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The last-mile challenge in Canada

It's time to jumpstart the evolution of the delivery ecosystem



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Canadian consumer and retail businesses are facing a challenge in their efforts to differentiate themselves and stay competitive in a tough market. It's no longer enough to compete on price, quality, or even on the seamlessness of the customer experience; today, companies must also compete on the speed and convenience of delivery of e-commerce purchases. The last-mile matters more than ever.

Yet in an environment where free delivery is becoming expected and waiting any longer than two days for delivery can be a deal-breaker, costs are rising fast—and

there's very little, if any, margin on delivery. Adding to the stress, existing off-the-shelf logistics and order management software just doesn't have the cutting-edge functionality needed to meet the increasingly insatiable delivery demands of today's consumers.

We recently conducted research into how these influences on last-mile delivery are affecting Canadian companies. We found that online retailers are responding to consumers' growing demands. But to make last-mile delivery truly sustainable, new investments in people, process, and technology are essential.



As e-commerce grows, delivery expectations rise

Canadian e-commerce sales reached nearly \$43 billion in 2018—or 9 percent of total Canadian retail sales—and they're expected to rise another 25 percent by 2023, to reach \$55.4 billion.

Several factors have contributed to the growth of e-commerce: improvements in web and mobile technology, investments in delivering a seamless omnichannel experience, free returns, and consumers' changing preferences and greater comfort with shopping online.

As e-commerce sales have grown, consumers' preferences and expectations for delivery have also increased—though their willingness to pay for shipping has dropped. Sixty-four percent of Canadian shoppers don't want to pay extra for two-day shipping, according to our research, which suggests that consumers expect two-day free shipping as the norm. Expectations for same-day shipping are also on the rise; in some US cities, leading e-commerce companies are even moving to one-hour shipping.

Demands for faster, cheaper shipping are combining with other factors to put significant pressure on retailer margins. Consumers can now choose to get their purchase in a variety of ways: home delivery, ship-to-store, ship-to-locker, or reserve online and pick up in-store. Returns can now be made in-store or by shipping the product back to the retailer. Linear supply chains have given way to complex, interconnected supply chain networks. And the subscription services offered by a growing number of retailers often subsidize or waive delivery fees, making it incredibly easy for consumers to place many small orders instead of a few large ones.

The result? More—and more frequent—orders, a sharp rise in demand for expedited delivery, an e-commerce logistics market with a compound annual growth rate (CAGR) of 20.4 percent, and rising costs for retail and consumer goods companies. Online shopping titan Amazon is able to meet consumers' demands by spending 15.6 percent of its net sales revenue on shipping costs and an incredible 27.9 percent on combined fulfilment costs. Canadian retailers, by comparison, spend about 8 percent of revenue e-commerce fulfilment on average; in the current retail environment, it would be hard for them to cover more of the delivery costs and still stay profitable.

The state of last-mile delivery in Canada

To better gauge current last-mile delivery practices among Canadian consumer and retail companies, we conducted an online survey of 57 companies in a variety of industry categories, including apparel, electronics, grocery, specialty, and mass merchants. Some of the findings surprised us.

The majority of retailers offer free home delivery

Nearly two-thirds (63 percent) of the companies surveyed offer free home delivery, while same-day grocery home delivery is available to consumers in major urban areas. Those who don't offer free delivery levy a standard delivery charge about \$8, on average.

Apparel and electronics retailers are most likely to offer free delivery

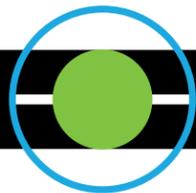
Eighty percent of apparel retailers and 73 percent of electronics retailers offer free shipping, while only 45 percent of grocery retailers do so.

