



Dedicated to the Last-Mile

**QUICK GUIDE TO OUTSOURCING
HOME DELIVERY LOGISTICS**



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QUICK GUIDE TO OUTSOURCING HOME DELIVERY LOGISTICS

Introduction

The home furnishings industry is changing dramatically. While it is still a predominantly family owned and operated industry it doesn't look like it did 10 years ago, and it certainly won't look like it does now 10 years from today. For family businesses that's a scary thought. There are increasing numbers of online retailers, ever-changing demands from omni-channel customers, innovations to supply chain models and technological changes that present great opportunities for your business.

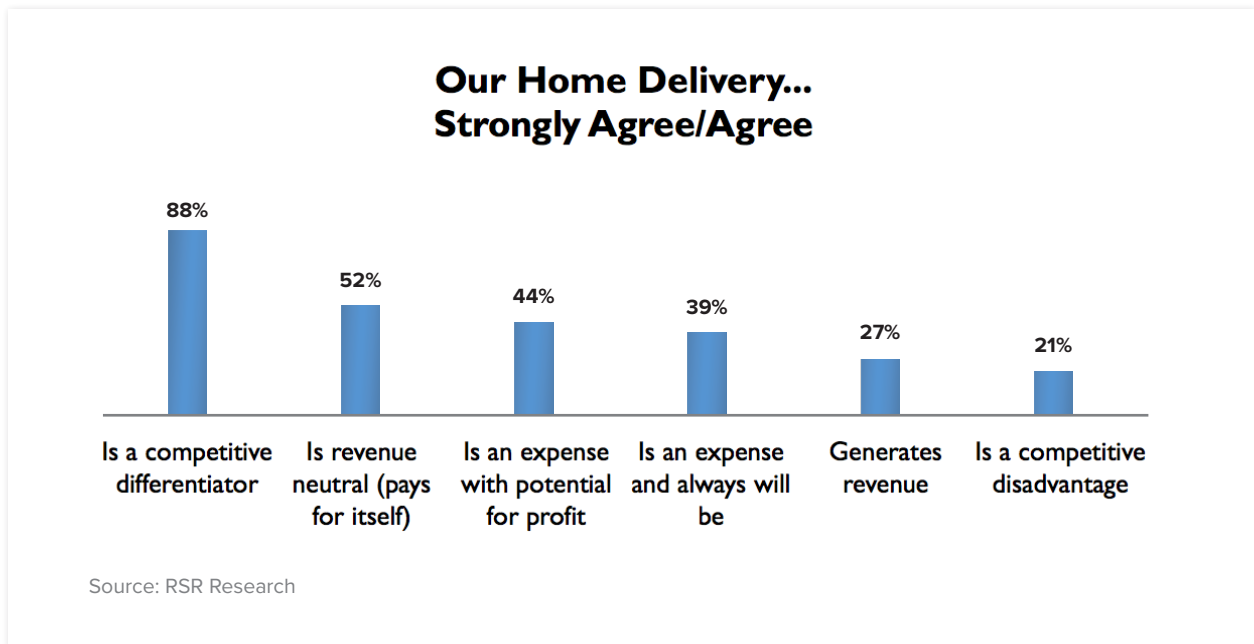
With local and regional retailers in mind we've created this e-book to help you make an informed decision about what's best for your long term success.

Taking the Wheel

Why consumers are driving retailers to outsource home delivery

Home delivery is not just about scheduling a delivery- it's about the service. Customer demands have increased from simply having the option of receiving a delivery to now being able to select specific arrival dates, receive status updates while in-route, and have merchandise set-up – and if the right options aren't available you are likely to lose the sale.

