

A professional woman in a blue hard hat and a red and blue safety vest is looking down at a tablet device she is holding. She appears to be in an industrial or construction setting, with a blurred background showing structural elements.

SOLVING LAST MILE DELIVERY AND FULFILLMENT CHALLENGES THROUGH TECHNOLOGY

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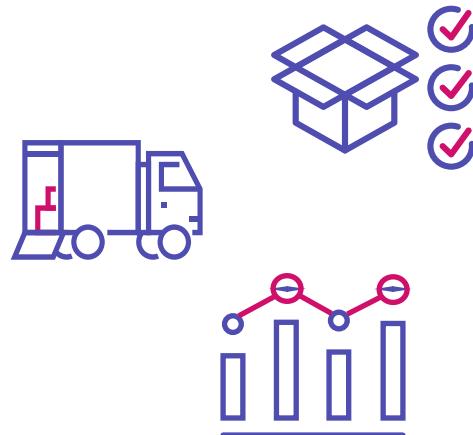
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One of the biggest questions for retailers today is how to manage the full customer experience from pre-purchase sales and marketing (both online and in-store) to order fulfillment including warehousing, last mile delivery and returns. While pre-purchase technologies have historically garnered substantial attention, retailers are now keenly focused on order fulfillment technologies as they look for ways to retain customers, build brand equity, lower costs and diversify and strengthen their supply chains. In times of uncertainty, having the ability to access multiple product and transportation vendors gives retailers the flexibility to change based on consumer and market demands. Winners are diversifying and those that invest in and adopt new technologies will be more competitively positioned to thrive as technology, data and connectivity become the new battlefield in retail.

Two technologies every retailer should consider include:

1

Last mile delivery management that allows for more data, insights and options in an increasingly expensive and problematically complex part of the value chain for retailers.



2

Dropship fulfillment technology that allows retailers to expand product assortment and offer marketplace capabilities while maintaining control of the customer experience.

THE FUTURE OF RETAIL WILL BE DRIVEN BY TECHNOLOGY, DATA, AND CONNECTIVITY.

