Not Your Regular Mall-Based Stores: Part Two—Reducing Retailers' Last-Mile Delivery Expenses

NOT YOUR REGULAR MALL-BASED STORES

PART TWO—REDUCING RETAILERS' LAST-MILE DELIVERY EXPENSES

This report is the second in a three-report series in which Coresight Research and Fillogic explore new strategies for retailers to fulfill online orders using their mall-based stores. We discuss how retailers can save on last-mile delivery expenses by implementing such strategies.

- Consumers are increasingly demanding faster delivery. In a June 2021 Coresight Research survey, 42.0% of mall-based retailers reported that same-day delivery options are the most selected by customers. However, last-mile delivery accounts for at least 40% of total supply chain costs for nearly half of all respondents.

- Retailers are turning to store-based e-commerce fulfillment to meet consumer expectations and reduce shipping costs: Our survey found that cost savings in last-mile delivery comprise one of the top three benefits perceived by mall-based retailers of using stores for e-commerce fulfillment—with 45.3% of respondents citing this benefit.

- One of the ways in which retailers can reduce last-mile delivery expenses is through fulfilling online orders from their mall-based retail stores—a strategy that has saved nearly three in 10 survey respondents 8%–10% of total last-mile delivery costs.

- Urban warehousing, delivery robots and smart lockers are other strategies that retailers are employing to reduce last-mile delivery costs. Such strategies also benefit real estate developers and mall owners, which can capitalize on retailers' requirements for storage space in stores, warehousing space and locations for smart lockers.

Coresight Research x Fillogic: Not Your Regular Mall-Based Stores–Part Two

In today's retail environment, supply chain collaboration and innovation is vital amid increased pressure on the last mile—i.e., the delivery process of getting the product into the hands, or onto the doorstep, of the consumer. Many retailers are seeking out new ways to improve their sales and profits by offering multichannel fulfillment options to customers—including BOPIS (buy online, pick up in store), curbside pickup, ship to store and ship from store (SFS). Coresight Research has identified the sharpening of last-mile strategies as a [key trend to watch in retail](#).

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We explore the significant opportunity shipping from mall-based stores provides retailers and brands in our three-part series entitled "*Not Your Regular Mall-Based Stores.*" In this report—the second in the series—we discuss the benefits to retailers of shipping from mall-based retail stores, with a focus on last-mile cost savings. We leverage findings from a June 2021 Coresight Research survey of 150 executives at US mall-based retailers.

This report is sponsored by Fillogic, a logistics-as-a-service platform provider that converts underutilized space at retail centers into tech-enabled, micro distribution hubs.

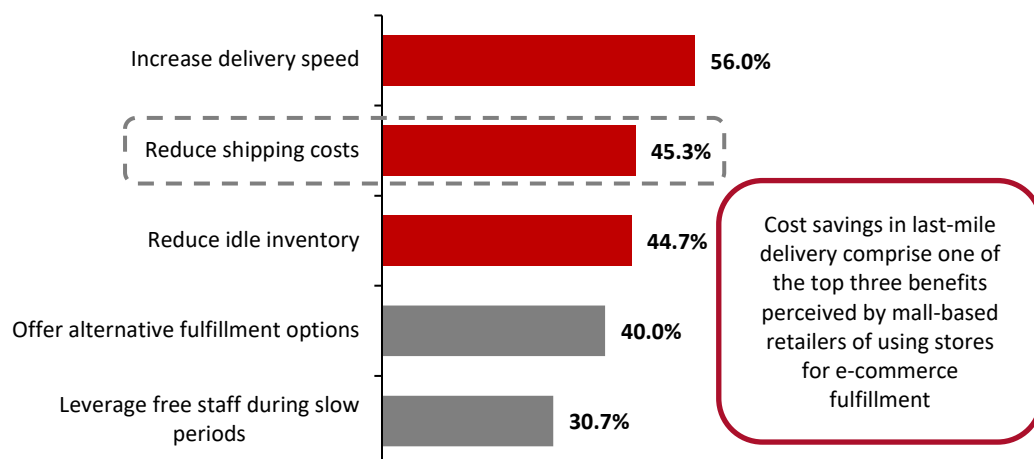### Reducing Retailers' Last-Mile Delivery Expenses: In Detail

