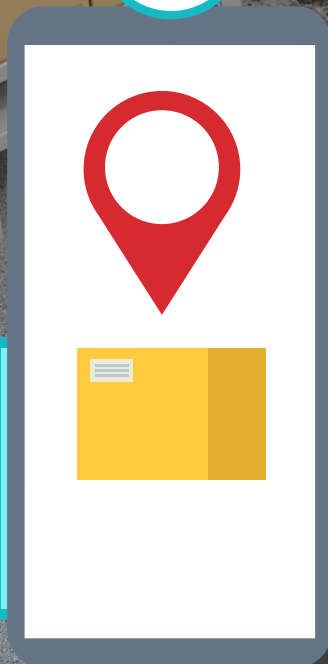


MASTERING THE LAST MILE:

HOW TO BUILD A
TECH ECOSYSTEM
THAT CREATES
GREAT CUSTOMER
EXPERIENCES

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TECH GUIDE



INTRODUCTION

Shoppers are turning to ecommerce more than ever, and retailers need to strengthen their last mile operations to keep up with growing demand. Even shoppers that used online channels for less than **25%** of their purchases prior to the pandemic are embracing the convenience of delivery, ultimately **increasing their number of online purchases by 343%**, according to a [survey by Accenture](#).

“Ecommerce is not slowing down,” said Sean Whitehouse, Managing Director of Strategy & Consulting, Supply Chain & Operations, Retail Lead at [Accenture](#) in an interview with *Retail TouchPoints*. “We’ve talked about this for a while now and it was accelerated by COVID. As we get back to more traditional work settings, where that order is delivered may change from home to work and other places, **it might become more flexible as we start traveling and moving, but they’re still going to want delivery.**”

Retailers will feel the most pressure of increased ecommerce volumes during the holiday season, when orders will likely exceed capacity and maintaining accurate delivery windows will become even more essential. That is why now is the time for retailers to strategize and adapt their last mile experiences for the short- and long-term future of ecommerce.

Key imperatives include:



1. Meet new last mile expectations

Elevated ecommerce levels combined with a tight labor market can make it difficult to adhere to delivery windows, so retailers must develop accurate, transparent operations that can manage spikes in demand.



2. Optimize the entire delivery ecosystem

Retailers’ last mile operations span suppliers, warehouses, third-party partners and internal capabilities. Maintaining fast, efficient deliveries means finding the right balance to utilize all these options in tandem.



3. Build delivery density to fuel efficiency

Retailers have more granular insight into demand than ever before, which gives them the opportunity to dig into neighborhood-level data, shrink delivery windows and create more efficient routes.

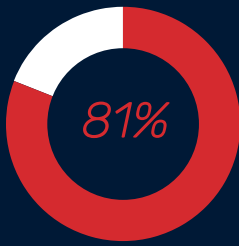


4. Use AI and ML to their full potential

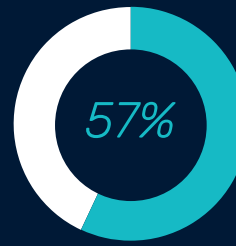
Artificial intelligence (AI) and machine learning (ML) are becoming an everyday part of retail operations, and their last mile applications are essential to bringing the entire operation together and ensuring it runs smoothly.

LAST MILE INVESTMENTS ARE ON THE RISE

Elevated ecommerce levels are leading to increased retail investment...



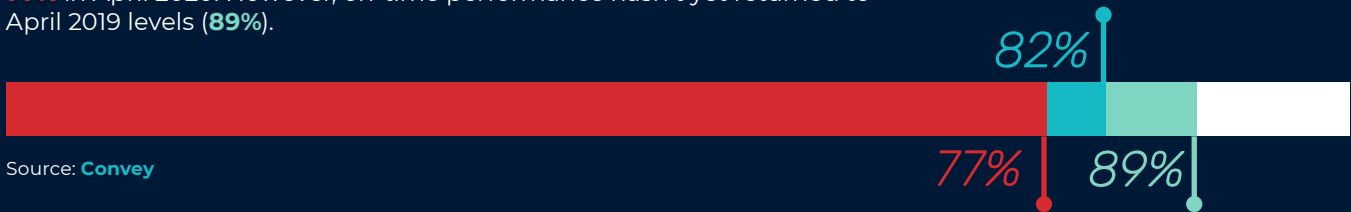
81% of retailers are planning to increase investment in more complex last-mile initiatives over the next 12 months.



