

The pressure is on: the true costs of last-mile delivery

Opportunities for retailers and logistics companies



here

| Atos

Foreword

In the last 18 months, last-mile delivery has been fast-forwarded by five years. Even before the pandemic, this part of the supply chain was under pressure. Since then, companies have risen to the huge challenge of massively increased delivery volumes and changing customer demand.

With so much at stake for players in this market, Atos and HERE Technologies wanted to take a closer look at what's happening in last-mile delivery. In early 2021, we commissioned a survey asking 2,500 consumers about their online purchasing habits, delivery preferences, pain points and experiences. This report brings you highlights from the research and what it might mean for retailers and logistics providers.

Our findings point, not surprisingly, to the intensity and complexities of last-mile delivery amplified since 2020. The basics of delivering a package in perfect condition on time and at a reasonable cost can still be a challenge. Financial and logistical pressures are compounded by externalities such as traffic congestion and the need to reduce carbon emissions.

The largest subscription-based companies have set the standard for what customers have come to expect, such as added predictability and convenience. And the gap between what the digital giants and others can achieve is still growing. Customers – spoiled for choice – are ready to go elsewhere if their expectations aren't met.

Yet customer priorities are also evolving. We are seeing more of an appetite for subscription-based services. And there's a growing interest in sustainability, which can come with a premium for customers if they see that companies are taking action – especially among younger shoppers.

While there are some urgent challenges, there are also major opportunities for those who can deliver on the last-mile promise. Leveraging data and automation to increase efficiency and accelerate the evolution of intelligent supply chains helps companies to differentiate on performance while protecting the bottom line. Technology is therefore a critical enabler for any provider to optimize last-mile delivery to retain customer loyalty, improve sustainability and compete effectively in this dynamic and fast-growing space.



Brand loyalty

Our survey found that when customers are dissatisfied with their delivery experience, they are ready to walk away given the wide choice they now have online. This puts significant strain on every company, irrespective of size or resources, to meet customers' expectations.

Customer retention

Consumers are looking for a high-quality, on-time delivery experience with low shipping costs. While delivery options or delivery providers are not key purchase criteria, an untimely or poor delivery does have a significant negative impact on future purchases from the same company.

Dissatisfaction therefore has a direct impact on brand loyalty. An average of well over half (57%) of consumers across all demographics say they'd go elsewhere if they weren't happy with their delivery. This is highest among Gen-Z shoppers (58%) and customers who shop online less than once a month (61%).

Delivery costs and subscriptions

Cost is a significant factor, with 61% of customers saying they would switch providers to avoid paying for expensive delivery. Respondents say they would switch their purchase from one company to another for the same product to avoid a high delivery cost – particularly to one they have a subscription with.

The free shipping with minimum order model may be giving way to the subscription model, starting with Gen-Z. Less than half of this younger demographic says they would add to their online order to meet free shipping minimums. By contrast, 63% of those 46+ would do so.

Two thirds of respondents say they are willing to pay for delivery subscriptions – \$5-10/month from a single retailer is the sweet spot.

61%

of customers saying they would switch providers to avoid paying for expensive delivery.

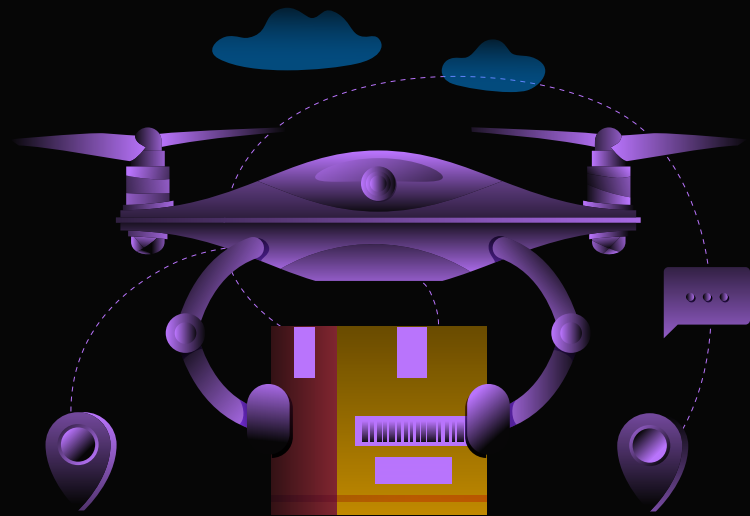


The true costs of last-mile delivery

Last-mile delivery is the most complex and costly part of the supply chain, with 40-55% of total supply chain cost occurring in the last mile.¹ If items are lost, damaged or late, then the true cost soon spirals. The expense of having to resend packages comes in addition to the cost of call center operations to field complaints, creating an additional operational burden.