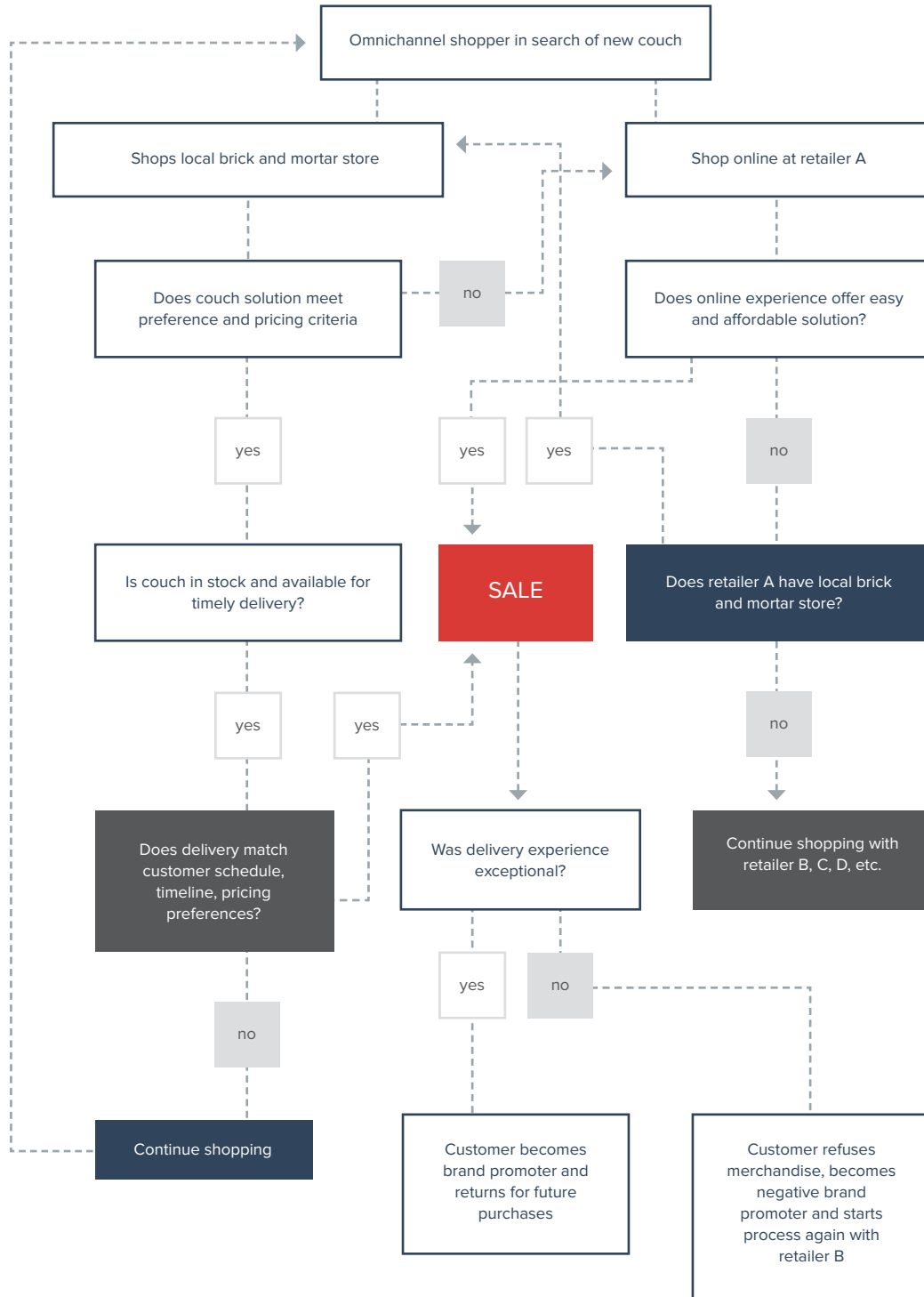
“...if the right options aren't available you are likely to lose the sale.”