Lead times vary substantially by retail category

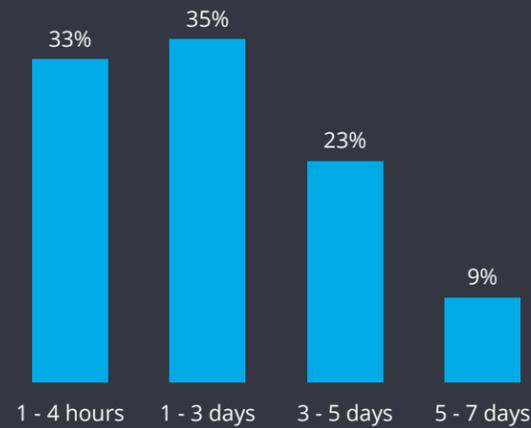
While most companies surveyed required lead times of one to three days to deliver, that varied greatly depending on the retail category. Grocery retailers—especially those dealing in fresh products and other perishables—provide the fastest lead time, at less than one day. Apparel retailers, in contrast, offer between three and five days.

Minimum free delivery spend also varies greatly

Consumers typically need to spend from \$20 to \$50 to be eligible for free delivery. Grocery retailers have the highest minimum spend requirement, at an average of \$96. For apparel retailers, it's \$55. Most electronics retailers, in contrast, will ship for free with no minimum spend.



Average lead time overall



Note: The average lead time for delivery of groceries in Canada is 0.7 days, compared to electronics which take 3 days, and 5 days for apparel.

Average delivery cost to consumer



Note: Consumers spend \$7 on average (per transaction) to pay for home delivery of fresh groceries and \$9 for apparel (per transaction)

Average minimum spend time for free delivery



Note: To receive free home delivery, consumers need to purchase on average \$96 worth of groceries (per transaction), on average \$55 in apparel, and only \$10 worth of electronics.

Free delivery offered by:



About our research

We surveyed 57 Canadian online retailers in a variety of categories—apparel, electronics, grocery, specialty furniture, home goods, sporting goods, and mass merchants—to understand how last-mile delivery is changing in the marketplace. The survey looked at whether retailers offered free delivery, minimum spend for free delivery, delivery time options and related costs, and other matters.

Last-mile delivery is changing fast

As consumers' delivery-related demands increase—as does the cost and complexity of meeting those demands—new, nimbler options are arising to enable retailers to outsource last-mile delivery to the gig economy. Amazon Flex and Walmart's Spark Delivery enables independent drivers to deliver online purchases to the retailers' customers. Other Canadian startups have also launched, signing up agents and drivers to serve as a flexible contingent delivery service for consumer goods and retail companies.

This web of independent, free-agent-powered delivery services is swiftly creating a thriving last-mile ecosystem. The fast-evolving transportation ecosystem connects resources by common platforms that map real-time availability and costs, enabling packages to be tendered to the lowest-cost option available at that moment. This real-time

information can enable companies to optimize the capacity of their delivery fleet, the inefficient use of which is one of the reasons today's last-mile delivery is still so costly.

To connect to and make the best use of this expanding delivery ecosystem (or make more efficient use of their existing delivery capacity), consumer and retail businesses need to upgrade their systems and technology. This includes harnessing real-time data from Internet of Things-connected devices to connect to the network of delivery agents and identify the best option for a particular delivery based on factors such as price, route, and mileage. Similar technology also needs to be able to share information smoothly between shipper, driver, and customer so that visibility into the order status is clear and accurate. The outcome is more efficient, more cost-effective delivery—and an improved customer experience.

To fully unlock the operational efficiencies inherent in this new mode of sourcing delivery, consumer and retail companies will also need to adopt a more order-centric approach to managing transportation. Current transportation management systems tend to focus on shipments and assets rather than orders, which makes it challenging to meet current delivery demands. Smaller shipment sizes and different service-level commitments can place enormous strain on route-planning efforts; changing traffic patterns, urban congestion, and a patchwork of municipal regulations only exacerbate the situation. An order to be delivered in five days and another one to be delivered in two days must be handled differently at the order-management level, so that each order follows the optimal path from store or distribution centre through the last-mile and into the customer's hands.