The costs of failed delivery (around \$10 per order)² are further compounded by significant risks to brand loyalty if customers opt to look elsewhere in future, as underlined in these findings. Acquiring a new customer can be three to five times that of retaining an existing customer.

There is also the reputational damage that can be caused by complaints. Happy customers often say nothing; unhappy ones can take to social media to make their feelings known. Initial dissatisfaction with a missed communication can quickly snowball.



Last-mile delivery is the most complex and costly part of the supply chain, with

40-55% of total supply chain cost occurring in the last mile.

"Research shows that retailers subsidize last-mile delivery by around 20%, with customers unwilling to cover the total cost, thereby threatening companies' profitability.³ So optimizing last-mile delivery to ensure a high-quality delivery experience not only ensures customer satisfaction to maintain loyalty and protect the brand, it is also necessary so that companies can make essential savings across the business and support the bottom line."

Bas Stroeken, Global Head of Supply Chain Solutions, Atos

¹Counterpoint, 2020; The last-mile delivery challenge, Capgemini, 2019;

The challenges of last mile logistics & delivery technology solutions, Business Insider, 2018

²The last-mile delivery challenge, Capgemini, 2019

³The last-mile delivery challenge, Capgemini, 2019

Delivery experience and expectations

Results show that customers' key delivery preferences are speed, convenience or predictability, and cost. Yet with over half of respondents still having problems with damaged goods and 43% suffering lost deliveries, it's clear that getting the basics right is still a challenge.

Key pain points

Customers' main pain points include damaged goods, lost or delayed delivery, and expensive shipping costs. It's worth noting that with damaged goods listed as a top pain point, while volumes of occurrences may be lower, it is still a key contributor to poor reputation and an immediate decision to change retailer or supplier. Respondents' biggest frustrations with online deliveries are:



"Our survey shows that customers could leave a favorite brand on the basis of a costly or poor delivery experience. Yet the last mile is the most complex leg of the logistics journey because drivers must contend with limited or difficult parking options, irregular street addresses, traffic and unexpected road incidents and increasingly busy and growing cities and traffic volumes. There is an urgent need to minimize the impact of these external factors to provide the quality of experience that customers are looking for."

Deepak Patnaik, Global Head of Product Marketing, HERE Technologies

Delivery preferences and expectations



Delivery speed is most important factor for respondents. Same-day is best, but express is also preferred. When asked to choose the top three options they desired from retailers, 58% of respondents selected same-day delivery (the most popular choice) compared to 38% for express, but not same-day.



Track and trace options are in general less of a pain point than those above. Consumers in the UK and US were most concerned about a lack of track and trace status (30% and 26% respectively), compared to those in Germany and France (19% and 18% respectively).



Free delivery Frequent shoppers are happier paying for delivery compared with those who don't shop online frequently, with 41% of infrequent shoppers likely to request free delivery (even if it's slower) compared with only 29% of frequent shoppers. In terms of age, 40% of respondents over 46 value free but slower delivery, compared to 35% of Gen-Z.



Cybersecurity and data privacy are a big concern for consumers. Over half (53%) of those surveyed say that handling of personal data is a concern, indicating that there is more that companies could do to communicate and build trust in their cybersecurity policies and measures. There is more concern among infrequent shoppers, with 60% saying they are concerned about how their personal information is handled by delivery companies, compared with 47% of frequent shoppers.