Technological advancements have given consumers an endless amount of options and information. Customers have endless options of ecommerce retailers that can tailor the shopping experiences to specific customers and create multiple paths to comparable products. If a customer gets impatient in brick and mortar store and doesn't see the exact deal they are looking for it only takes a few seconds for them to have a dozen alternative options on their cell phone. Price competition due to the ease of comparison shopping has made it less profitable for retailers to offer attractive deals, especially on commoditized items. Younger shoppers lead the decline of brand loyalty fueled by the omnichannel shopping environment. Today's retailers have to focus on holding the attention of buyers in other ways to be competitive— like wide-ranging delivery options and exceptional customer service.

“Younger shoppers lead the decline of brand loyalty fueled by the omnichannel shopping environment.”

Omnichannel Shopper

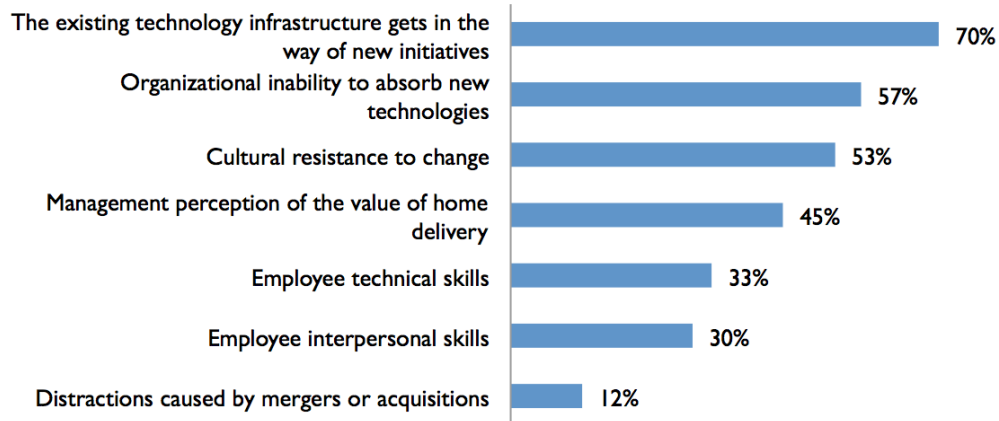


Answering the Call

Who is choosing to outsource?

When operating within a small footprint many furniture retailers prefer to do their own home deliveries, if not required to for lack of alternative options, but as they grow into multi-store locations they may find themselves in an unfamiliar place—the home delivery business—and are desperate to identify the best processes to manage fulfillment demands. Turning to logistics service providers (LSPs) and 3rd party logistics providers(3PLs) is a smart way to outsource this task to experts.