Responding to the challenge

To successfully meet the challenge, Canadian consumer and retail companies must let go of traditional delivery supply chains, connect to new and emerging delivery ecosystems, and digitize the last-mile. That means investing in the technology needed to enable a flexible digital supply network, one with an advanced transportation management system (TMS) at the core.

However, even the most state-of-the-art off-the-shelf TMS software, once properly configured, is likely to only address 50 to 60 percent of a company's needs. Adding on micro-services and agents—some of which may need to be custom-built—might extend this to 80 percent of its needs. Moving beyond this point, 80 percent, poses additional challenges. To do it right, businesses need to adopt

flexible, connected cloud technology, integrate it into the emerging delivery ecosystem, streamline processes, and bring onboard people with the knowledge and skills to understand and act on data-driven insights and information.

Where should consumer and retail companies begin? The following are our key recommendations.

1. Invest in the technology that best supports delivery

Many retailers and carriers are already investing in the technologies needed to facilitate the sort of connected transportation ecosystem we have described. Companies should continue to make these investments to develop linkages across the ecosystem, customizing the technologies where appropriate to create signature capabilities that differentiate them in the market and meet customer requirements profitably.

Data collection is the first important step, but organizations need to be more forward-looking to ensure the technologies implemented today will be able to support tomorrow's last-mile delivery options, such as with semi-autonomous or autonomous vehicles. Today, for example, drones are being used to deliver high-

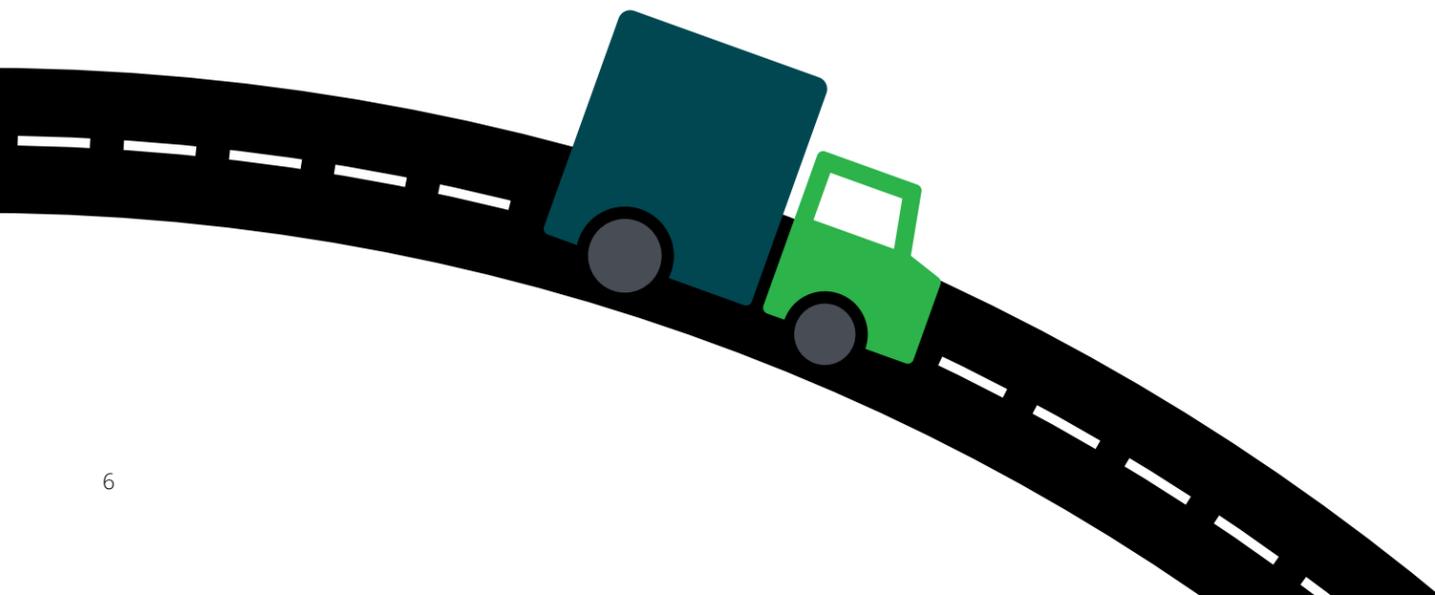
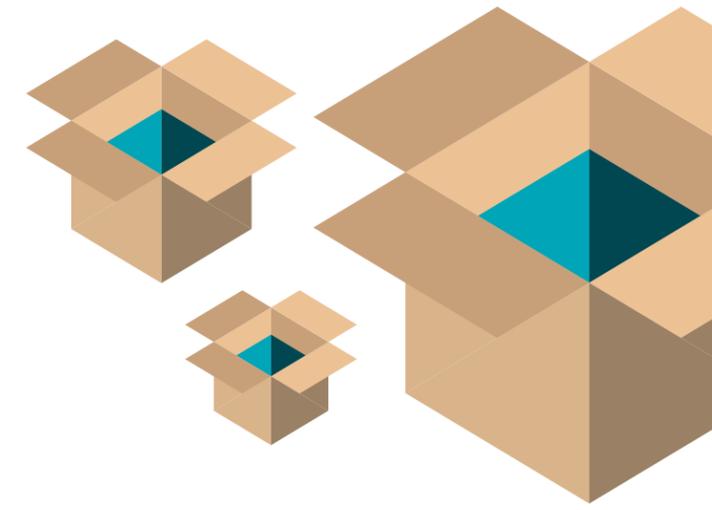
value medical supplies to parts of the world that are difficult to reach using standard transportation methods—in the next 10 years, robots and drones are expected to play a pivotal role in getting packages to customers in less remote areas in more densely populated areas, reducing last-mile delivery time and cost. FedEx, for example, has been testing its SameDay Bot, known as Roxo, in a number of US cities.

