# MAKING THE LAST MILE *memorable*

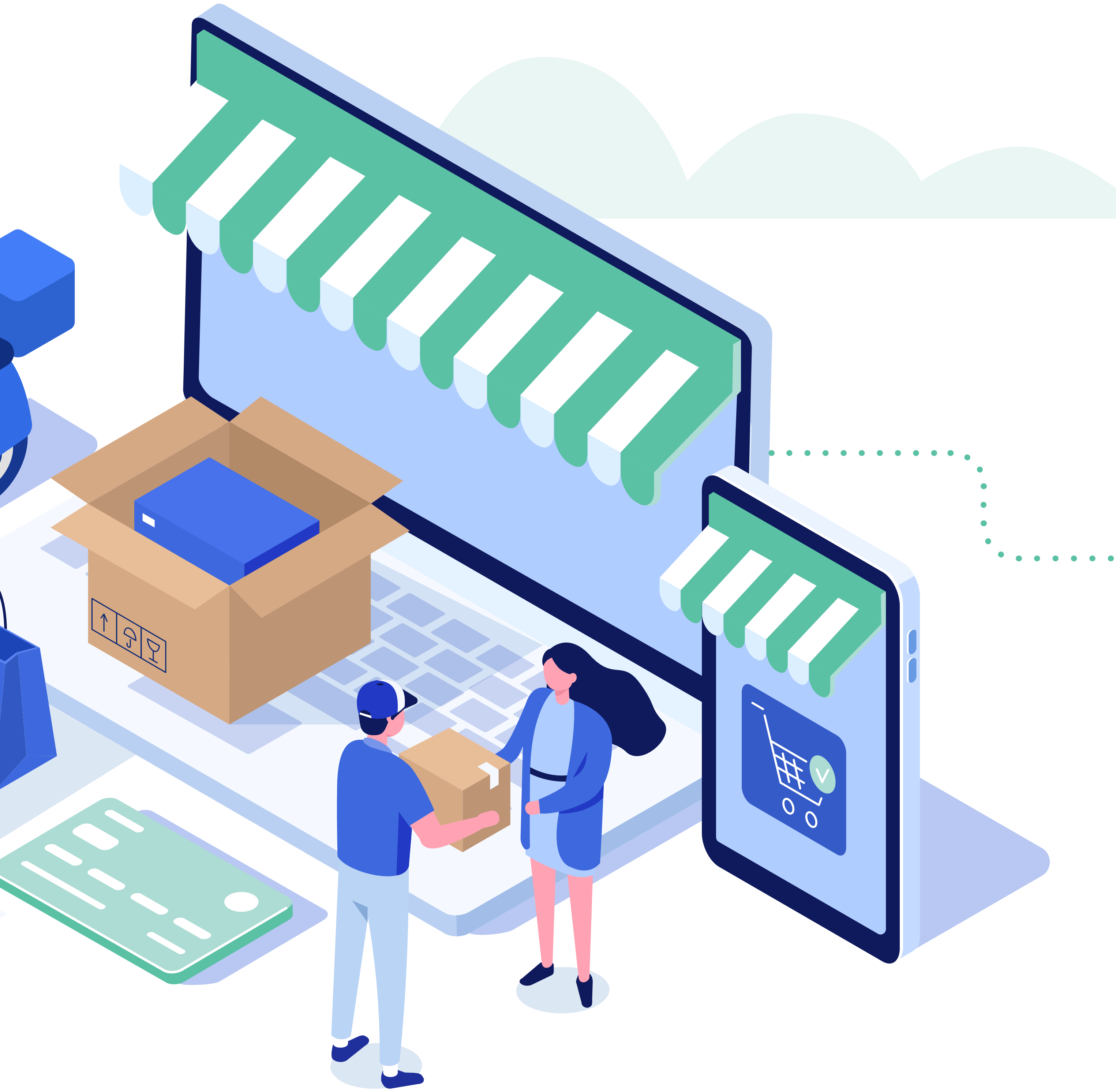
**E-commerce is on the rise, and so are consumer demands. The expectations of free, fast delivery are changing how manufacturers and retailers approach the supply chain's last mile. But the right solution isn't one-size-fits-all.**

You have a weekend's worth of laundry to tackle before your budding soccer player heads off to camp for two weeks. While getting started, you realize you only have enough detergent for one load. What do you do? Hit your Amazon Dash button to order more? Use Walmart's reorder service on your phone? Get in your car and drive to the store?