**Top Three Home Delivery Organizational Inhibitors
(All Respondents)**



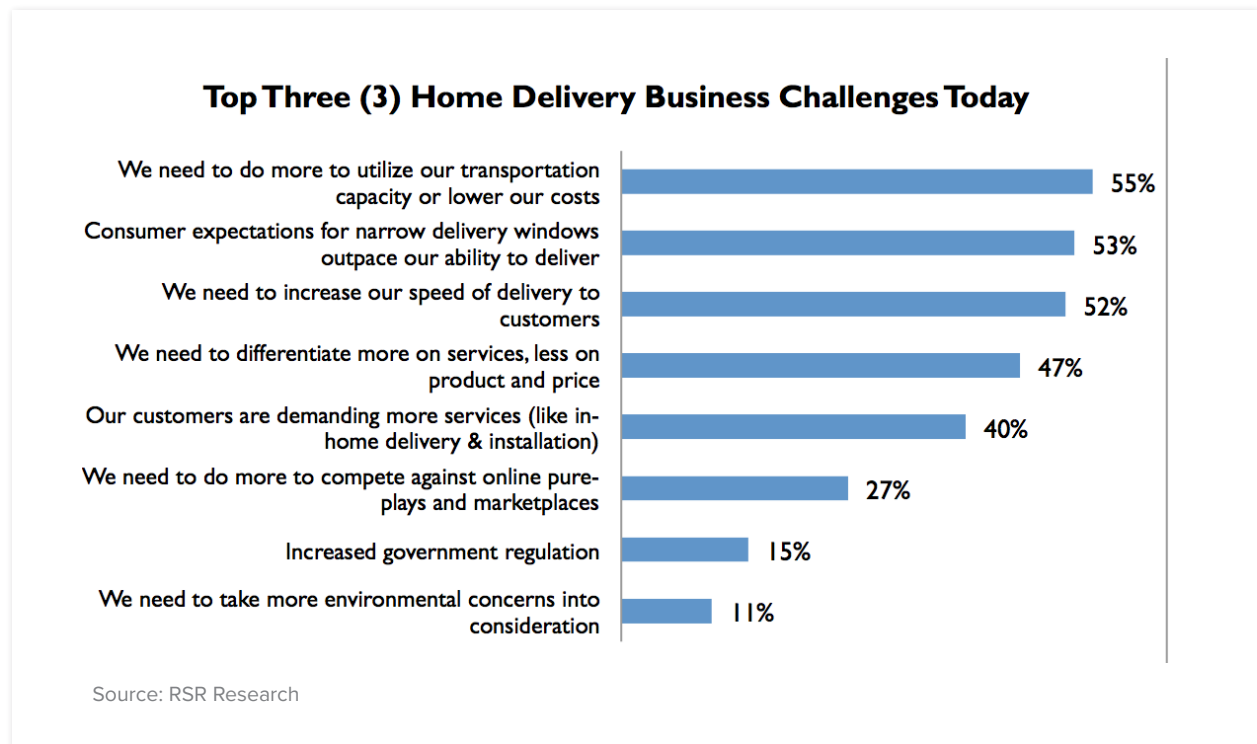
Source: RSR Research

As retailers grow in size and service offerings it's a natural progression for outsourcing to occur and more professional service offerings to become the norm, although there are still some large retailers that continue to operate their own fleets as they consider delivery a core competency worth investing in.

The advantages of outsourcing deliveries

Specialization. Specialization. Specialization. The fact of the matter is that retailers are great at many things, but managing the back of the house is typically not a core competency. Unfortunately, this necessary evil has arguably the largest impact on any retailer’s long-term success. Partnering with a logistics company that specializes in home delivery offers a unique advantage that you wouldn’t have otherwise. Experience, knowledge and resources dedicated to doing one specific thing.

“...retailers are great at many things, but managing the back of the house is typically not a core competency.”



What's the Worth?

The cost of outsourcing

The reason so many retailers outsource is because they can gain efficiencies that aren't possible with an in-house delivery operation. Of course the ultimate cost will depend on specific requirements and objectives but you can assume that the cost of using a 3PL vs. hiring employees will be reduced by 10-15% on average.

Home delivery for large products is more complex than for parcels

	Parcels	Large products
Density	<ul style="list-style-type: none"> • 13 stops per hour • 4 to 5 minutes per stop 	<ul style="list-style-type: none"> • 1.7 stops per hour • 35 minutes per stop
Delivery team	<ul style="list-style-type: none"> • 1 person 	<ul style="list-style-type: none"> • 2 people
Homeowner interaction	<ul style="list-style-type: none"> • Minimal to none because parcels left at the door • Signature rarely required 	<ul style="list-style-type: none"> • High because of in-home installation and Q&A • Order acceptance required
Team member requirements	<ul style="list-style-type: none"> • Driving • Some lifting 	<ul style="list-style-type: none"> • Driving • Heavy lifting • Customer interaction • Technical know-how
Liability issues	<ul style="list-style-type: none"> • Limited 	<ul style="list-style-type: none"> • Unlimited because of in-home delivery and setup
Infrastructure requirements	<ul style="list-style-type: none"> • Limited scheduling and rescheduling • Tracking • Returns management • Call-center coordination 	<ul style="list-style-type: none"> • Heavy scheduling and rescheduling • Tracking • Returns management • Call-center coordination • Call-ahead confirmation