Retailers Recognize the Benefits of Fulfilling Online Orders from Mall-Based Stores

Coresight Research's survey found that 77.3% of US mall-based retailers offer multichannel fulfillment options to customers, yet only 53.3% do some from their mall-based stores. Another 40.7% are planning to provide such options from their mall-based stores in future. As we showed in the [first report in this series](#), fulfillment options currently being offered by our survey respondents include BOPIS (44.0% of respondents), ship to store (40.0%), SFS (38.0%) and curbside pickup (30.7%).

There are multiple benefits to retailers of turning to their mall-based stores for e-commerce fulfillment. In addition to increasing delivery speed and reducing idle inventory, store-based fulfillment enables retailers to cut down shipping costs as they are closer to customers: These were the top three benefits perceived by mall-based retailers in our survey (see Figure 1).

With the Covid-19 pandemic having increased pressure on mall-based retailers' top and bottom lines—through store closures and steep brick-and-mortar traffic and sales declines amid a shift to e-commerce—we focus our discussion in the following sections on the fiscal benefits that store-based e-commerce fulfillment provides.

Figure 1. Top Five Benefits of Using Mall-Based Stores as Fulfillment Centers (% of Respondents)

Benefit	%
Increase delivery speed	56.0%
Reduce shipping costs	45.3%
Reduce idle inventory	44.7%
Offer alternative fulfillment options	40.0%
Leverage free staff during slow periods	30.7%

Cost savings in last-mile delivery comprise one of the top three benefits perceived by mall-based retailers of using stores for e-commerce fulfillment

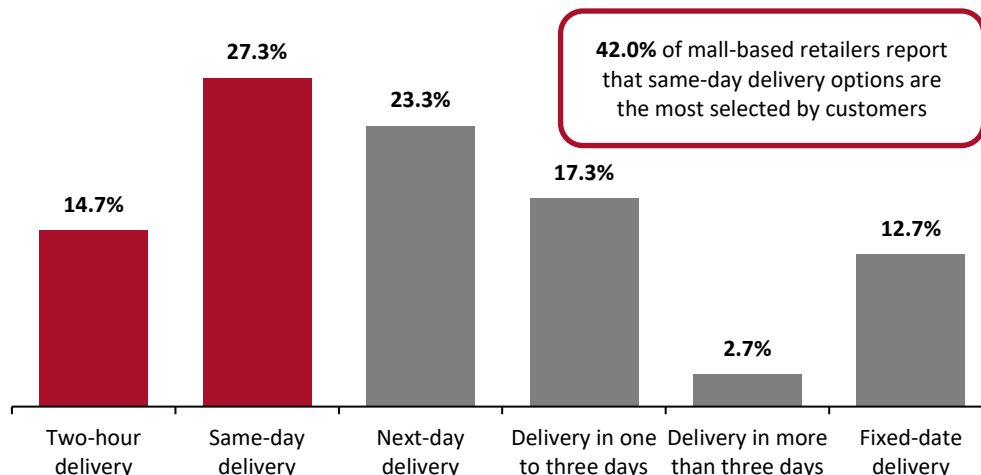*Retailers were asked to select all benefits that apply to them*
Base: 150 US mall-based retail executives
Source: Coresight Research

Last-Mile Delivery Costs Account for a Significant Share of Total Supply Chain Costs

Consumers are increasingly demanding faster delivery from retailers. According to our survey, fast delivery options are the most popular selected delivery option among consumers, with 27.3% of mall-based retailers citing that same-day delivery options are the most selected option by consumers. Only 32.7% of mall-based retailers reporting that delivery options longer than one day are most selected by customers (see Figure 2).