The repercussions of this seemingly mundane decision are reshaping the final leg of the supply chain for retailers and food and consumer product manufacturers. Less than 10 years ago, a consumer wouldn't hesitate to hop in the car and go to the store. But today, many consumers expect a direct delivery within hours of placing an order. According to a March 2019 article from *Internet Retailer*, U.S. consumers spent $517.36 billion online in 2018, up 15% from the year prior.

Convenience, experience and quality are the three priority drivers for online consumer purchases, according to an annual eCommerce study by Dotcom Distribution. Consumer trends also showcase a wish list of expectations, including increased delivery speed, lower shipping rates and flexible returns and exchanges.

Growing expectations for free, fast and flexible delivery can be placed at the feet of this generation's leading disruptor for businesses: Amazon. Backed by a seemingly never-ending variety of goods and constant innovations aimed at consumer convenience,



Amazon is driving the market. To maintain market share, manufacturers and retailers are exploring ways to improve the traditional last-mile approach within the supply chain — getting the product into the consumer's hands — by personalizing the last touch.

## Adapting the Final Stretch

Supply and demand used to focus on maintaining a steady stream of a company's product in the market for consumers. To keep up with those demands, manufacturers have become increasingly efficient with their facility space, production lines, packaging and more. However, now that the consumer is not

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only demanding the product but also its arrival within hours of ordering, manufacturers and retailers are gradually addressing opportunities to make the last touch more efficient.

### *Predictive Analytics*

One of the main ways the leaders in this space are able to excel is through detailed data collection and predictive sales analytics.

“Predictive analytics essentially uses a plethora of algorithms to look at different sets of data to predict purchase or sales events,” says Brian Chatham, a project manager at Burns & McDonnell who specializes in industrial automation. “Beyond historical purchase data, there could be a social, weather, geopolitical or some other event that has a statistical influence on a type of purchase that would be made.”

This detailed and accurate information allows data-focused companies to predictively stock warehouses and fulfillment facilities simply by identifying a statistical probability for a regional increase in demand, such as a surge in orders of blue basketballs a week before an Oklahoma City Thunder game or of sunscreen in Miami before an extended heat wave.

### *Smaller and More Efficient Warehouses and Distribution Centers*

Because of the accuracy boom of predictive stocking, warehouses and distribution centers also are encountering efficiency changes. The days of consolidating all products within a few facilities outside urban centers are diminishing. Instead, smaller facilities are growing in number and creeping closer to the consumer.

“The demand of the end user is requiring goods to get closer and closer as more people want same-day or same-hour deliveries,” says Eric Buer, real estate development director at Burns & McDonnell. “Companies need a diverse distribution network across the country to meet those timelines.”

These networks are continuing to evolve. Big-box distribution centers of 400,000 to 1.5 million square feet have dominated the past several years, but the next wave is expected to be smaller infill sites of 80,000 to 200,000 square feet within city centers.

“For example, about five years ago, all my Amazon orders to Oklahoma City took four days to come from a fulfillment center in Dallas,” Chatham says. “Now they arrive within a day from a facility inside the OKC

## CAPITALIZING ON A HOT MARKET

E-commerce and the last touch are having such a driving effect in the market that Burns & McDonnell created a Real Estate Investment Group to identify viable sites for warehouses and distribution centers. Focused on logistically advantageous opportunities for users, the group’s core purpose is to create customized real estate development solutions in-house so users can focus their time — and capital — on their core business.

