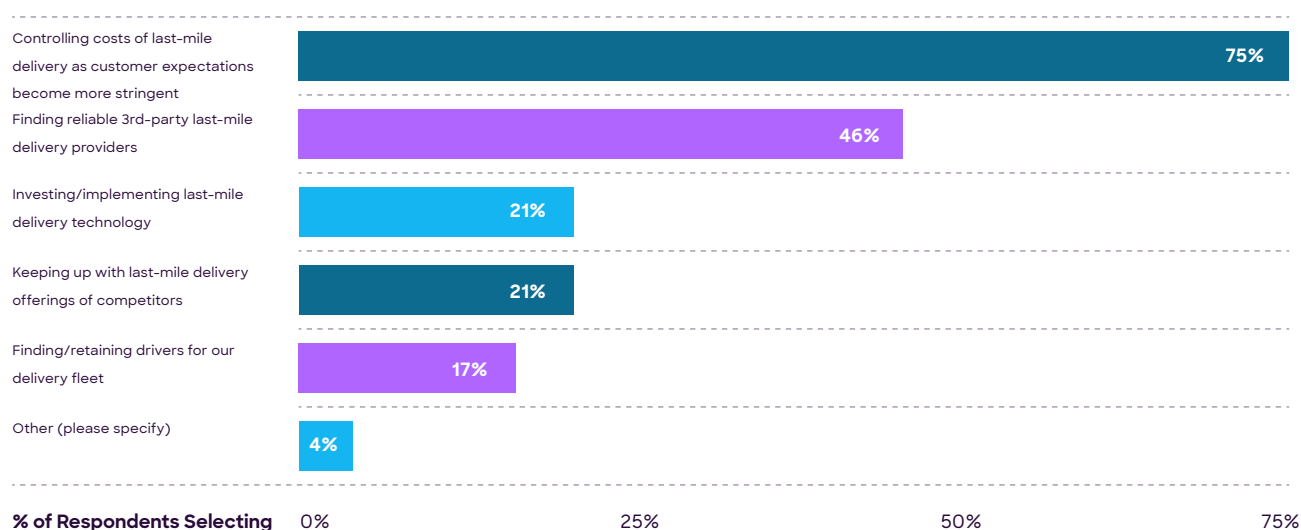Select 1-2 responses.

Controlling costs of last-mile delivery as customer expectations become more stringent	75%
Finding reliable 3rd-party last-mile delivery providers	46%
Investing/implementing last-mile delivery technology	21%
Keeping up with last-mile delivery offerings of competitors	21%
Finding/retaining drivers for our delivery fleet	17%
Other (please specify)	4%

% of Respondents Selecting   0%   25%   50%   75%

Figure 3. Source: Indago survey, June 2021 (n=24)

One Indago member said

"Real-time coordination across multiple selling, fulfillment, delivery planning, and delivery execution systems is a huge challenge for us. For us, it is about improving the customer experience at the expense of higher cost because our customer experience is poor compared to our competitors. Our ability to do more is dependent on the availability of technical resources to improve our existing systems or implement new ones."

Helping companies achieve the right balance between cost and customer experience, of course, is where technology comes in.

Which Last-Mile Technology Capabilities Are Most Important?

66%

rated Real-time Tracking/Visibility and Estimated Time of Arrival Notifications each as Extremely or Very Important.

Where is my order? When will my shipment arrive?

Those are the two most common questions customers ask, so it is not surprising that *"Real-time Tracking/Visibility"* and *"Estimated Time of Arrival (ETA) Notifications"* are the two most important last-mile delivery capabilities ranked by our Indago members. 66% of the respondents rated them each as Extremely or Very Important. More than half of the respondents (54%) also rated "Route Planning/Optimization" as Extremely or Very Important.