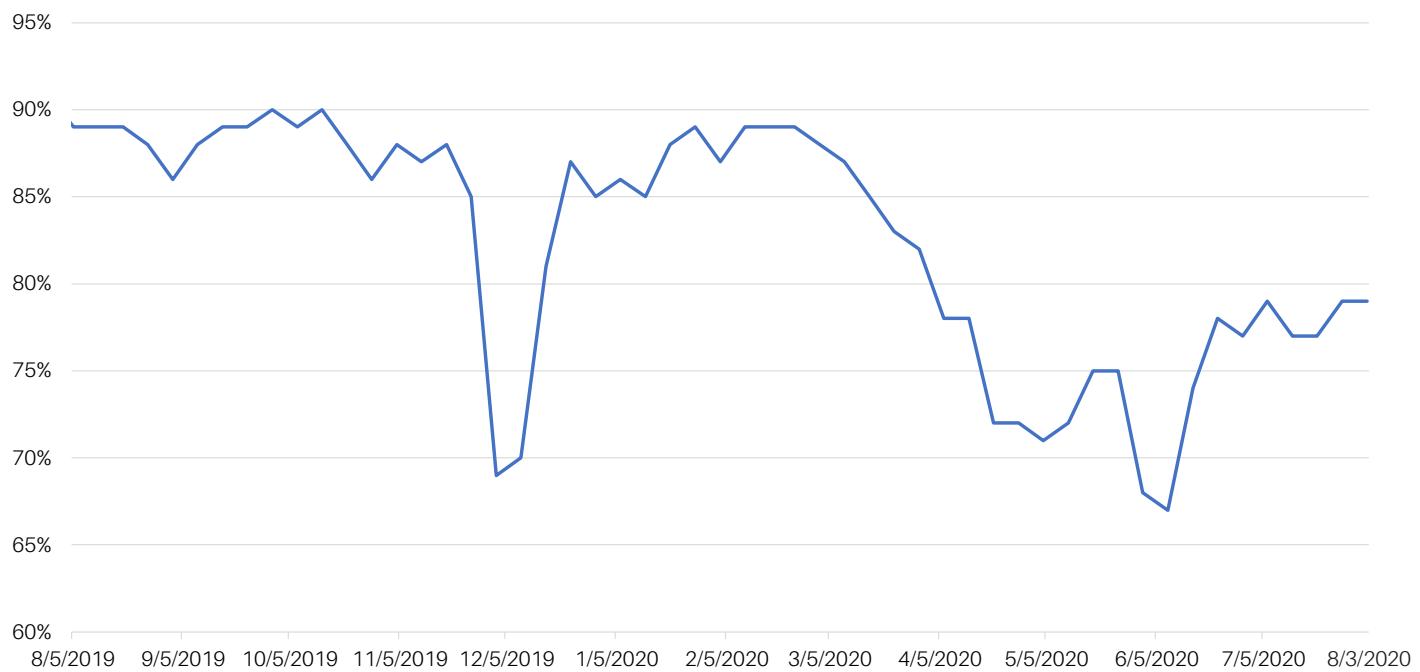
1. LAST MILE DELIVERY MANAGEMENT

Delivery networks are complicated and data on visibility and performance is scarce. Nearly all retailers (except Amazon) outsource 100 percent of last mile delivery to national carriers such as UPS, USPS, and FedEx, or regional carriers such as OnTrac, Speed-Dee, and Lone Star Overnight. Alternatively, some retailers opt to outsource their entire order fulfillment operations to large 3PL (third-party logistics) providers such as Radial and IngramMicro or smaller providers such as ShipBob. Innovations like buy online pick-up-in-store (BOPIS), curbside pick-up, and ship from store delivery further complicate the picture and drive the need for investment in technology.

IMPROVED ON-TIME DELIVERY

On-time delivery rate is a key measure of order success. On-time rates are calculated against performance to the carrier-provided estimated delivery dates. On-time delivery rates have fallen since COVID began, as last mile delivery networks have become strained by accelerated e-commerce sales.

Figure 1 - On-time Delivery Rates (%)



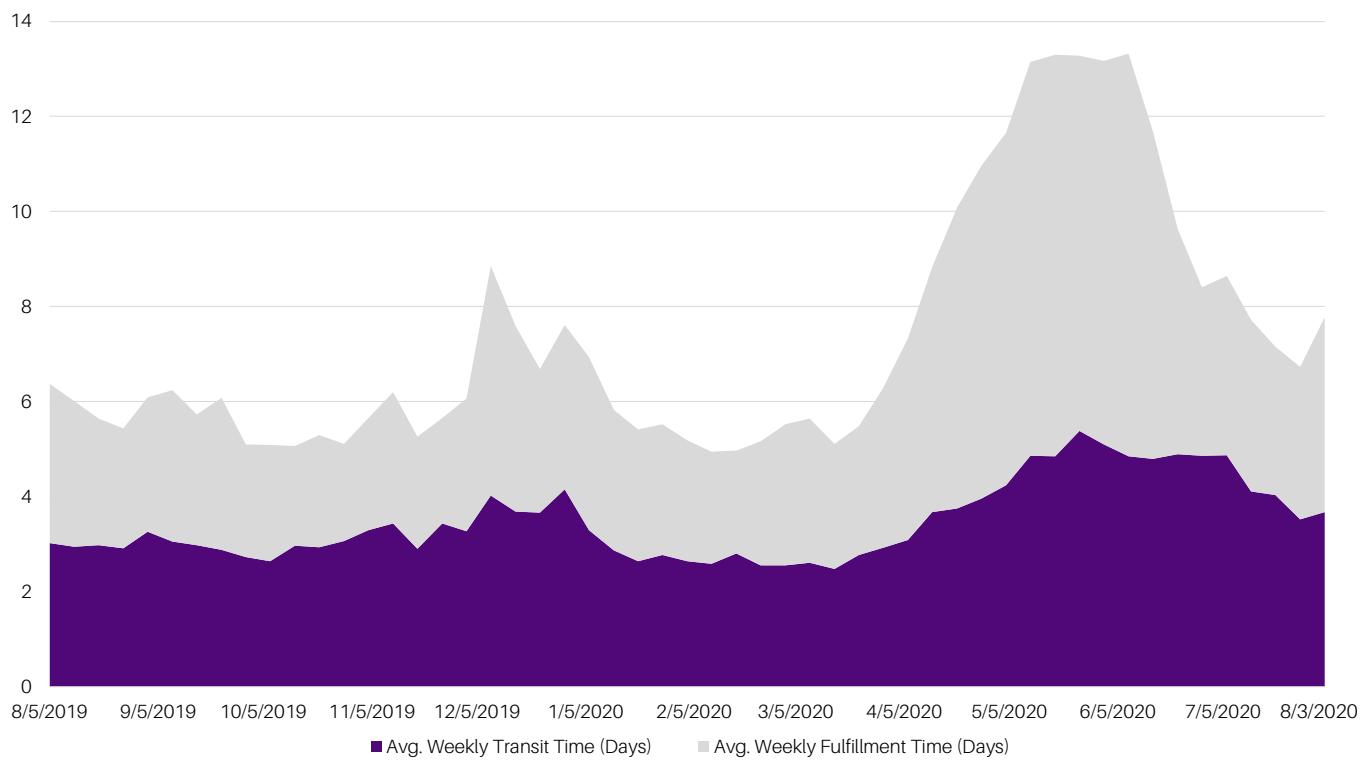
Source: Convey.

