



# SPEND MANAGEMENT experts

## Global Small Parcel Outlook – 2<sup>nd</sup> Quarter 2019

### *Redefining the Last Mile*

The Last Mile, what it is, where it is and who does it, has evolved over the years thanks to e-commerce. Growing at double-digits annually, e-commerce is always on. We can order groceries, office supplies or a dress anytime whether it's at 2:00 am or 2:00 pm and anywhere including our home, the office or sitting on the beach. We, as a society, are constantly on the go and consequently, expectations of delivery time has been greatly reduced over the years, from five to seven days to next day and even same day.

The result of faster delivery times as well as 'free shipping' expectations has helped to increase Last Mile costs. As a percentage of logistics costs, it can contribute anywhere from 30% to over 50% of the total.

As the largest portion of logistics costs, carriers and shippers alike are focused on lowering Last Mile costs. Methods they are using to do this include offsetting costs via surcharges and by setting a minimum purchase price for online customers to receive free shipping, or, by reconfiguring the location of the Last Mile.

The reconfiguration of the Last Mile has captured not only the attention of startups, but it also has helped to redefine the space whether it's Buy Online Pick Up in Store

(BOPIS), lockers or other alternative delivery locations. In our latest global small parcel white paper, we take a look at how the last mile is changing.

“One size definitely does not fit all. Instead, it's all about customization, speed and efficiency”

**John Haber**  
Founder & CEO  
Spend Management  
Experts





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## Buy Online Pickup in Stores (BOPIS)

Independent studies show that a large majority of shoppers have picked up online orders in stores and many of these same shoppers are also willing to remain loyal to brands who offer such a service. Walmart, Target and most retailers with physical stores now offer BOPIS and have also extended this service to help manage returns as well.

For retailers, buy online with the option to pick-up or return to the store is much more cost effective versus paying shipping charges or added fulfillment costs. An additional bonus is the high possibility for a consumer to make an additional purchase while in the store. More retailers are now marrying their online presence with their physical to encourage more footprints into stores and as a means of competing against what has become known as the elephant in the room – Amazon.

### Amazon

Amazon has also embraced physical locations. Its acquisition of Whole Foods in 2017 provided not only physical locations but also allowed it to gain market share in the fiercely competitive grocery business. Also, in 2017, Amazon and Kohl's began a collaboration in which Kohl's stores would accept Amazon returns. Today, all 1,100 Kohl's stores are part of this initiative. "The nationwide rollout of the Amazon Returns program is our single biggest initiative of the year," said Kohl's chief executive officer Michelle Gass.

In addition to its Kohl's relationship, Amazon announced a new service called Counter with Rite-Aid as its first partner. When a package arrives at a store, the customer will get an email notification. Once in the store, the

customer shows an employee a barcode, and the employee scans it, finds the package and hands it over. By the end of 2019, the service is expected to be available in 1,500 stores. Amazon is also looking to get other retailers, including small businesses, to join the program as it expands.





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Lockers also continue to be a popular alternative delivery option. Amazon introduced its locker network over seven years ago, and recently expanded its locker network into apartment lobbies. Known as Hub, the lockers will accept packages not just from Amazon but from any sender, shipped via any carrier. Amazon further extended its locker network upon the purchase of Whole Foods by placing lockers in various Whole Foods locations.

## Other Retailers

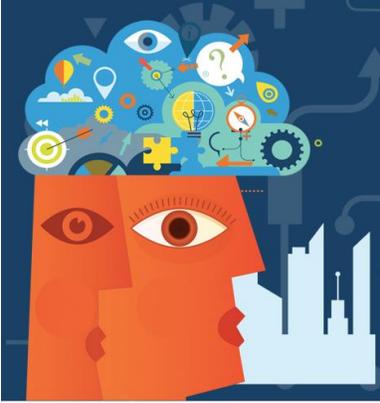
Home Depot has remodeled some stores to create separate pickup areas with lockers that customers can unlock with a government identification and an order number.