How would you rate the importance of the following last-mile delivery capabilities to achieve the greatest business benefits?
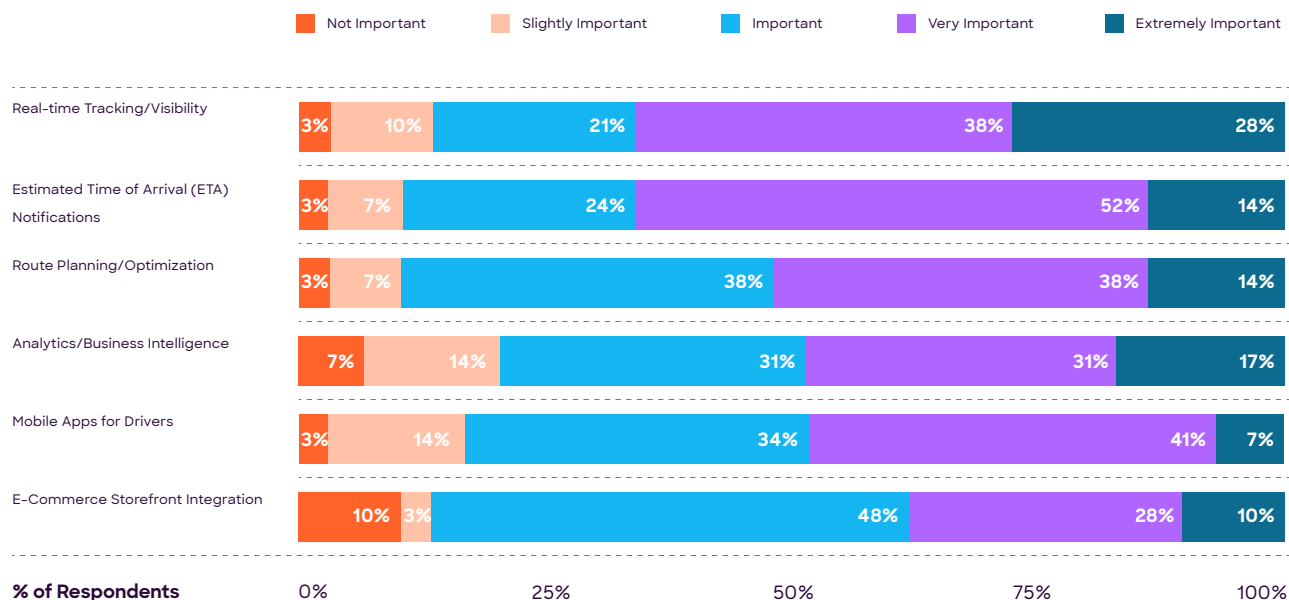
Capability	Not Important	Slightly Important	Important	Very Important	Extremely Important
Real-time Tracking/Visibility	3%	10%	21%	38%	28%
Estimated Time of Arrival (ETA) Notifications	3%	7%	24%	52%	14%
Route Planning/Optimization	3%	7%	38%	38%	14%
Analytics/Business Intelligence	7%	14%	31%	31%	17%
Mobile Apps for Drivers	3%	14%	34%	41%	7%
E-Commerce Storefront Integration	10%	3%	48%	28%	10%

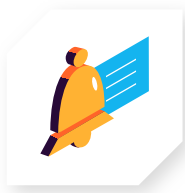**% of Respondents** 0% 25% 50% 75% 100%

Figure 4. Source: Indago survey, June 2021 (n=29)

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66%

rated Ability to provide customers delivery status notifications via text or emails as Extremely or Very Important.

Taking a closer look at how technology can help companies deliver an enhanced last-mile delivery experience for customers, the most important capability ranked by our Indago members was the *"Ability to provide customers delivery status notifications via text or emails"* (66% of respondents rated it as Extremely or Very Important). Rounding out the top three were "Ability to offer customers a variety of delivery fee options, including free" (63%) and "Ability to offer customers time-definite, narrow delivery windows" (46%).