BETTER CLICK-TO-DELIVERY PERFORMANCE

Click-to-Delivery is a key measure of efficiency. It captures both fulfillment time - the time it takes from when a customer places an order to when it is picked up by the carrier – and transit time – the time it takes from when an order is picked up to that order being delivered to the customer.

Understanding Click-To-Delivery is critical as it measures actual performance impacting the customer versus advertised performance highlighted by competitors.

Figure 2 - Click-to-Delivery



Source: Convey. Data compiled from ~18 million deliveries between August 2018 and August 2019;
Retailers represent primarily Mass Merchant and Apparel categories

Figure 2 (above) shows that order fulfillment and delivery operations have begun to revert to pre-COVID levels but remain elevated given the strain on the system (similar to what is typically observed during the holiday shopping season). For real time updates on fulfillment and last mile delivery times, see [Convey's Network Pulse Dashboard](#).

MORE LAST MILE DELIVERY ALTERNATIVES

Once the data is collected and monitored, retailers should consider additional carrier options to drive down the cost of delivery and improve performance. Last mile freight TMS (Transportation Management Software) helps optimize delivery of bulk goods, while Multicarrier Shipping Software (MCSS) helps optimize delivery of parcels. Both solutions should be considered in any planning process.

2. DROPSHIP FULFILLMENT TECHNOLOGY

Dropship fulfillment technology allows retailers to expand product assortment available online while maintaining control over the customer experience. This order fulfillment capability is more critical now than ever as retailers look to expand marketplace offerings as consumers are buying more online since COVID. Dropship allows retailers to capture additional share of consumers' wallets without being burdened by additional warehousing and inventory costs, resulting in further supply chain strength and diversity.

DROPSHIP FULFILLMENT PROGRAMS EXPANDING

Many retailers are experiencing great success with dropship fulfillment and it is expected that other retailers will follow suit in the coming years.

Figure 3 - Retail Dropship Programs



Macy's sales fulfilled through dropship increased more than 60% from 2018 to 2019, with the program now responsible for more than 13% of Macys.com's sales



Wayfair utilizes thousands of dropship suppliers who fulfill 95% of the products Wayfair sells on its website



REI began dropshipping in October 2019 in order to expand its online offerings by providing customers access to more sizes and products



Amazon insources 100% of its dropshipping and offers over 12 million products (more than 350 million including Amazon Marketplace)



Kohl's began a partnership with Dsco in July 2019 to support its dropship supplier network



Lowe's has a standing relationship with Zycus Supplier Network to manage its dropship program

Source Publicly available information.

ASSESSING DROPSHIP FULFILLMENT TECHNOLOGY OPTIONS

Dropship fulfillment technology comes in many forms and should be assessed based on a retailer's specific needs. Four major technology components are needed for dropship fulfillment.

Figure 4 - Dropship Fulfillment Technology Components

COMMERCE NETWORK

Web-based commerce network that connects buyers and suppliers and enables seamless transmission of documentation in any form

ORDER / INVENTORY MANAGEMENT

Real-time visibility of inventory and order status from suppliers

PLATFORM

System to accurately store and syndicate product information across channels which makes the product information available to the retailer

Solutions that allow the supplier to ship and manage product on behalf of the retailer with control tower capabilities, so the retailer can seamlessly manage the customer experience

PRODUCT INFORMATION MANAGEMENT

DELIVERY MANAGEMENT

CONCLUSION

The future of retail will be driven by technology, data, and connectivity. All retailers should be actively looking at pre-purchase and order fulfillment technologies to ensure their capabilities are competitive. In addition, commerce, supply chain, and logistics companies should consider adding these technologies to their solutions through partnership or M&A to capitalize on opportunities in last mile delivery and dropship fulfillment.

PJ SOLOMON is available to discuss technology options, partnerships or M&A alternatives to help businesses competitively position themselves for the future of retail.

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Jason recently advised 3Gtms, a leader in transportation management software, on its sale of a majority stake to SumeruEquity Partners; Körber AG on its acquisition of HighJumpSoftware, a leading US-based warehouse management software and cloud solutions specialist; Michelin on its €520 million acquisition of Sascar, Brazil's largest digital fleet management company; and Vivint, a leader in smart home technologies, on its \$2 billion sale to Blackstone.



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