Walmart said it has added hundreds of 'pickup towers' in stores, while Target's 'Order Pickup' and 'Drive Up' options in stores grew more than 60 percent during the crucial Christmas holiday season and accounted for at least quarter of the company's overall digital sales.

Similarly, Best Buy has said more than 40 percent of its online sales involve in-store pickups. The electronics chain also provides dedicated parking spaces for such customers.

"Store pickup is certainly convenient as 70 percent of Americans live within 15 minutes of a Best Buy store and millions of people drive past one of our stores each day on their way to and from work," a Best Buy spokesman said.



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## Alternative Delivery Locations

### FedEx and UPS

With delivery companies facing rising e-commerce volumes, alternative delivery locations are increasing in popularity. Not only are these locations increasing in popularity by consumers, they are being encouraged by delivery companies as a less expensive way to pick-up and deliver packages. By handling a single group of packages at once, the costs for FedEx and UPS are much lower versus door-to-door residential solutions.

“FedEx could reduce their costs to serve as the more expensive single piece Residential Deliveries can now be moved to multi-Piece Commercial Deliveries via Dollar General. In addition, this will greatly cut down driving costs between Rural and Super Rural Residential stops. Plus, it can also create an opportunity to deliver packages on the first try instead of performing three attempts for Not-In shippers and receivers.”

**Paul Steiner**  
Vice President of Strategic Analysis  
Spend Management Experts

### FedEx

FedEx's Onsite program includes convenience stores and other neighborhood stores as pick-up and drop-off locations. Among the retailers included in the program are Albertsons, Randalls, Safeway, Vons, Jewel-Ocsco and Shaw's. In early 2017, Walgreens joined the list by announcing it would provide access to FedEx drop-off and pickup services at Walgreens locations across the United States.

In 2018, FedEx announced it would add 8,000 Dollar General Stores to their network of package drop-off, return, and hold-for-pickup options.

The FedEx and Dollar General partnership should benefit the retailer, the customer and the carrier. According to Kantar Retail, about 73% of rural consumers—defined as those who drive at least 10 miles for everyday shopping—are now buying online versus 68% two years ago. In 2015, 30% were members of Amazon Prime, up from 22% in 2014. A WSJ article from 2016, E-Commerce Is a Boon for Rural America, but It Comes with a Price, notes that while e-commerce is great for rural America, it is expensive for retailers and delivery companies.



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## UPS

UPS introduced its alternative delivery location service, Access Points, over five years ago. Since then, it has grown world-wide. However, its most significant expansion occurred when the company announced its second quarter 2019 earnings that it would expand by 12,000 additional locations across CVS Pharmacy, Michaels and Advance Auto Parts stores. As a result, more than 90 percent of U.S. consumers will find a UPS Access Point location within five miles of home.

## At What Cost?

As our CEO, John Haber emphasizes, “one size does not fit all” and indeed, in today’s environment, it’s about convenience for the customer and speed for the carrier. ‘Free Shipping’ has become an expectation and a way for retailers to remain competitive. However, retailers are already operating at razor-thin margins and just in case you don’t know, ‘Free Shipping’ is not really free.

Providing alternative delivery locations such as lockers or in-store pick-up are ways for retailers to lessen the financial impact of free shipping. For carriers, alternative delivery locations are beneficial as well because they cost less and help speed up delivery times.

While it’s important to keep costs manageable while remaining competitive, John believes that ‘free shipping’ is not sustainable.

“Right now these companies are just subsidizing it and I just don’t see how it can continue over a long time period.”

**John Haber**  
Founder & CEO  
Spend Management Experts

Spend Management Experts provides strategic guidance, cost modeling technology and deep market intelligence to help companies optimize their transportation, distribution and fulfillment spend. We help large shippers reduce spend across the supply chain by 20% or more through reduced distribution and fulfillment costs, increased operational efficiencies, dynamic reporting, greater budgeting and forecasting accuracy and optimized supply chain execution. We leverage our proprietary models to identify savings opportunities and build negotiation strategies based on data and meaningful business cases. This is a fresh approach from industry experts to provide clients with straightforward details on exactly how savings are derived.

Spend Management Experts is your competitive edge, delivered.

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