


# How last-mile strategy could be your biggest competitive advantage

Strategy realized

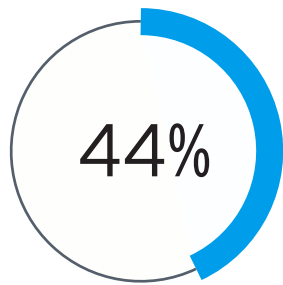




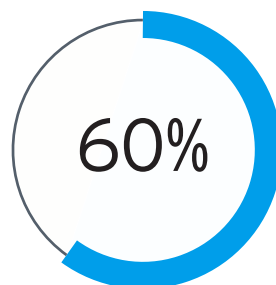
Changing market conditions, supply chain disruptions and the effects of the pandemic have driven customers to prioritize convenience and safety. Customers have increasingly driven many businesses to significantly expand their direct-to-consumer capabilities. These trends are expected to continue for years to come.

As consumer buying behavior trends toward shorter delivery times, companies can build a competitive advantage by strengthening their last-mile strategy. In the US alone, e-commerce retail sales revenue increased by 27% in 2020 from 2019. Additionally, 57% of retail customers are visiting stores less frequently, and 38% of customers plan to shop online for products previously bought in stores.<sup>1</sup> It is important that supply chain and other C-level executives in strategy, e-commerce and marketing consider last-mile strategy as a critical factor in capital and operational decisions as companies look to adjust their business and operating model.

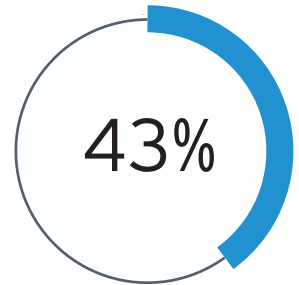
As companies navigate continuously evolving customer expectations, many may look to buy, build or partner through an informed asset strategy to develop a competitive advantage across last-mile capabilities.



44% of customers say availability of delivery has become more important in guiding their purchases



60% of customers are currently visiting brick-and-mortar stores less than before the pandemic



43% of customers shop more often online for products that they would have previously bought in stores

Source: EY Future Consumer Index

## Three primary components drive last-mile innovation

Last-mile requirements continue to evolve as companies address increasing customer expectations while balancing capital efficiency and capability

enhancements. Based on the sector, there exist varying challenges that companies must address to meet increasing customer service-level requirements.

