

WHITEPAPER

Distributor's guide to micro-fulfilment

How to leverage technology to create partnerships and build revenue with last mile delivery



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Introduction

Micro-fulfilment and the new normal

The demand for fast order fulfilment and delivery services skyrocketed following global lockdown, seeing in a new era of challenges – but also opportunities – for distributors.

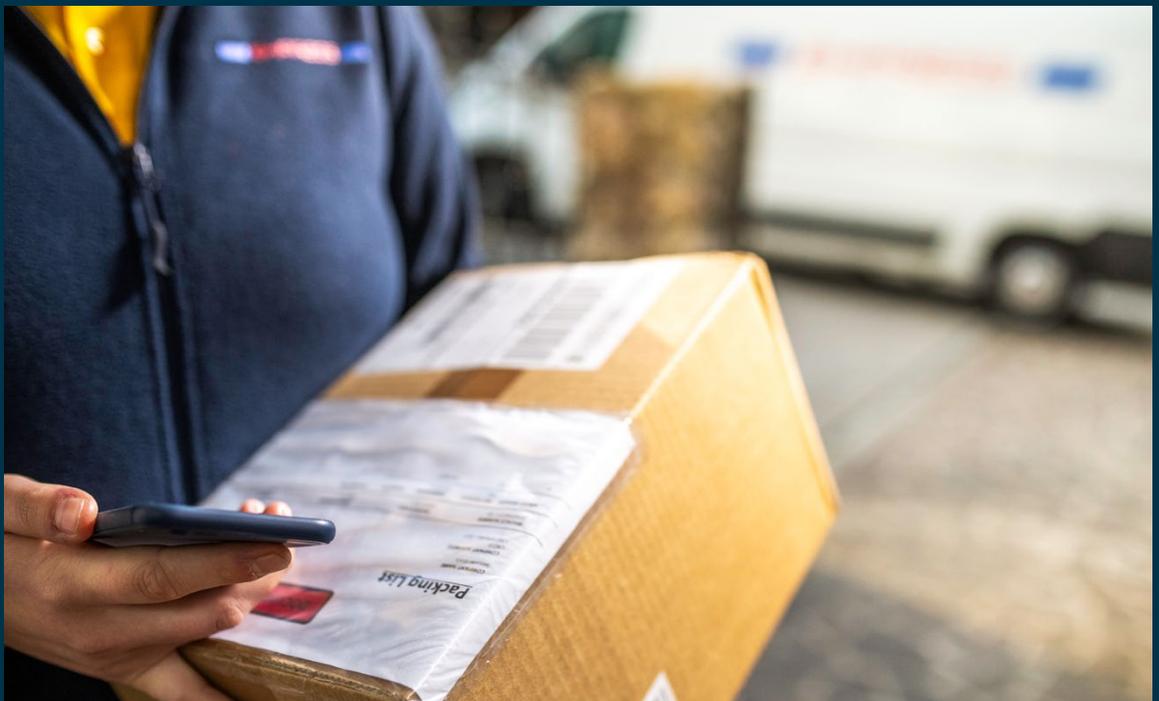
Even market-leaders Amazon have ironically felt 'The Amazon Effect', but it is distributors who face the most challenging re-evaluation of their role in e-commerce as retailers and direct-to-consumer brands focus on building their own end-to-end supply chains.

For example, the strategy of Amazon and competitors like Tesco and ASOS is to build a hyper-efficient supply chain by investing in fulfilment centers which provide greater local access to inventory, potentially knocking out the need for the traditional distributor.

However, distributors are well-placed to ably support this market for micro-fulfilment - otherwise known as delivering high volumes of small orders in the last mile to individual residences. They can:

- Offer sorting and packing services before delivery
- Deliver to individual residences and businesses
- Support different levels of same-day delivery