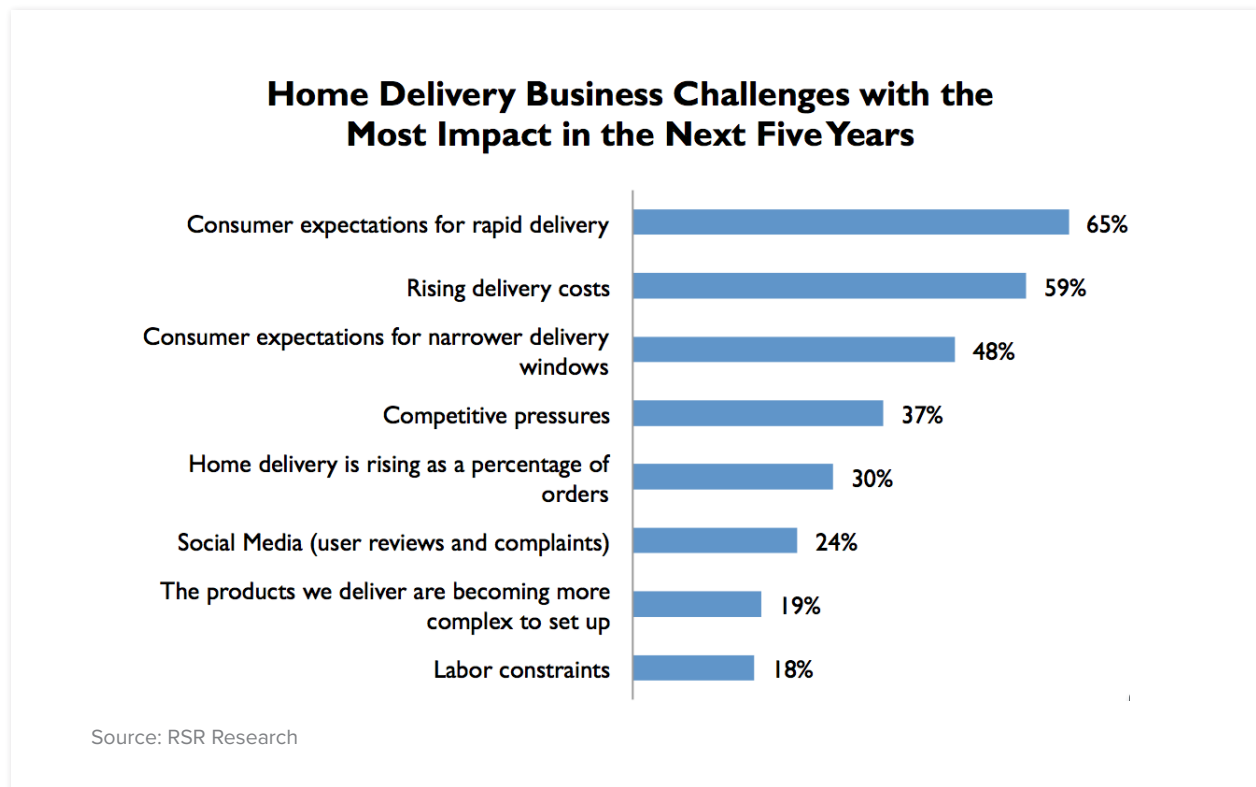
Source: A.T. Kearney analysis

Food for thought

In order to understand your total cost of delivery it is important to consider the following:

FLEET MAINTENANCE

One of the largest fixed expenses is the delivery trucks and equipment required. Consider the total costs associated with repairs, fuel, insurance, washing, and other regular maintenance. Are there ever days that a delivery truck isn't being utilized, either because of maintenance or due to a lack of deliveries on a given day. 3PL's engage in various solutions to maximize the productivity of a fleet, including using 2nd drivers to use the same truck 7 days a week, pulling in trucks from other operations that aren't delivering on the same days, or contracting with rental vendors that offer replacement vehicles should one need to be repaired or replaced for an extended amount of time. Leveraging a network of partnerships makes this challenge more economical.