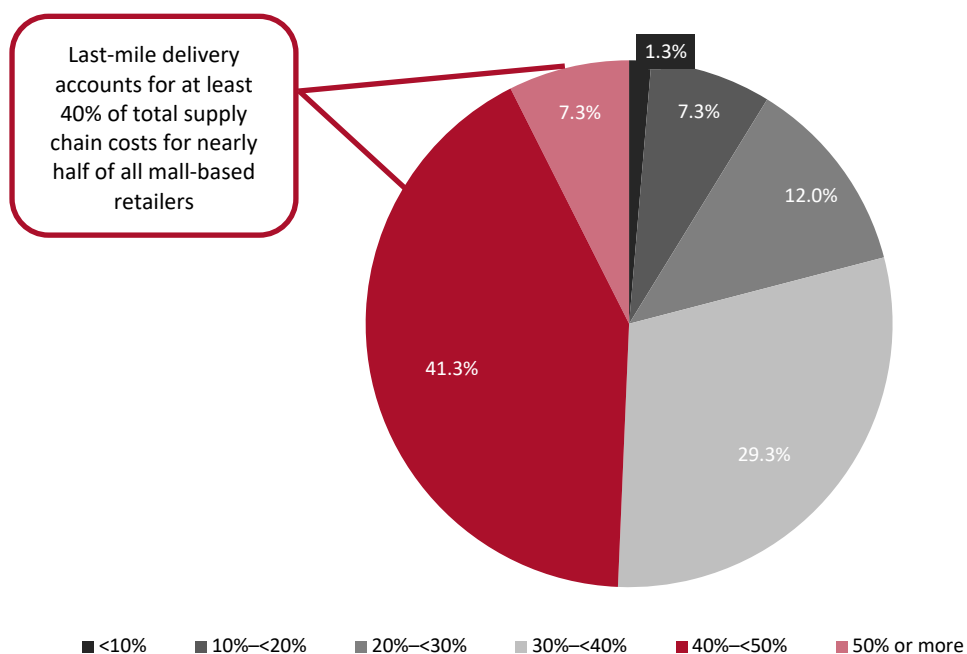**Figure 2. Most Selected Delivery Options by Customers (% of Respondents)**

> **42.0%** of mall-based retailers report that same-day delivery options are the most selected by customers

14.7%	27.3%	23.3%	17.3%	2.7%	12.7%
Two-hour delivery	Same-day delivery	Next-day delivery	Delivery in one to three days	Delivery in more than three days	Fixed-date delivery

Numbers may not sum to 100 due to rounding
Base: 150 US mall-based retail executives
Source: Coresight Research

It is critical for retailers to meet consumers' delivery expectations in order to remain competitive. However, e-commerce fulfillment is not cheap: Last-mile delivery accounts for at least 40% of total supply chain costs for 48.6% of mall-based retailers, according to our survey—and the 40%–<50% bracket was the most cited among our respondents (see Figure 3).

Figure 3. Last-Mile Delivery Costs as Proportion of Total Supply Chain Costs (% of Respondents)

> Last-mile delivery accounts for at least 40% of total supply chain costs for nearly half of all mall-based retailers

1.3%
7.3%
12.0%
29.3%
41.3%
7.3%

■ <10% ■ 10%–<20% ■ 20%–<30% ■ 30%–<40% ■ 40%–<50% ■ 50% or more

Numbers may not sum to 100 due to rounding
Base: 150 US mall-based retail executives
Source: Coresight Research

Strategies for Managing Last-Mile Costs While Meeting Consumer Demand for Fast Delivery

SFS Model

One of the ways in which retailers can reduce last-mile delivery expenses is through fulfilling online orders from their mall-based retail stores. This is primarily because stores are closer to customers than out-of-town warehouses. Our survey found that 28.6% retailers were able to save 8%–10% of total last-mile delivery costs by shipping from their mall-based stores, and 31.4% of retailers reported savings of 5%–8%.