2. Build processes that streamline delivery decision-making

To maximize the value of their technology investments, companies should create processes to draw immediate insights from data being collected across their last-mile delivery ecosystem. Using predictive algorithms to make automated rerouting decisions, for example, could be a major differentiator.

3. Develop people capabilities to support strategic delivery sourcing

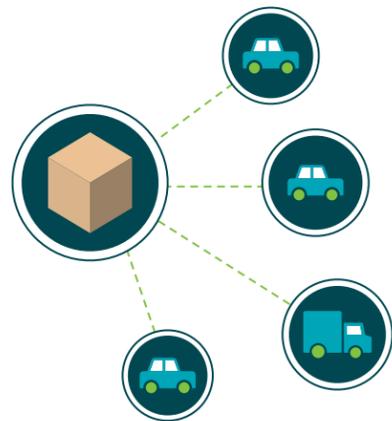
As companies invest in data analytics and other data-driven technologies, they'll need to ensure they have people with the skills to work with these technologies and be able to rapidly analyze and act on the information collected and the insights generated. This may involve recruiting or developing the necessary expertise in-house, or employing the talent of third-party technology solution providers.





Last-mile transportation today

Transportation providers using their own fleets for deliveries and last-mile transportation is the largest source of cost inefficiency in transportation



Evolving last-mile transportation

A network of independent couriers and delivery agents connected to a delivery ecosystem pick up and deliver small packages; cost efficiency improves by using real-time information and capacity



Last-mile transportation in the future

Autonomous drones, vehicles, and robots offer greater flexibility in home deliveries; cost efficiency is maximized using completely new delivery models

It's time to embrace the future of delivery

The last-mile delivery ecosystem is changing fast as companies strive to address the many challenges involved in getting customers' purchases to them quickly and cost-effectively. To remain competitive, Canadian consumer and retail businesses will need to make room for ongoing technological change—and to get comfortable with having less margin for error. They'll need to align customer expectations with geographic considerations by deploying a flexible, scalable, responsive ecosystem of

distribution partners. They'll need to invest in technology that facilitates integrated online marketplaces to source the optimal final-mile solutions for every customer order. They'll need to collaborate with ecosystem partners, sharing data and other information to achieve greater efficiency and better customer service.