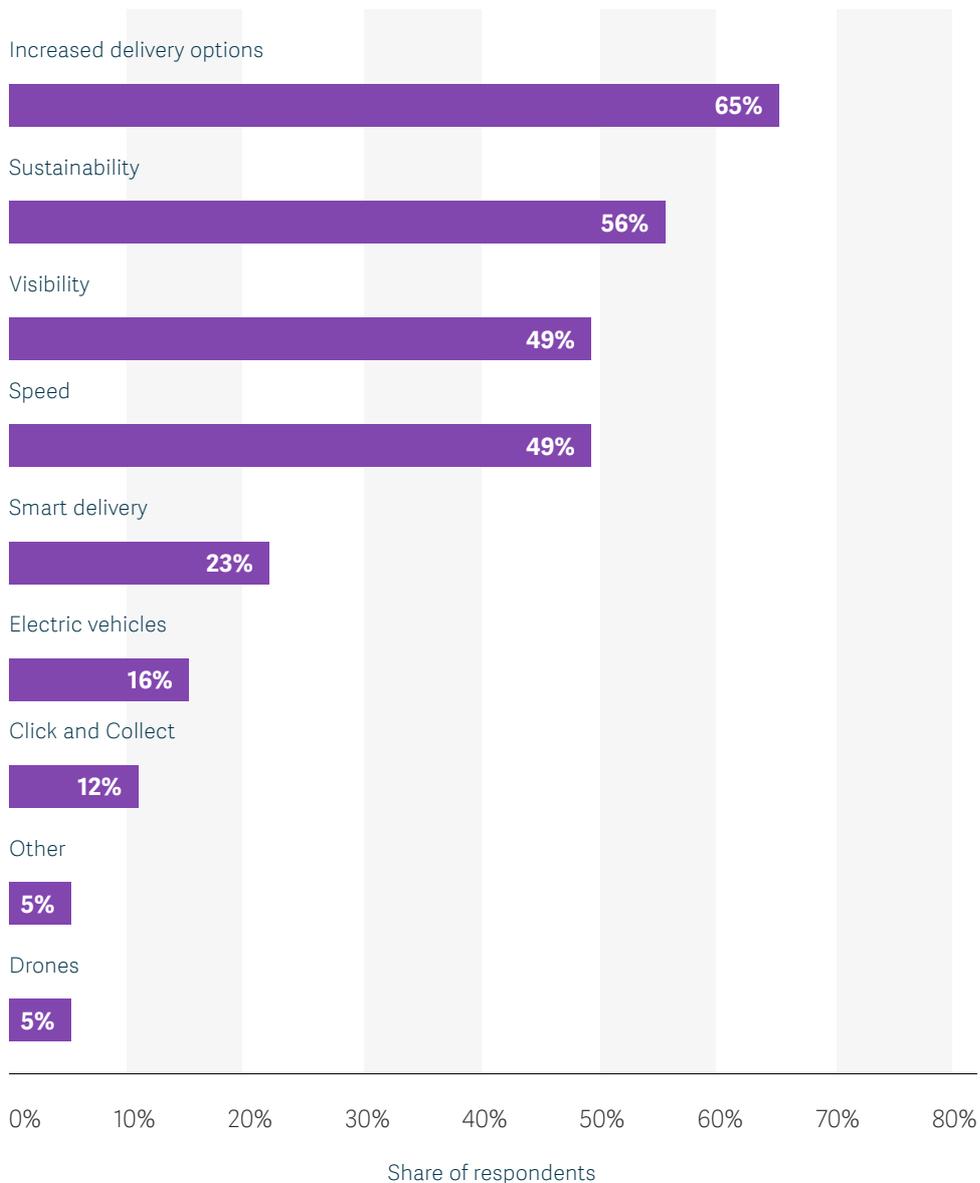
To do so, they will have to invest in the relevant tools that will a) broker new partnerships and b) drive personalisation and innovation.



Appetite for change

According to EFT's global Supply Chain Last Mile Report 2020, 65% of retail delivery and logistics providers worldwide believe increased delivery options to be their most important focus over the next three years¹.

Which areas of the last mile do you think will be the most important in the next three years?*



* Sources: etf; Dassault Systemes. Published by eft. Source Link: Supply chain last mile report 2020, page 19. February 2020.

¹ <https://discover.3ds.com/supply-chain-last-mile-report-2020>



In addition, 35% of logistics industry professionals see e-commerce fulfilment as a trend that will be maintained or grown over the next 12 months, despite higher trade barriers².

So, how can distributors move forward? Technology is the way for distributors to identify and evolve these micro-fulfilment opportunities.

This guide will help you to understand the benefits and requirements for a micro-fulfilment strategy. We'll explain:

- The challenges with data, skills, and cultural gaps that distributors must address
- How a sharing business model can be beneficial - without high investment costs
- How technology redefines collaboration for distributors
- What distributors should do to prepare for market changes in the future

“35% of logistics industry professionals see e-commerce fulfilment as a trend that will be maintained or grown over the next twelve months.”

²<https://www.agility.com/insights/wp-content/uploads/2020/02/Agility-Emerging-Markets-Logistics-Index-2020.pdf>

What is micro-fulfilment?

Micro-fulfilment is the use of small, heavily automated facilities located near areas of high demand to lower delivery costs and timeframes. There are two components to a successful micro-fulfilment operation: software management systems for processing online orders, and the physical infrastructure to pick out items for packing and delivery.