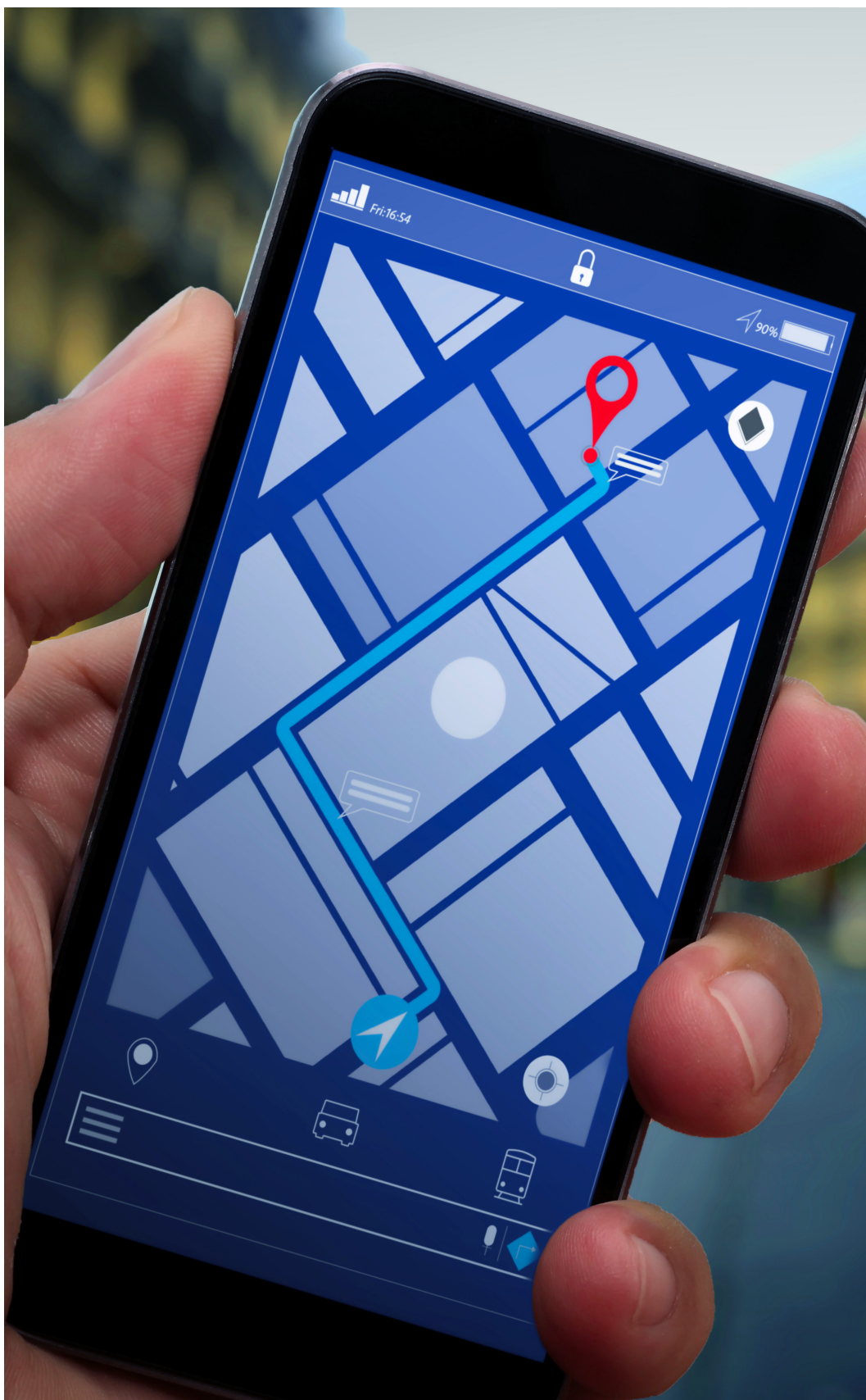
<b>1</b>	<b>Last-mile fulfillment:</b> Preparing an order for delivery. Issues may include pick-and-pack complexity; reliance on warehouse labor vs. automated solutions; and nontraditional order fulfillment assets, such as internet of things (IoT), robotic picking, automated guided vehicle (AGV), etc.
<b>2</b>	<b>Last-mile transport:</b> The movement of goods through to the customer. This may include using the latest technology (e.g., autonomous vehicles/drones) while managing the complexity/cost of moving goods, the increasingly demanding requirements of faster deliveries and tighter delivery windows.
<b>3</b>	<b>Last-mile delivery:</b> The activities necessary for the customer to obtain the goods purchased. Customers demand more flexibility, timeliness of delivery, reliability and customer service through varying delivery models, such as climate control, same-day location changes, white-glove home delivery or seamless returns.

<sup>1</sup> Source: EY Future Consumer Index, February 2021

## Potential risks from lack of last-mile investment

Failing to address last-mile delivery considerations can expose companies to a number of adverse effects:

- ▶ Margin erosion to support flexibility and increased service level
- ▶ Loss of customer base driven by not meeting required service levels
- ▶ Risk of pure play e-commerce players by passing intermediaries and going direct to consumer
- ▶ Risk of not building the direct relationship with the end consumer (e.g., consumer packaged goods (CPG) companies)
- ▶ Lack of available assets to support future growth (drivers, vehicles, real estate, etc.)



# Last-mile delivery sector-specific considerations

Note: Last mile, within this context, is focused on delivery directly to end customers or consumers for each industry.