"The last-mile delivery market is still quite young and subject to intense dynamics. Consumer focus is mostly on the basics of getting a product home at an acceptable price. Those retailers who are slightly ahead of the curve with subscriptions are locking consumers in, creating exit barriers in order to compete. At the same time, with younger generations evidenced to be more critical and more pragmatic, brand loyalty is under pressure. Put that together with higher costs, then the reasons to get last-mile delivery right are urgent and growing."

Bas Stroeken, Global Head of Supply Chain Solutions, Atos

Sustainability and environmental impact

Findings reveal that sustainability is of importance to customers, with pressure on companies to demonstrate how they are reducing negative environmental impacts.

Sustainability as differentiator

Half of all respondents say that sustainability is important to them and 41% of respondents say they are concerned about the impact of online delivery on the environment.

Younger shoppers are more interested in sustainability. Gen-Z are more likely than any other group to prioritize eco-friendly delivery, with 36% listing it as a top three priority from retailers versus 27% for customers over the age of 46.



Gen-Z is leading the way

Our survey reveals that if 44% of Gen-Zs are frustrated by lost deliveries, and 58% of those who are dissatisfied with their delivery experience are likely to shop elsewhere, then nearly a third of Gen-Zs we surveyed could switch brands if not happy. Younger demographics are also demonstrating more interest and commitment to environmental sustainability from their service providers.

Given that younger demographics are less loyal and spend more time online – potentially to voice dissatisfaction – then the risk from poor delivery experiences, if not addressed, is growing with time.

Preferences around sustainability

Customers are prepared to turn interest in sustainability into a financial commitment; 31% of respondents say they are willing to pay a premium to ensure eco-friendly delivery. Again, there are higher levels of interest among younger shoppers, with a third of Gen-Zs willing to pay a premium for sustainability, compared to a quarter of respondents aged 36-45.

43% of students are more likely than full-time workers (30%) to want eco-friendly delivery as an option.

It's notable that when asked which eco-friendly options they would prefer the most, customers were more interested in recyclable packaging and getting information on options to reduce carbon footprint than in rewards or discounts for sustainability.

40% of respondents say they would prefer eco-friendly packaging compared to just 18% who said that loyalty points would be their preference.

Younger shoppers are also the most information hungry. Gen-Z is the cohort most likely to value information from a retailer about how they, as an organization, are committing to sustainability.



1/3 of Gen-Zs are willing to pay a premium for sustainability

"It's worth noting that the environmental impacts of last-mile delivery extend beyond what customers see on the last mile – not just choices around packaging and e-vehicle fleets, but also making informed real-time route choices to avoid the pollution and energy-inefficiency of congestion. With imperatives to meet national and global decarbonization targets in the coming decades, it's a wake-up call to all stakeholders to accelerate and measure progress on the journey to net zero."

Deepak Patnaik, Global Head of Product Marketing, HERE Technologies

What next?

While the pressure is on, improving the quality of last-mile delivery experiences will in turn address challenges around brand loyalty and sustainability.

To remain competitive, retailers and logistics companies need to be able to understand and address what's happening in the supply chain. Capturing actionable data in real time to increase visibility enables more accurate planning, decision-making, forecasting and route optimization.

Together, Atos and HERE Technologies can help companies to identify and address key challenges outlined in this report around brand

loyalty, delivery experience and sustainability. Whilst some can be addressed by interventions within the last mile, our experience shows that often the root cause can be found further upstream in areas such as forecasting, procurement or warehousing.

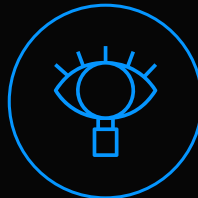
By integrating capabilities such as advanced analytics, location intelligence, automation, route planning and artificial intelligence,

we help retailers and logistics companies to improve their last-mile delivery operations. Using technological enablers can significantly increase customer experience, minimize costs and maximize sustainability to improve your own KPIs. Imposing the same service-level expectations on your third-party providers will drive up performance along the supply chain.