And to ensure the company thrives over the long term, they need to start doing all this today.

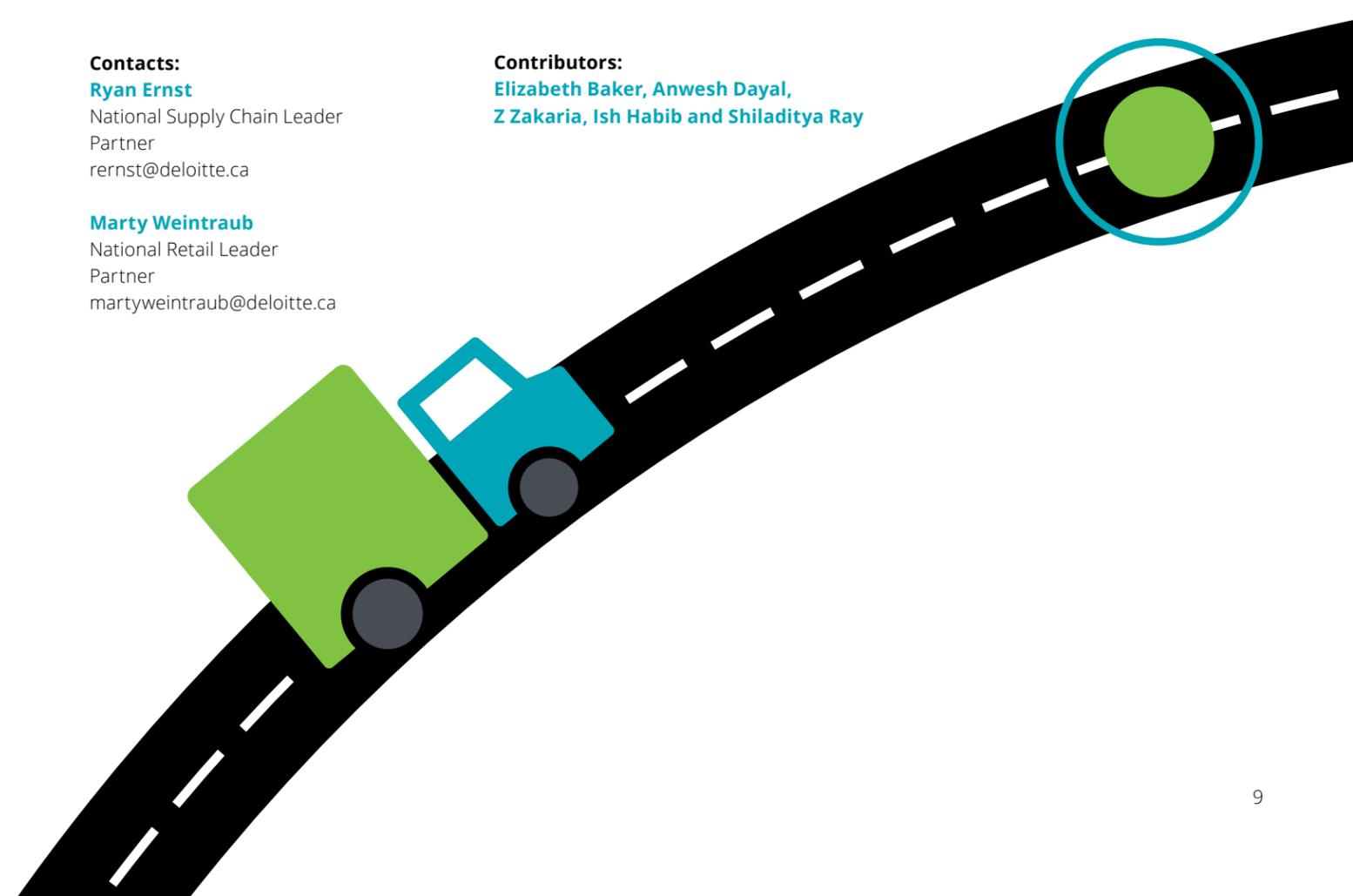
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