When it comes to providing an enhanced last-mile delivery experience for customers, how would you rate the importance of the following capabilities?
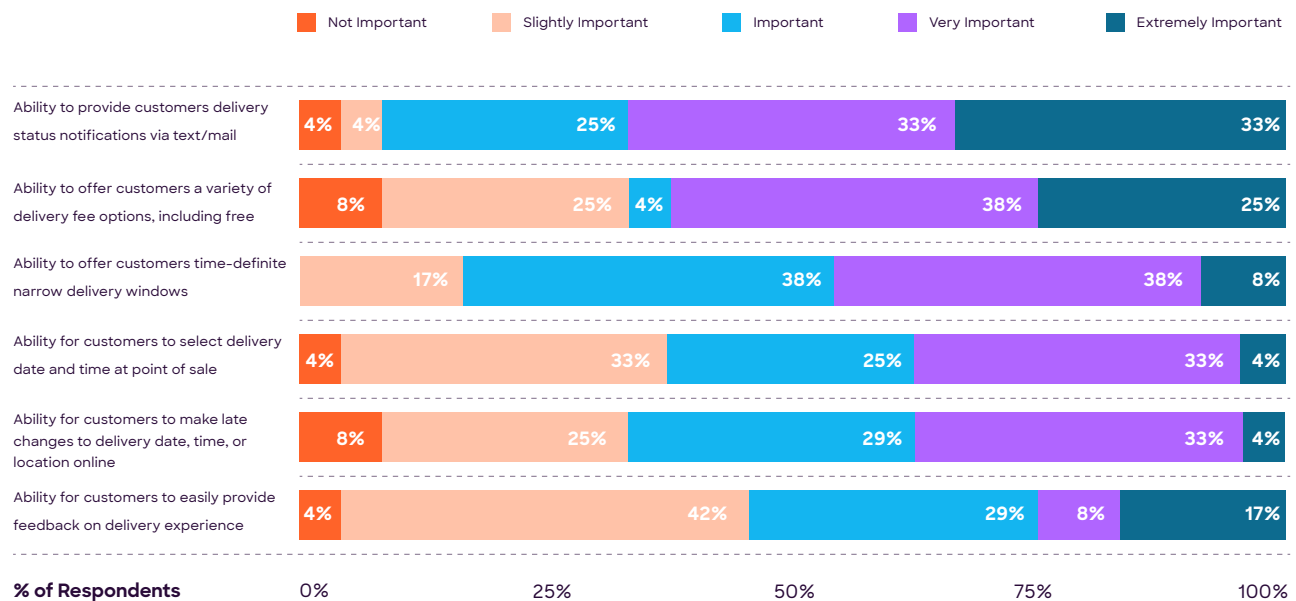
Legend: Not Important | Slightly Important | Important | Very Important | Extremely Important

Capability	Not Important	Slightly Important	Important	Very Important	Extremely Important
Ability to provide customers delivery status notifications via text/mail	4%	4%	25%	33%	33%
Ability to offer customers a variety of delivery fee options, including free	8%	25%	4%	38%	25%
Ability to offer customers time-definite narrow delivery windows		17%	38%	38%	8%
Ability for customers to select delivery date and time at point of sale	4%	33%	25%	33%	4%
Ability for customers to make late changes to delivery date, time, or location online	8%	25%	29%	33%	4%
Ability for customers to easily provide feedback on delivery experience	4%	42%	29%	8%	17%

% of Respondents 0% 25% 50% 75% 100%

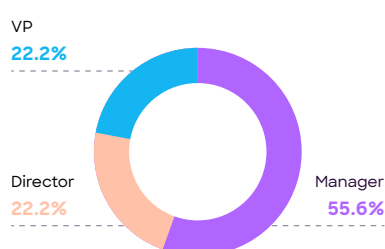*Figure 5. Source: Indago survey, June 2021 (n=24)*

All that said, when you look at both charts, virtually all of the capabilities listed were rated "Important" or higher by the majority of the respondents. In other words, companies need to consider all of these capabilities when evaluating last-mile delivery technology solutions because they're all important in providing customers with an enhanced delivery experience while also controlling costs.
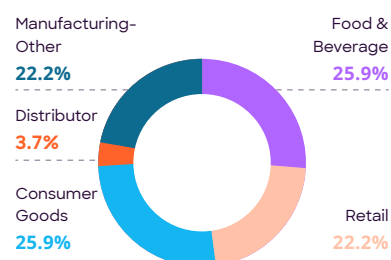
Additional Insights from Indago Members

As noted earlier, our Indago research community is composed of supply chain and logistics executives from leading manufacturing, retail, and distribution companies.

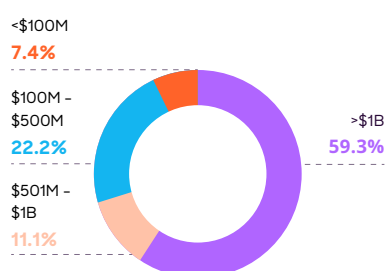**Here is a breakdown of the executives who responded to our survey.**
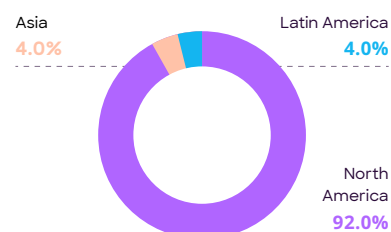
SENIORITY LEVEL

VP
22.2%

Director
22.2%

Manager
55.6%

INDUSTRIES

Manufacturing-Other
22.2%

Distributor
3.7%

Consumer Goods
25.9%

Food & Beverage
25.9%

Retail
22.2%

COMPANY SIZE

<$100M
7.4%

$100M - $500M
22.2%

$501M - $1B
11.1%

>$1B
59.3%

GEOGRAPHY

Asia
4.0%

Latin America
4.0%

North America
92.0%

Here are some other value-added comments our members shared with regards to last-mile delivery

"A top challenge is the people component, especially if the delivery person needs to interact in person with the customer. Also, many companies crowdsourcing deliveries are losing a valuable opportunity to control the interaction with the customer."