If you'd like to engage with Atos and HERE Technologies to explore your supply chain challenges and opportunities, here are three options:



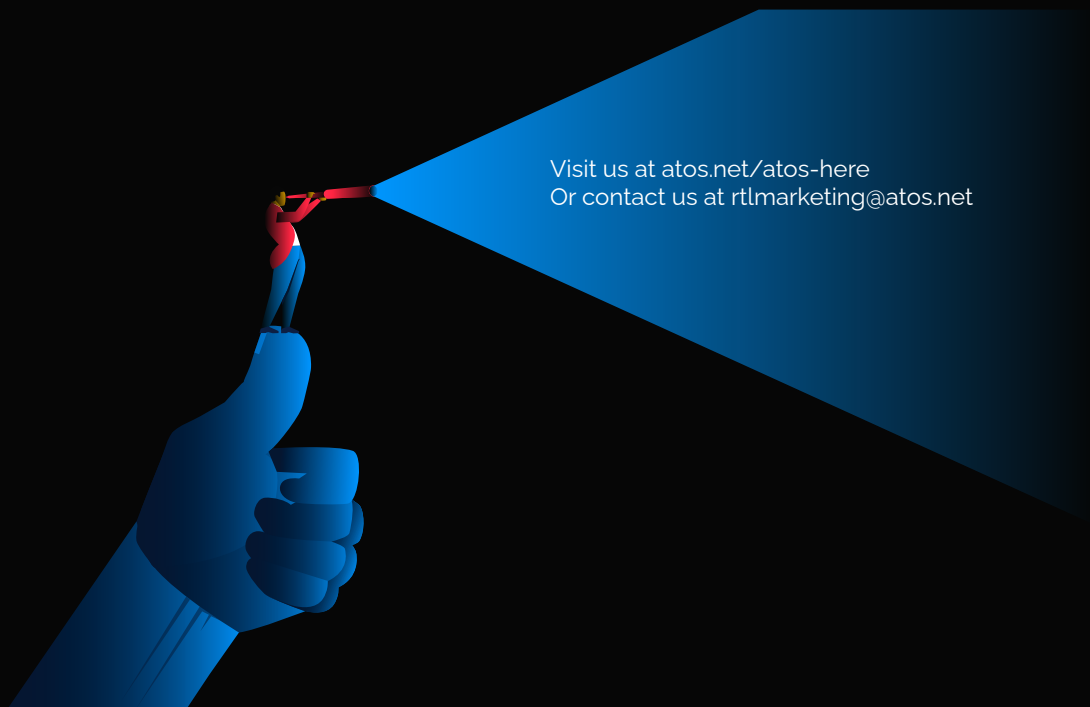
Need help in defining your next steps? We will perform a root-cause analysis



Know what you want, but not clear how? Let us help you define a vision and roadmap



Considering various options already? Allow us to put in a more competitive offer



Visit us at atos.net/atos-here
Or contact us at rtlmarketing@atos.net

About the survey

The Atos HERE Technologies survey, 'The cost of last mile delivery', was conducted in May 2021, asking 2,500 consumers about online purchase and delivery preferences and pain points. Survey respondents include:



1,000

in the
US



500

in the
UK



500

in
Germany



500

in
France



About Atos

Atos is a global leader in digital transformation with 105,000 employees and annual revenue of over € 11 billion.

European number one in cybersecurity, cloud and high performance computing, the Group provides tailored end-to-end solutions for all industries in 71 countries. A pioneer in decarbonization services and products, Atos is committed to a secure and decarbonized digital for its clients. Atos operates under the brands Atos and Atos|Syntel. Atos is a SE (Societas Europaea), listed on the CAC40 Paris stock index.

The purpose of Atos is to help design the future of the information space. Its expertise and services support the development of knowledge, education and research in a multicultural approach and contribute to the development of scientific and technological excellence. Across the world, the Group enables its customers and employees, and members of societies at large to live, work and develop sustainably, in a safe and secure information space.

[Find out more about us](#)
atos.net
atos.net/atos-here

Let's start a discussion together



Atos, the Atos logo, Atos|Syntel and Unify are registered trademarks of the Atos group. August 2021 © Copyright 2021, Atos S.E. Confidential information owned by Atos, to be used by the recipient only. This document, or any part of it, may not be reproduced, copied, circulated and/or distributed nor quoted without prior written approval from Atos.