WORKFORCE

In addition to the expenses of payroll, overtime, worker's compensation and benefits, how much does it cost to recruit, train and retain a delivery staff? As your delivery volume increases or decreases do your costs also fluctuate? In other words, if you normally operate with 5 delivery teams and another week you only require 4 delivery teams are you able to utilize the additional delivery team somewhere else or is that an unproductive week still on your payroll? What happens when you have increased sales and need to run an additional delivery day that week-does that require you to pay overtime? When contracting with a 3rd party you only pay for the deliveries that are completed.

PRODUCTIVITY AND INCENTIVES

Are all of your delivery teams equally as productive or do some complete 14 deliveries in the time it takes others to complete 12? Wouldn't it be better to incentivize the more efficient team with a higher wage than the slower more ineffective teams? Performance metrics should be tied to compensation to incentivize delivery personnel to work effectively.

ADMINISTRATION AND MANAGEMENT

If you consider your delivery operation to be a competitive advantage what are you doing to be competitive? Is your staff aware of industry changes and regulations that impacts the way you operate? Do they attend educational conferences or training to learn best practices from other logistics experts dealing with similar challenges? 3PL's specialize in home delivery and if you dissect any 3PL you will start to identify specific efficiencies gained by claims processing, compliance, education, training, technology, local, regional and executive support, etc. Being able to scale as your operation demands can offer a huge cost savings.

LOSS PREVENTION AND RISK MANAGEMENT

Hopefully you haven't experienced a serious accident, theft or home damage claim but even if you haven't what are you doing to prevent it from happening? In the scenario such an unfortunate event does occur who pays for the related expenses of damages, lawsuits, penalties, or losses? 3PL's offer various solutions to prevent and handle such unfortunate scenarios. Be sure to understand your options.

WHAT IS YOUR TOLERANCE FOR RISK AND LIABILITY?

Consider your options to reduce and mitigate risk. Apart from hiring a 3PL to take on this task it is important to understand their solutions as well. Do they have a compliance department? Are they compliant with all rules and regulations in your markets?

WHAT IS YOUR ABILITY TO INVEST CAPITAL FOR NEW MARKETS?

Historically retailers would bare the financial burden to start-up new locations but now days many 3PL's will take on the initial investment without additional surcharges. This may help free up capital for use in other areas of your business.

WHAT TECHNOLOGICAL SOLUTIONS ARE BEST FOR YOUR OPERATION?