- In March 2021, mall owner–Tanger Factory Outlets partnered with Fillogic, a logistics as a service platform provider, to help its retailers successfully implement SFS model at its Deer Park Center in Long Island. As part of the strategy, Fillogic will aid inventory management, and assist in same-day, next-day deliveries.

- Read the first report in this series for more on the SFS model: *Ship from Store Presents a Profitable Online Order-Fulfillment Opportunity*

Urban Warehousing: Localization of Micro-Fulfillment Centers

Accelerated demand for rapid order fulfillment has led to the rise in the popularity of urban warehousing—e-commerce companies are moving their warehouses into cities, closer to their customers. Andrew Chung, Founder of warehouse developer Innovo Property Group, said that the need for urban warehousing has been driven in part by retailers' requirements to "address shorter delivery times." Innovo Property Group is one of the real estate developers capitalizing on the idea; it has plans to build an 842,175-square-foot, five-story warehouse in Long Island City, New York.

Retailers including Amazon, IKEA, Target and Walmart have already explored urban warehousing. We believe that in future, more companies will adopt this strategy to facilitate faster and cheaper delivery.

Delivery Robotics

In order to reduce the labor costs associated with last-mile delivery, retailers are turning to autonomous delivery robots, drones and self-driving vehicles. Adopting autonomous robots can slash the cost of last-mile deliveries, from $1.60 per delivery (via human drivers) to $0.06 per delivery, according to Robotics Business Review.

Many large retailers are already testing some form of autonomous delivery solutions:

- Grocery company **Albertsons** partnered with Tortoise, a US-based technology startup in March 2021 to launch a pilot program at three Safeway stores in North Carolina. Through the partnership, the retailer is using remote-controlled delivery carts to make scheduled drop-offs to customers within a radius of approximately five kilometers.

- Starship Technologies partnered with **Save Mart Companies** in September 2020, its first grocery partner in the US, to autonomously deliver from its flagship store in Modesto, California.

- **Kroger** and **Walmart** have been testing a self-driving robot by robotics startup Nuro, delivering groceries and other small goods—and Nuro tested its second-generation delivery robot, R2, with the two retailers in 2020. Additionally, **Walmart** launched a pilot program with drone operator Flytrex in September 2020 to deliver select grocery and household items from Walmart stores in Fayetteville, North Carolina.

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Walmart's autonomous delivery vehicle, Nuro
Source: Walmart

Smart Lockers

Smart lockers are electronic storage solutions that enable retailers to store parcels at convenient locations—including store premises, shopping centers, public terminals and residential areas—for consumers to pick up. Once notified that their order is ready for collection, consumers can access smart lockers through various electronic means, such as by scanning a barcode, RFID tag or their fingerprint.

- Quadient, a France-based parcel-locker solutions provider, announced in March 2021 that its base of smart locker stations exceeded 13,000 worldwide, representing more than 600,000 boxes overall. According to Geoffrey Godet, CEO at Quadient, the company continues "to efficiently execute on [its] vision of building large, dense and open networks of locker stations in targeted countries, relying on patented technology and innovations as well as leveraging operational synergies and sales experience across our international teams."

Quadient's smart lockers
Source: Quadient

INSIGHT REPORT

What We Think

Mall-based retailers should turn to store-based fulfillment options to meet increasing consumer demand for fast e-commerce delivery while reducing last-mile costs. In addition to models such as BOPIS, curbside pickup and SFS, retailers can leverage innovative technologies to achieve these goals—including smart lockers and robotics. In addition, urban warehousing provides opportunity for mall-based retailers to move inventory closer to consumers and thus drive down delivery costs.

Such strategies also benefit real estate developers and mall owners, which can capitalize on retailers' requirements for storage space in stores, warehousing space and locations for smart lockers. Mall-owners could even offer concierge services and incorporate new fulfillment features into their business structure to provide convenience to shoppers and retail tenants.

In our third and final report in this series, Coresight Research and Fillogic will explore the challenges for mall-based retailers in implementing multiple fulfillment options and how these can be addressed by partnering with third-party logistics service providers to convert their stores into fulfillment centers.

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