57% of retailers have added at least one delivery partner or carrier in the past year.

On-time deliveries are increasing, but still not at pre-pandemic levels.

82% of parcel shipments were delivered on time in April 2021, up from **77%** in April 2020. However, on-time performance hasn't yet returned to April 2019 levels (**89%**).



Source: [Convey](#)

ACCURACY: THE FOUNDATION FOR A GREAT DELIVERY EXPERIENCE

The opening of stores will ease some of the last mile pressure retailers felt last year, but ecommerce volumes are expected to remain permanently elevated to some degree. That means capacity will likely be stretched to its limit for the **second** year in a row as the **labor crunch** adds additional challenges, and this time retailers won't have pandemic conditions to blame if packages start turning up late.

Retailers need to make accurate delivery promises, and now is the time for them to figure out what can be offered, particularly for free. After all, experts note that it's better to offer longer but cheaper and more accurate delivery windows than to try to maintain a two-day guarantee that simply can't be met in a profitable way.

"There's nothing worse than thinking you're going to get [a product] on day two and it turns up on day three," said Tom Enright, Vice President in the **Gartner Supply Chain** practice in an interview with *Retail TouchPoints*. "That feels like you've been let down. I think the important thing here is that there's a big difference between the speeds that retailers make available and the speeds that consumers choose. For many years now we've seen, in whatever survey you look at, north of **70% of consumers say that they want to avoid shipping charges and take action to do so**. That typically means that they're going to be waiting three days or longer."

Getting the timing right means perfecting the entire last mile process from checkout right through to the delivery itself. The internal preparations are particularly important — setting expectations on the checkout page, like free shipping minimums, is a vital but deceptively tricky task. Establishing a baseline will prevent disappointment, but sticking to that promise requires coordination across the entire last mile journey.

"**The first thing you can do at the point of order creation is set customer expectations** as to when the product is going to be there," said Jerry Sheldon, Analyst at **IHL Group** in an interview with *Retail TouchPoints*. "I think we live in a day and age when that almost feels like table stakes. It's not always, and it's very complicated. It's complicated now, but when we get into November and December there are a lot more factors that impact deliverability, so it gets *really* complicated."



LAST MILE IS ITS OWN ECOSYSTEM – BRING IT INTO BALANCE

Every retailer's last mile strategy is a complex collection of in-house capabilities and third-party partners encompassing software, real estate, vehicles and communication with the customers themselves. The most important step in optimizing the last mile is **ensuring every piece of the operation is working in tandem with all the others**, creating a healthy ecosystem where each part supports the other to create a greater whole, with updates available in as close to real-time as possible. The more control and understanding you have over potential delivery options, the more you can add to the network to create additional efficiency.

"Delivery optimization is not some new term — it's been around forever — but what the actual solution needs to do is super complex," said Whitehouse. "It has to take all those different potential carriers, all the inputs of orders that are constantly flowing in. It's not like you can say, 'I'm going to queue it, here's all our orders for today.' You've got today's orders, you've got some expedited orders coming and all that stuff, and then to manage all that, communicate with the consumer and tie it back to the other aspects of your organization — that's super hard to do."

The process of ensuring that every tool is working, that deliveries are made on time and shoppers are properly informed is "founded on having **a really solid order management system**," according to Sheldon. A last mile initiative that meets shopper expectations will leverage warehouses as well as stores, supplier drops, third-party delivery services and even partnerships with other non-competing retailers. Making sure that every order is fully transparent can both minimize potential problems and make clear communication easier.