"The biggest challenges are driver shortages. The biggest capabilities will be those driven by tech enhancements and advanced algorithms that optimize driver networks in real-time."

"Last-mile delivery has been extremely difficult this year due to the capacity constraints and pandemic impacts roiling the industry. Customers who have waited months for their orders to ship are impatient when any issues arise in the last-mile delivery network. Providing them updates or visibility into their shipment has proved extremely important in maintaining customer expectations."

"Customer order patterns and delivery requirements are becoming more challenging. Being flexible and able to adjust on-demand is a differentiating factor for last-mile delivery. There is really no going back to a rigid delivery concept; it's all about enabling late changes and accommodating the evolving last-mile requirements."

"We offer final-mile delivery via a third-party partner that handles those deliveries. Providing a myriad of options that customers can tailor based on their needs has proven to be immeasurably valuable."

"As a distributor, last-mile for us is different because many of our last-mile deliveries are to construction sites. These locations have strict time requirements due to the scheduling of cranes and other off-loading support. However, the challenges we have remain the same as others: the ability to find drivers and keep the fleet operational."

Summary & Recommendations

An executive in our Indago research community summarized it best:

"Last-mile delivery is finally getting the attention it deserves. Since the delivery driver is the last person who touches the shipment before it reaches your customer it is important that they're representing your company in the same way your retail employees would. A bad delivery experience can sour a customer's perception of your brand."[9]

It is not surprising, therefore, that *"To deliver an enhanced customer experience"* is the primary factor driving innovation in last-mile delivery at many companies today. However, doing so while also controlling costs is the biggest challenge companies face.

The bottom line is that the winners in last-mile delivery will be those that not only find a way to deliver an enhanced customer experience but do so profitably.

Helping companies achieve the right balance between cost and customer experience, of course, is where technology comes in.

Recommendations

Customers are now at the center of the supply chain. Listen to them.

While there are many factors that are common across customers and industries, such as having real-time visibility to order and shipment status, your customers may have other unique or specialized expectations. Therefore, have your customers define what an enhanced delivery experience means for them and use their definition (not yours) as your guide.

[9] *"Revisiting Last-Mile Delivery," Indago survey, June 2021 (available to Indago members only).*

Last-mile experience is the only difference between brands. Understanding your last-mile delivery costs is important.

If you manage your own last-mile delivery operations, you know that there are many factors that contribute to last-mile delivery costs: driver salaries, vehicle maintenance costs, fuel, insurance, and so on. There are also "hidden" costs -- for example, the costs associated with not using optimized routes, which typically results in extra miles driven and having to use more vehicles and drivers than necessary. Developing a detailed understanding of your last-mile delivery costs and establishing a baseline will help you prioritize your cost management efforts; it will also help you develop the business case for investments, such as in technology, to drive continuous improvements.

Take a holistic view of your last-mile technology needs to make it proactive and resilient.

There are many important capabilities to consider when evaluating last-mile delivery solutions and vendors (too many to discuss here). But Figures 4 & 5 above provide several examples. There are two high-level categories of important capabilities: those linked with customer experience (e.g., ability to provide customers with delivery status notification via text or email) and those linked with reducing or controlling costs (e.g., route planning and optimization). Choose a technology platform that covers both categories and a technology partner committed to collaboration and driving continuous innovation in last-mile solutions.

Remember who is ultimately responsible for customer experience.

If you use a third-party logistics company to manage your last-mile delivery operations, remember that while you might be outsourcing the operations, you're not outsourcing responsibility; the buck ultimately stops with you, the brand owner. A poor delivery experience is a stain on your brand and reputation, not the brand and reputation of the logistics service provider. Therefore, make sure you select a third-party logistics partner carefully. They need to have the right people, processes, and technologies to meet your customer's expectations, and you need to work collaboratively together to keep driving continuous improvement.

Locus

Locus is a leading-edge technology company dedicated to solving the most challenging all mile problems in global logistics.

1020m+
Total deliveries optimized

12m+ kgs
Reduction in GHG emissions

$288m+
Savings in logistics costs

GROWTH, DELIVERED.

Know more