

Clearing the Last Mile Hurdle Raises Prospects for Profitability

By Todd Bengé, Vice President of Parcel Operations at Transportation Insight



The cost of the last mile for e-commerce service is a big obstacle. Some estimates show that up to 28 percent of the total cost of delivering goods reflects the last mile delivery expense. However, when McKinsey studied the impact of last mile, it found that for a small-package, residential delivery, the cost of the final mile reaches – and exceeds – 50 percent of the total cost.

Today, Amazon has become a benchmark for the e-commerce logistics process. Evidence emerging in the marketplace reveals how large companies like Amazon are reducing the high cost of the last mile with numerous warehouses, automated pick and pack and injection directly into the U.S. Postal Service (USPS) network. Although most companies do not have the scale or capital budget to implement these types of changes, they still have to compete with Amazon and companies that are capable of significant investments toward improving last mile performance. What can you do to compete?

First, get your product as close to your market as feasible. Are your warehouses in the correct locations? Do you need to expand your network or even utilize 3PLs to increase your network penetration? This level of analysis is so critical to an improvement plan that an expert partner can be a significant asset.

Next, consider offering your customers in-store pickup options. The National Retail Federation's latest Consumer View study revealed that although 75 percent of consumers expect free delivery even on products valued under \$50, many are willing to pick up at the store to avoid shipping charges. In-store pickup options offer an added benefit of capturing your customer's undivided attention. Creating a smooth process for pickup and returns will make ease of use a significant factor for future purchases.

One of the best ways to cut the cost of last mile delivery is to utilize the correct carrier and service for each processed order. It is important to understand which service offerings utilize the U.S. Post Office for the final mile of delivery. You may not be able to inject your own packages directly into the Postal system, but you can utilize services that do this for you at substantial cost savings.

- **UPS SurePost** and **FedEx SmartPost**: Both services move the package all the way to the destination Post Office where USPS makes the final delivery. There are no Residential surcharges, and transit time only increases one day in most areas. This service is cost effective for packages from 1 to 9 pounds.
- **UPS Mail Innovations** and **DHL eCommerce** for packages less than 3 pounds: Both companies offer cost-effective services that provide sorting and transportation of lightweight packages to the Post Office for final delivery.
- **USPS Priority Mail** or **Parcel Select Ground** are cost-effective solutions for residential packages, especially to rural areas that receive Delivery Area Surcharges from UPS and FedEx.

Finally, carefully evaluate your contracts as well as terms and conditions with your carriers. Contracts have become increasingly complex over the past decade, and contract structures can really impact overall transportation cost. Following are a few of the major items to watch out for in your contract structures.

- **Rate Increases destroy your profitability.** Make sure that you have established a rate mitigation strategy. This strategy must also encompass accessorial increases as well.

- **Pay attention to fuel surcharges.** For the past few years, UPS and FedEx have increased their fuel surcharges throughout the year. Since February 2017, UPS has increased its fuel surcharge five times. FedEx has increased its fuel surcharge four times in that same period.

- **Learn how to utilize multiple carriers to get the best service and rates available.** You need to understand how to utilize other carriers to supplement your supply chain. Your network should be designed to allow substitution of another carrier in the event that you must replace a current player.

Last mile delivery is a critical supply chain component that you must understand to remain competitive. Focusing on the product inventory location, carrier and service selection, and contract structure can jump start efforts to shave down the last mile cost hurdle that is impeding your maximum profit performance.

Transportation Insight Vice President of Parcel Operations Todd Bengé brings a unique perspective to clients thanks to his 30 years of leadership experience in developing parcel shipping programs. Bengé is nationally recognized for his expertise in network design, innovative technology and data analysis. Visit www.transportationinsight.com to request a consultation with Transportation Insight's Parcel Experts at info@transportationinsight.com.



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877.226.9950
www.transportationinsight.com
Info@transportationinsight.com

310 Main Avenue Way SE • Hickory, North Carolina 28602