Retailers also can benefit from plugging their third-party partners directly into the overall delivery ecosystem, according to Enright. This can help retailers better understand which providers have capacity available in certain areas and times as needed to help optimize capacity during delivery spikes.



EFFICIENT DELIVERY NETWORKS IMPROVE THE BOTTOM LINE... AND THE ENVIRONMENT

Once retailers have greater control over their ecosystem, they can better determine where orders are coming from at a more granular level. This ultimately empowers them to make more deliveries using less capacity. Retailers can choose the best facility to handle any given order, whether it be a major distribution center or a local store. **Minimizing the distance and maximizing the number of orders that go out together can help retailers stretch the resources they have even further.**

Truly taking advantage of this opportunity means bringing the shoppers themselves on board. The right incentives can make customers in a given area willingly cluster their delivery windows together, saving money for the retailer and providing benefits for the recipient — including reducing their overall environmental impact.

“We’re already going to be in your area next Thursday but not next Wednesday, so why don’t you choose Thursday shipping, and we’ll make sure we get it to you in the afternoon?” said Enright. “Turn the choice that the consumer has to make into something that’s less static and a bit more dynamic. It’s based on principles around order consolidation and reducing the number of trucks on the road, reducing packaging and reducing CO2. There’s a growing band of conscious consumers who are interested in that sort of dialogue.”

In the longer term, retailers should look for additional ways to build density through the use of micro-fulfillment centers like dark stores, or even reformatting less successful active stores to have greater delivery capabilities. Dense urban areas in particular can benefit from having multiple smaller staging areas for fast deliveries.



“I think over the next two to five years the growth of micro-fulfillment centers is going to be explosive. You’re going to see it in grocery, and you’re going to see it in general retail to an even greater extent. You don’t have the freshness issues, you don’t have the spoilage issues and you don’t have the refrigeration issues in general merchandise that you might have in the grocery space, so we expect much activity in the general merchandise micro-fulfillment space. I think that’s going to help alleviate some of the challenges with the massive volumes that we’re getting.”

— Jerry Sheldon, *Analyst*, **IHL Group**



AI AND ML ARE WHAT TIES THE SYSTEM TOGETHER

The final, perhaps most critical piece of the puzzle is the software that ties the wide-ranging requirements of an efficient last mile together: artificial intelligence and machine learning. These tools have applications across the entire retail operation, but companies shouldn't sleep on the specific benefits they can provide to last mile efforts in particular.

For instance, demand forecasting is nothing new, but there is plenty of room for retailers to further develop their capabilities in this area. This is particularly important for building density. It's not enough to know Chicago is seeing a spike in orders; understanding which neighborhoods are seeing a lot of activity can help retailers optimize delivery routes and align more orders into that particular window, according to Accenture's Whitehouse.

Retailers also should consider how other applications of AI can benefit the last mile. For instance, a smoother overall customer journey powered by relevant recommendations and accurate sizing can reduce returns, freeing up capacity across the enterprise.



"Delivery puts pressure on the last mile supply chain, but returns also put pressure on the last mile supply chain. There are a lot of great AI tools for that. If I could do a better job of getting the right size product match to the customer's specific stylistic or fit and finish requirements, then I can also reduce a lot of the stress on the supply chain."

— Jerry Sheldon, *Analyst*, **IHL Group**

ACCEPTABLE ORDER WINDOWS KEEP GETTING TIGHTER

Years of two-day and next-day deliveries from **Amazon** and other major retailers have taken their toll on shoppers' patience for long waiting periods. Retailers need to strategize methods for keeping their delivery times **under five days** while still making free shipping available as often as possible without harming the bottom line.

"You're getting to the point now where **you can't get outside that four- to five-day window at peak. Outside of peak, really the norm is two to three days,**" said Whitehouse. "At this point, table stakes are two to three days and then of course depending on product segmentation or customer segmentation that drops down even more."

One way to make up for slower deliveries during the holidays is to temporarily reduce the free shipping threshold. This can simultaneously make up for the inconvenience and incentivize shoppers considering a gift that might not quite clear the usual minimum.

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