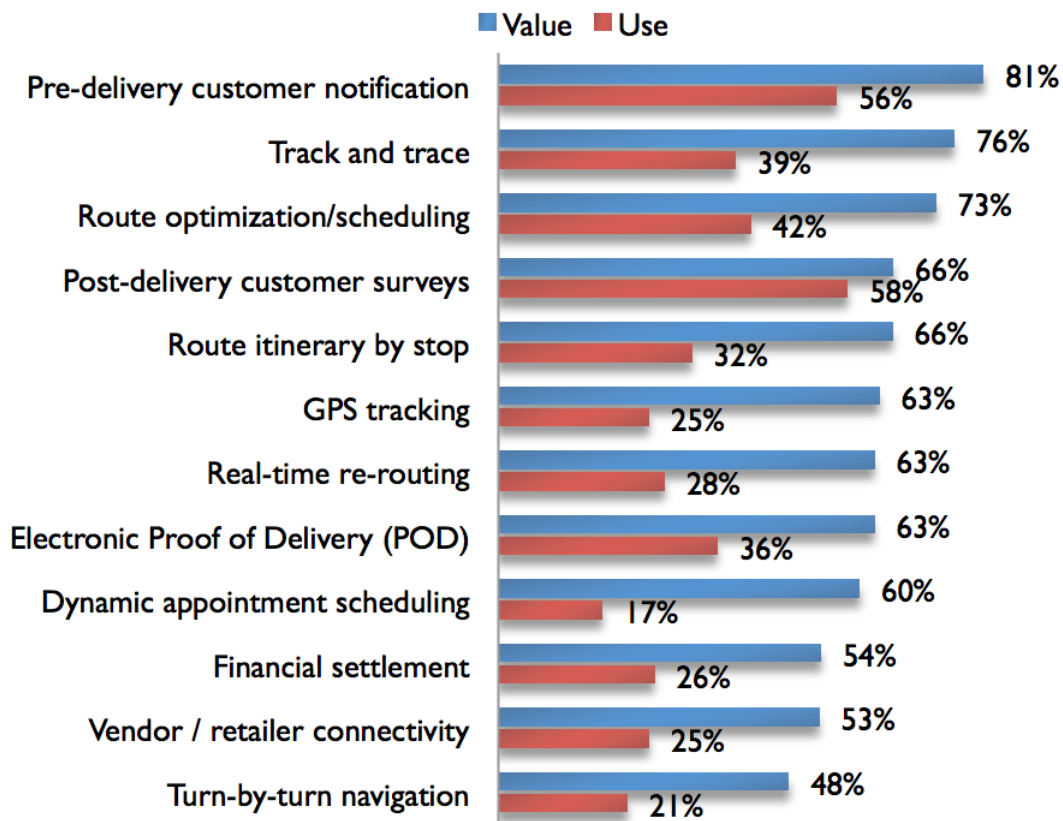
Technology is not a proxy for process. It's common for retailers to get excited about the potential new technologies can unlock and how they can overcome other skill set constraints. While it may be critical to invest in technology, the best technology in the world can't overcome poor processes. 3PL's can help identify which solution is best for your specific needs. However, it is important to understand what consequences might occur if a 3PL is requesting that you only use their internal technology offerings. Some may be a perfect marriage but in the scenario that you decide to go another direction or make upgrades

down the road you may not want to be locked into their old technology. Keep your options open.

IS YOUR VOLUME LARGE ENOUGH TO OUTSOURCE?

In order to be financially successful a dedicated 3PL may require anywhere from 2-7 trucks on a daily basis. If you only require a few deliveries a week then a dedicated solution is probably not the most affordable option. The more trucks you run the more options you have to scale and spread out the fixed cost across the entire fleet.