<p><b>Consumer products</b></p>	<ul style="list-style-type: none"> <li>▶ Customer demanding increase service levels and flexibility (e.g., same-day delivery, free returns)</li> <li>▶ Impact to profitability and service levels as delivery and return volumes increase</li> <li>▶ Traditional B2B consumer companies leveraging innovative last-mile delivery capabilities (e.g. ride-share delivery)</li> <li>▶ Increasing white-glove delivery expectation in categories such as high-end appliance delivery, furniture delivery</li> </ul>	<p>Two consumer product companies developed a collaboration model via third party logistics warehouse and transport sharing arrangement in order to reduce the number of vehicles and enhance last-mile capabilities.</p>
<p><b>Food and beverage</b></p>	<ul style="list-style-type: none"> <li>▶ Reduced lead time expectations for delivery (two to four hours after gross profits)</li> <li>▶ Multi-temperature handling for product preservation</li> <li>▶ Supply planning and order scheduling complications due to reduced order size</li> <li>▶ Labor availability to support surging delivery services and its impact on quality and sustainability</li> <li>▶ No line of sight on profitability/sustainability of gig economy</li> </ul>	<p>Top food delivery companies have experienced revenue growth by over 200% since 2020 with only one generating gross profits.</p>
<p><b>Real estate and construction</b></p>	<ul style="list-style-type: none"> <li>▶ Route enhancement and capacity planning to support specialized delivery requirements</li> <li>▶ Specialized assets and delivery models to support specialty items (delivery primarily to “high mix/low volume”)</li> <li>▶ Supply planning to support high mix/low volume deliveries across multiple drop-off locations</li> </ul>	<p>Construction materials company leverages delivery startup that developed advanced technology that leverages network of drivers with specialized assets that deliver construction materials to customers.</p>
<p><b>Life sciences and health care</b></p>	<ul style="list-style-type: none"> <li>▶ Highly regulated fulfillment infrastructure to maintain safety and security</li> <li>▶ Protecting patient privacy in a direct-to-consumer model</li> <li>▶ Increasingly fragmented customer base with highly customizable products</li> <li>▶ More specialized delivery models limit outsourcing availability and capabilities</li> </ul>	<p>A crowdsourced last-mile delivery company launched new same-day service that enables pharmacies to safely and rapidly get medications to prescription holders.</p>



Based on a company's fulfillment strategy, companies may want to develop or enhance capabilities in the following ways:

### Partner

Engage in alliances or other asset-light operating models that result in more efficient operation of non-core capabilities and allow the company to focus on core areas. Partnering can allow a company to leverage the built-out capabilities of another organization and quickly enhance service offerings with limited capital investment. However, it could also result in a reliance on the others' ability to innovate and remain relevant, which can lead to performance and competitive issues down the line.

### Buy

Consider strategic acquisitions of niche capabilities or assets platforms. Being able to meet the delivery demands of customers may only continue to grow in importance regardless

of the industry. In addition, acquisitions can allow companies to quickly expand access to customers and/or assets while maintaining complete control. Acquisition strategies can be considered to help keep service offerings relevant and to employ the latest capabilities.

### Build

With companies looking to specialize, building supply chain capabilities that align with customer and product requirements may require innovative solutions that are unique to a company's product or service offering. Companies may need to invest in distribution and logistics assets that can support higher service levels while also enhancing asset utilization. While this may require a higher up-front capex investment and longer time to market, it can also improve margins in the long run and enable the company to control the build-out of its capabilities.





## Last-mile capability framework

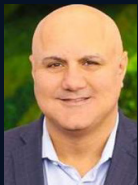
Based on a company's capital agenda, leadership may leverage various strategies to support growth and capability development. This capability framework can help assess overall last-mile strategy to address sector and company dynamics, including product profile, order profile and seasonality/peaks, and how they impact capital deployment (buy/build) or strategic partnerships.

Demands/expectations of your customers	Outsource	Buy or partner
	Exit	Build or partner
	Strategic value to your company	

As customers and markets demand relentless innovation, companies need to also understand the risks associated with not developing robust last-mile capabilities to support changes in customer preference. Companies across the value chain are experiencing various pressures to remain competitive and may run the risk of becoming irrelevant as others invest and expand direct-to-consumer models and take advantage of their existing assets to support fulfillment and transport. Failure to develop a comprehensive and effective last-mile strategy may impact the overall operating model and limit ability to support growth and other critical objectives.

Last-mile will continue to evolve with customer expectations and changes in market conditions. Turning these trends into opportunities will be a key differentiator across industries. EY professionals have seen the impact of how a robust last-mile strategy and effective implementation can improve overall profitability and customer satisfaction.

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