“Depending on the articles you read, anywhere from 8-12% of retail purchases are done online today,” says Eric Buer, real estate development director at Burns & McDonnell. “And most people believe it will be in the 30% range before we know it. There aren’t enough logistics buildings to support that growth, meaning more are needed. We’re here to fulfill that need.”

city limits, and a new center they're building will most likely provide two-hour delivery. Amazon continues to add warehouses and break them down into closer proximities to decrease fulfillment time — and predictively stock them with what they need to sell in that region."

### Warehouse and Distribution Center Automation

The physical mode of transporting deliveries hasn't changed considerably — yet — which means there are still trucks on the road. However, loading that product onto the trucks from distribution centers or warehouses attached to manufacturing facilities has evolved a bit.

"We are seeing more automation in the warehousing strata of the supply chain," says Chris Freeman, a regional practice manager at Burns & McDonnell who specializes in the food ingredients industry. "Automated storage and retrieval systems are

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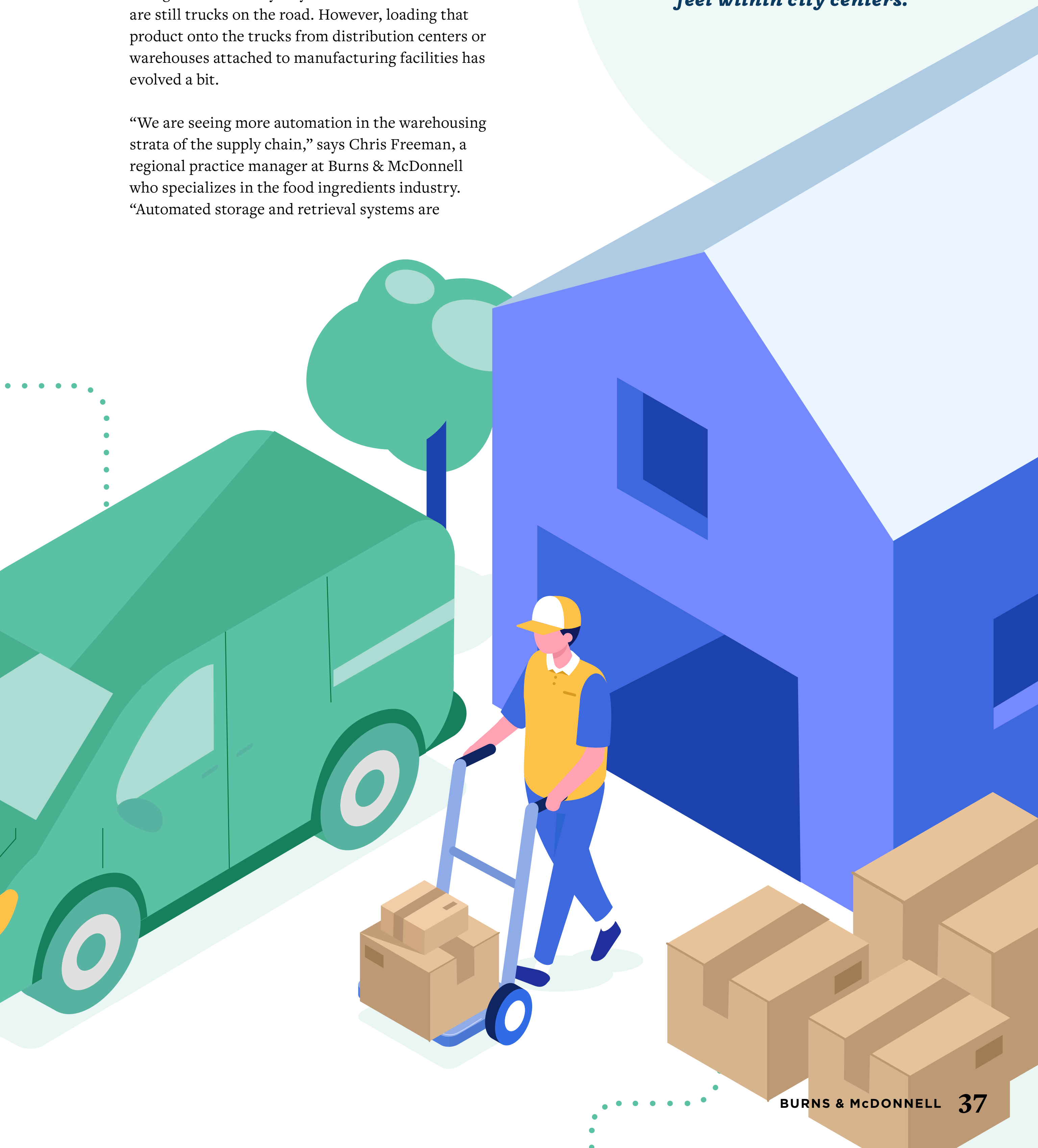