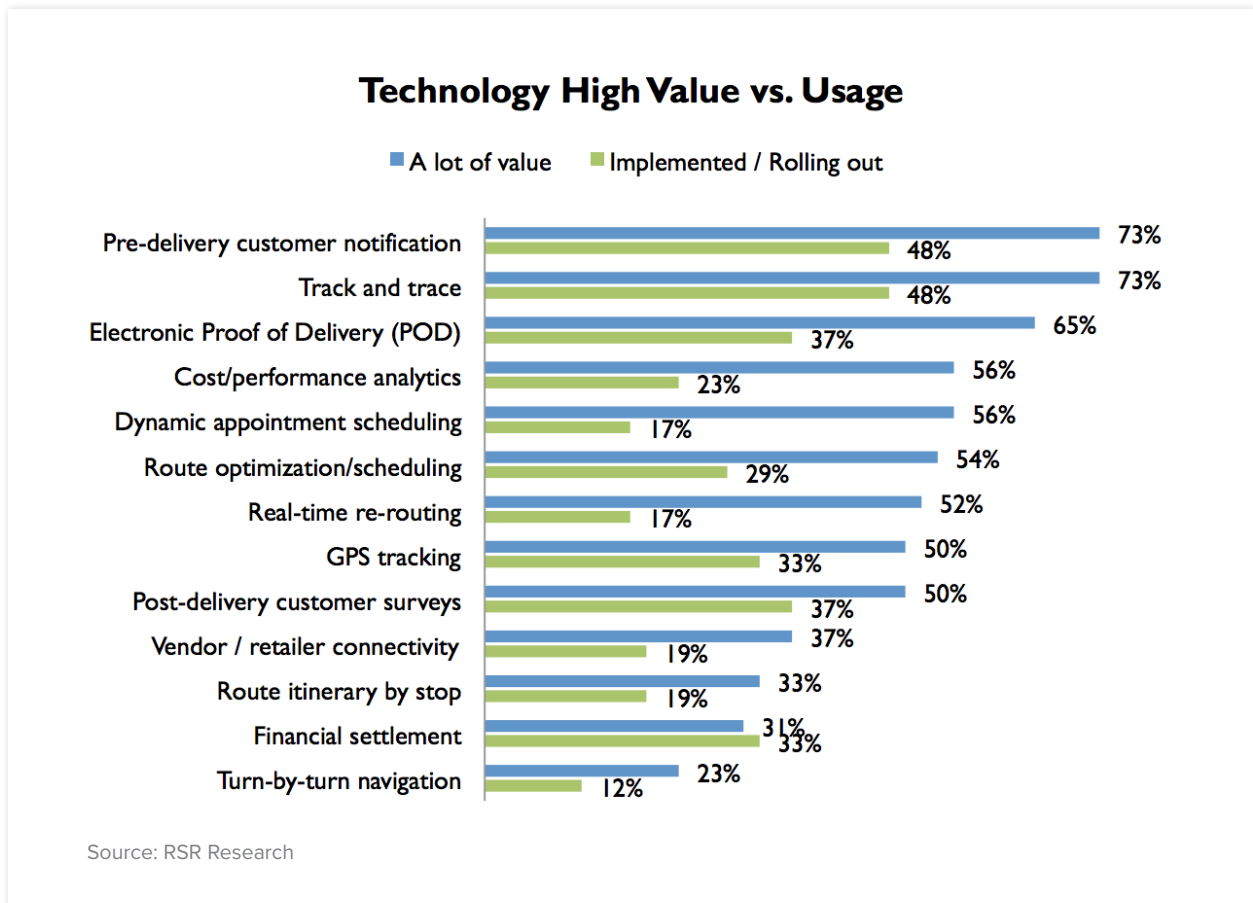
Home Delivery Technologies: Retailers



Source: RSR Research

Advice for all

1. Do a sincere self-assessment of competencies and capabilities.
2. Asses consumer expectations and compare your capabilities to your competitors.
3. Establish criteria for what your expectations are and then compare home delivery companies to see which aligns best with your objectives.
4. Once a home delivery carrier is selected it's important to involve them on other important aspect of your business. Sales, new stores, customer offerings, etc. even if they don't appear to involve home delivery it's more common than not that the 3PL will have valuable insight to help make other business decisions relevant.



Conclusion

Given consumer expectations for home delivery, the entire industry is doubling their efforts in post-sale processes. But with each retailer starting from a different level of maturity, the opportunities for each will differ.

While many retailers hesitate to admit how large the gap between customer demands and their actual capabilities are, few would deny there is need for improvement. It's tempting to rush to make changes given the pressure of consumer demands, but speed without strategy can be disastrous. Instead, retailers should consider all aspects of their business and determine how home delivery fits into their strategy. Is it feasible to pass costs on to consumers? Retailers may not want to pass costs on, but consumers' increasing expectations for narrower delivery window and high-touch delivery services may make avoiding some kind of charge inevitable.

“It’s tempting to rush to make changes given the pressure of consumer demands, but speed without strategy can be disastrous.”

Get to know consumers better and determine what they want now, what they might want in the future and how the delivery experience impacts your revenue opportunities.

CALL DIAKON FOR A CONSULTATION - 703.530.0677