Micro-fulfilment centres are much smaller than warehouses that typically need to be on the outskirts of cities. Instead, micro-fulfilment centres are compact and can be set up within cities, ensuring quicker service to a large segment of customers.

There is an opportunity for distributors within both of these components. Distributors are taking advantage of the need to get things delivered faster by offering last mile delivery services—including picking and packing orders ahead of delivery. According to EFT's global Supply Chain Last Mile Report 2020, 61% of logistics service providers are responsible for the planning of their customers' last mile delivery processes, with just 8% of retailers choosing to plan themselves, or outsource the organisational aspects³.

Last mile delivery is expensive for retailers to handle in-house. Many retailers and direct-to-consumer brands lack the scale and capital required to deliver their own products at the necessary speed and accuracy, thus the need to hire a distributor. The Supply Chain Last Mile Report shows that the majority choose parcel or postal services to fill the gap (82%), but the need for simple and fast delivery services make click and collect (25%) and third-party pickup points (32%) a growing trend⁴.

One example of a recent Click and Collect partnership is XPO Logistics and Samsung Climate UK. XPO is managing last mile distribution for Samsung 10 by housing its entire UK stock of air conditioning units in 10 regional distribution hubs in Crick. XPO offers a prime location for Samsung Climate—within next-day delivery range of 95% of its UK customers. And Samsung is leveraging XPO's fleet of 18-tonne tail-lift trucks to deliver more units.



^{3/4} Dassault Systèmes. Supply Chain Last Mile Report 2020

Collaboration is key

At its core, a micro-fulfilment strategy for distributors begins with collaboration. Distributors need to find new ways to partner with their customers to become more efficient for the end customer. That means re-imagining workflows and identifying where distributors can integrate to move closer to the end customer.

The sharing business model is one way to do this. Distributors can leverage their delivery and storage resources to offer retailers and direct-to-consumer brands more reach and faster delivery options without the added overhead.

Sharing fleets and networks

Distributors can leverage their fleet and network to partner with businesses looking to expand their delivery reach and/or offer same-day delivery service. For example, InnerCity RailFreight is expanding on its same-day delivery offering by adding links to over 100 UK trains to its fleet of electric vehicles and cargo bikes. They can partner with businesses of any type, from retail to food service, to offer more area coverage that is 100% electric.

Eco-friendly delivery is critical for distributors to attract the 82% of retailers and direct-to-consumer brands we mentioned earlier that choose parcel or postal services for last mile delivery. As brands become more conscious of environmental sustainability, fleets and networks that prioritise delivery that is faster and greener, hold a key differentiator in this space.

Sharing facilities

Distributors that have access to storage facilities can rent space to multiple direct-to-consumer brands that are looking to expand their product reach without investing in a warehouse space of their own. Distribution centres can act as multi-tenant micro-fulfilment centres that provide an efficient last mile performance while cutting back on overhead costs. Because micro-fulfilment centres don't have to be much larger than 3,000 square feet (in comparison to a traditional 10,000 square foot distribution centre), brick-and-mortar locations, dark stores, and warehouses are potential spaces to offer.

Access to facility space can also be the answer for the 32% of retailers and direct-to-consumer brands who choose third-party pick-up spots as their last mile solution. Distributors can partner with them to store customer orders at the facility for customers to pick them up. Personalised locker systems are popping up around Europe for retailers whose customers are worried about package thieves.

Better technology, better collaboration

Technology plays a major role in how distributors can collaborate to make new partnerships. In fact, it's the catalyst.

Data analytics tools

Simply collecting data isn't enough. Data analytics fuels the intelligence needed to identify efficiencies and revenue opportunities. Anecdotal analysis of historical data can draw out valuable market insights to inform a distributor's scale-up strategy.

Creativity with data is a necessary growth tactic, says the founder of PipeCandy (a DTC consulting firm) Ashwin Ramasamy.

PipeCandy has worked with major distributors like UPS, Australia Post, Royal Mail, Post Canada and others.

"Data analytics empowers distributors with a feedback loop and faster reaction speed," he says. "It's one thing to launch a partnership channel and it's totally another to have the data and analytics backbone in place to take advantage of all the possible outcomes."

"Data analytics empowers distributors with a feedback loop and faster reaction speed."

Electronic data exchange

Increasing complexities around last mile delivery requires a better connection between warehouse and delivery operations. Shared communication platforms remove barriers to make it easier for distributors and partners to connect their networks using one system. Physical workflows can be standardised for optimal efficiency, and always-on connectivity means business can carry on 24/7.

