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China Driving Change in Last Mile Delivery

BY BJARNE BAUER PRESENTED BY **NAI Global**



The last mile is undergoing a major transformative shift in countries around the world. The increasing demand for shorter delivery times from an ever-growing population of online shoppers is pushing the industry in an entirely new direction. And while e-commerce makes up 10% of all retail sales in USA, it is forecast to be a staggering 28.6% of sales in China in 2018.

The developing nature of the Chinese economy, alongside an unparalleled openness to new technologies, means it is extremely well-placed to become a world-leader in last mile solutions. Although, it is very difficult to replicate these conditions in other countries, the direction taken in China could even point to the future for other more developed nations. This article will explore some of the factors shaping last mile solutions, as well as some examples of the resulting innovations.

Driving Forces

As in other areas of the world, a key driving force for innovation is the development of internet giants whose foundation business is e-commerce. The company that can develop the best last mile solution before the rest could potentially take swathes of the market, as nothing draws the modern-day consumer like convenience. Alibaba and JD.com are the big players competing for this prize in the Chinese market.

A second element in the picture is labor, which accounts for 50% of delivery costs. With parcel volume set to more than double between 2016 and 2020, there will be a labor shortage within the distribution industry and thus labor costs are set to rise yet further.

Innovations

Alibaba and JD.com are working to break the traditional divide between online and offline retail, an approach coined 'new retail'. One of the key facets of the strategy adopted by the two companies is the targeting of convenience stores. Convenience stores are a growing industry in many countries around the world and not least in China. The two internet giants have adopted a franchise strategy to open potentially millions of rebranded convenience stores using the already established family-run stores spread across China.

As one part of their last mile strategy, it provides millions of conveniently located pick-up points that could vastly reduce the required delivery workforce. Instead of two or three delivery men on electric scooters, all of the parcels for a given area could be left at convenience stores for customer collection. This is hardly innovative thinking and could start to look rather ironic as we approach a full circle, back to collecting goods in stores. However, it has to be said that it makes sense. Arguably, consumers have never had a problem with travelling to traditional stores. The inconvenience came in the form of not being able to find exactly what one wanted for a reasonable price. By using online retail as the platform for decision making and physical stores for the collection process, e-commerce businesses may have found the perfect solution.

Labor costs are a major concern for all actors in the distribution process. Couriers are facing a major problem in that they have already hit the limit in terms of delivery volume. A traditional courier can typically deliver 100 parcels per day, which is one delivery every 5 minutes over an 8-hour day. This has led to the introduction of 'crowd delivery', in which any member of the public can opt to deliver parcels in their area in return for a small payment (e.g. 6 yuan per parcel). It seems at present that this concept only has the capacity to function as

supplementary to the main couriers, but it may have the potential to be a key element of future last mile solutions.

The issue of fragmentation within the industry is perhaps the most China-specific challenge and it is further complicated by the cross-industry competition that means each actor in the supply process is competing to control other parts of the chain. E-commerce companies fear that they will be forced to pay higher rates should they allow other businesses to control distribution and especially the last-mile. Likewise, traditional express companies fear that handing over control of the last mile to a third party may impact profits, while they are wary of e-commerce companies establishing their own networks.

It is conceivable that one major company will arise, putting an end to the current fragmented system. However, this company may not be one of the current group vying for the predominant position. Instead, the eventual winner may be a company that can provide a solution for integration, such as Cainiao. Rather than directly entering the distribution industry, Cainiao provides a software-as-a-service solution for the established players. Using big data solutions, they can integrate a variety of services, such as pickup, across-town transportation, storage, secondary packaging and last-mile delivery. They also offer a major advantage to express companies in the form of sales forecasting using big data collection. By collecting data from a wide range of sellers and distributors, Cainiao can more accurately predict sales volume, thus allowing companies to ship items for a week where they previously may have made daily deliveries.

Cainiao may also provide a partial solution to a labor-related problem. The current lack of standardized procedures increases labor costs in a number of areas, such as parcel collection, where fees can be negotiated on an individual basis. Cainiao's integration of services attempts to bring greater transparency and standardization to this process, making all transactions visible on a centralized system.

As elsewhere in the world, the last mile is undergoing a transition period in China. Although various potential solutions are emerging, it is the prospect of a new integrated business model for the industry that could be the most innovative

solution. A deeper integration and consolidation of resources could provide great advances in last mile delivery. And, perhaps this model will be setting the standards for countries around the world in the near future.

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