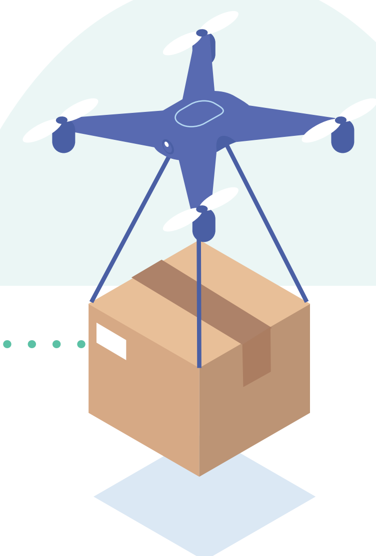

becoming more prevalent, and automated guided vehicles within the warehouse are reducing the cost of labor and the potential for human error. This is especially beneficial in areas of the country with higher cost of labor or low labor availability."

### *Direct to Consumer*

In order to skirt the high cost of third-party delivery, some companies are going vertical with direct-to-consumer (D2C) solutions. Much like companies such as Dollar Shave Club, Warby Parker or Casper, this vertical approach allows customers to go directly to the manufacturer for the products they want — successfully eliminating an entire step from the supply chain.

According to a February 2019 article published by The Future of Customer Engagement and Commerce, established retail companies such as Nike, Levi's and Nespresso are winning big with D2C sales. Nike's D2C sales are estimated to reach $16 billion by 2020, while Levi's hit a two-decade sales record as D2C helped increase revenue by 22% globally in 2018. Nespresso's D2C platform records 250,000 purchases each month, with a 24.7% conversion rate — almost double the rate from similar purchases on Amazon.

"Obviously D2C works, otherwise Nike, Levi's, Nespresso and others wouldn't be doing it," Freeman says. "However, the difficulty is figuring out the internal inventory management changes and shipping and logistic pieces — order processing, inventory management across facilities and shipping — that have to be built when taking away a third-party delivery channel. Companies will need to determine how to build a team and IT infrastructure and supply chain network to do D2C effectively."

## Peering a Mile Into the Future

Constant innovation and technology advancements mean another change is around almost every corner. That remains the manufacturing industry's reality as companies prepare for a future that might include drones and driverless vehicles for deliveries and boutique-style brick-and-mortar retail stores to showcase a limited stock of products to feel or try on that are then delivered to the consumer from a distribution center. Perhaps an independent third-party logistics company could then arise to compete in the market.

Either way, change, while disrupting, could prove financially beneficial for companies creating a diverse, customized strategy that incorporates these new developments. Not every channel to the consumer is the right fit for each company, and supply chain strategies should be monitored on a continual basis as years pass and margins adjust.

"It's coming hard and fast," Chatham says. "It's a changing world."