IoT and predictive analytics

Connected machinery and devices have catapulted supply chain transparency and efficiency. The digital world allows distributors to dynamically connect with their partners. With in-transit visibility, they can track shipments as they move, with any delay triggering an immediate alert. With advances in IoT, information such as inventory temperature, weather, and GPS location could answer questions such as where exactly a product or material is located, which areas are causing delays in the supply chain, and whether certain processes are working better than others.



The challenges ahead

Where distributors need to adjust



Lack of data intelligence

Many distributors lack a comprehensive data analysis of today's new marketplace to tell them how to prepare for future business.

According to a PWC report, there is no other industry where so many experts ascribe such a high importance to data and analytics in the next five years than transportation and logistics at 90% - compared to an average of 83% in other industries⁴. The sector has never had access to more data, and there are vast opportunities here to improve performance and serve customers better.

Investing in a robust business management solution is the starting point to highlight the kinds of opportunities available to distributors, as globally-recognised consultant Lisa Anderson explains. Lisa's consulting firm specialises in end-to-end supply chain transformation that maximises the customer experience and enables profitable and scalable business growth.

"Start with a strong partner for ERP that is going to keep up-to-speed on the latest integrations. That relationship will essentially do all the work of setting up the technology structure you need to move forward with building a micro-fulfilment strategy," she says. "With automation, analytics and reporting tools that come with ERP software in place, distributors gain a better perspective of where opportunities lie, potential revenue forecast, and what other technology integrations to invest in to make it happen."

For example, a business management solution can pull a forecast of cost savings and revenue opportunities if a distributor made half of its facility space available to rent for micro-fulfilment. That could, in turn, be used to plan a budget and plan to replace the company's high-emission vans with zero-emission vehicles and reduce its carbon footprint within three years.



Inadequate culture and training

The same PWC report shows that only 28% of transportation and logistics companies consider themselves as ‘advanced’ in digital transformation. Why is this so?

Many distributors lack the digital-first culture that is necessary to collaborate the way a micro-fulfilment strategy requires. Training is crucial. 50% of PWC’s respondents said lack of digital culture and training is the biggest challenge facing transportation and logistics companies⁴. Upgrading the data infrastructure will open the business to emerging tools like automation and autonomy for warehouse management that requires specialised expertise to monitor controls and perform maintenance.

Factor in how you will address skills gaps either by training staff, hiring new talent, or outsourcing it all together.

They need to re-imagine traditional roles and workflows to facilitate the types of partnerships involved. Stakeholders must adopt technology as a standard work tool for success.



Automation is reshaping the workforce

Always-on labour and connectivity are critical elements of a sustainable micro-fulfilment strategy.

The market change brought on by the pandemic only exacerbated the necessity to fulfil orders in real-time. Automation is already replacing some of the labour-intensive processes either in full or in part. For example, automated loading and unloading, package delivery, and even automated vehicles are already being tested and implemented in some cases.

This type of technology can revolutionise the workforce in the industry, not just by replacing redundant tasks, but by making some roles more efficient, like augmented reality solutions that give drivers real-time information about their environment as it relates to the packages on board.

“We’re still pretty far off from seeing some of these things happen, but distributors have to start looking at the big picture of the next three to five years,” Lisa explains. “Distributors have to start with a strong ERP partner that’s going to keep up to speed on the latest integration capabilities, so it becomes as simple as deciding which option is most applicable.”

Building a foundation for the future

Digitising is such a critical part of a sustainable business model for distributors, but as we noted earlier, the transportation and logistics sector has been slow to adapt.

Emerging tech trends like artificial intelligence and automation seem like the glaring solution, but the fundamental components of digitisation are the true foundation for longevity. “Investing in a robust business management solution is the place to start,” Lisa advises. ERP software will have AI and other technology built-in for a smoother transition to digitisation. The vendor acts as a true partner in that their software will integrate with newer technology such as transportation management and warehouse automation.

And as you’re exploring potential vendor partners, ask about their technology roadmap. “They may not have the next five years totally planned out, but there should be a placeholder that keeps you up-to-speed with future technology,” she says.

Lisa says customer needs, both now and in the future, should factor into the technology strategy.

“What customers need in the future is more important than even thinking about technology. Distributors need to figure out where they can solve more customer problems and factor that into their technology infrastructure.”

Given the effects of the pandemic, it’s clear that technology is the only way to navigate uncertainty successfully. Adopting new technology won’t be easy, but distributors must remain committed and steadfast in the transformation to build the agility they will need to compete.



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