**LEARN HOW AUTOMATED STORAGE AND RETRIEVAL SYSTEMS CAN REDUCE WAIT TIMES AND HUMAN ERROR.**
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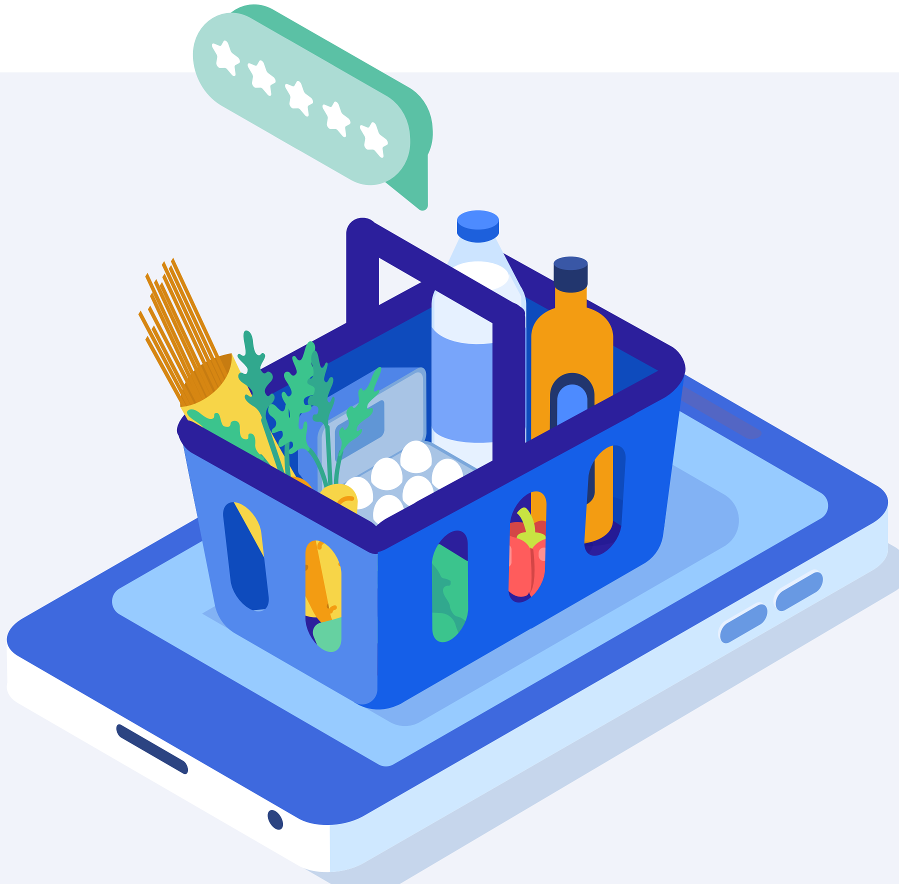

# CAN GROCERY E-COMMERCE STAY FRESH?

According to an April 2019 report by eMarketer, U.S. grocery e-commerce — specifically online food and beverage sales — will grow to $19.89 billion this year. With this eye-opening statistic, grocery stores are well aware that they are not immune to the draw of e-commerce — or the resulting challenges. While a retailer could, in theory, acquire several new distribution centers to reach a new region with ease, grocers face expensive obstacles in specialty attributes for processing food items and avoiding spoilage.

"Grocery e-commerce is rising as consumers care more about their health and want fresh everything, but they also don't want to go to the store," says Rachel Laffitte, a business analyst for the Real Estate Investment Group at Burns & McDonnell. "So how do you merge those two?"

Amazon disrupted the market when it bought Whole Foods, and then Kroger stepped in to compete for market share through a 2018 merger with British online grocer Ocado. But the capital needed to create and expand a grocery e-commerce system means this arena won't grow as quickly as retail e-commerce.

"It can't spike at the same rate as e-commerce because it's so much more expensive to build," Laffitte says.

In the meantime, one potential solution might be to create "experiences" within grocery stores to entice consumers to make the trip. According to a September 2018 article published by *Grocery Dive*, grocery retailers are elevating the consumer experience by developing in-store specialty restaurants and bars complete with live music, "meet the farmer" events or store-grown produce, and even culinary classrooms to teach customers how to create a delicious meal with their groceries.