Last-mile business, while down from the pandemic peak, sees slow but steady growth ahead

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During the pandemic years, the market for last-mile delivery of goods large and small into the home exploded. Sheltering-in-place consumers were building out home offices; buying new furniture and home fitness equipment; getting groceries, prescriptions, and school supplies delivered; replacing appliances; and upgrading home entertainment systems at a breakneck pace—with just about every product imaginable being ordered online. "It was like Black Friday every day," recalls Bill Lecos, executive director of the National Home Delivery Association.

And while the crazy surge days of the pandemic have subsided for these operators, last mile is still among the fastest-growing markets for freight transportation services. And within the last-mile space, the market for many "big and bulky" items, particularly those needing "white glove, over the threshold" delivery into the home, has remained resilient.

A 2022 study by the association and Armstrong & Associates projected that the big and bulky segment (whose revenues were estimated at $9.3 billion in 2022) would have a compound annual growth rate of 11.8% through 2025. That growth projection is backed up by encouraging trends for some key "white goods" products found in households.

Among the trends underpinning that growth is the continued steady progression of the furniture market away from the traditional "mom and pop furniture store on the corner, with their one delivery truck," observes Lecos. Capturing an increasing chunk of that market share are the Amazons, Ikeas, and Wayfairs of the world, selling and shipping assembled furniture bought online as well as "flat pack" items that are delivered, unpacked, and assembled in the home or office.

An Armstrong & Associates report in September (citing U.S. Census Bureau data) illustrates the somewhat encouraging trends for certain goods. Shipments of furniture were up 1.5% in the first half of 2023 over 2022. And while quarterly sales for furniture and home furnishing stores were down 3.2% for the first half of 2023, the trend is coming back in line with pre-pandemic volumes.

Similarly, new orders for electrical equipment, appliances, and components were up 6.4% in the first half of 2023 over the same period in 2022, while shipments were up 8.8%. Household appliances new orders were up 3.5% in the first half of 2023 over the first six months of 2022. And orders for manufactured durable goods were up 4.6% in the first half of 2023, with shipments of durable goods up 4.5% over the same period in 2022.

The market has settled into a more rational level of growth, says John Hill, regional head of omnichannel for Maersk's last-mile business, formerly Philadelphia-based full- and last-mile operator Pilot Freight Services, which Maersk acquired in May 2022. Sales of some traditional big and bulky last-mile products, like furniture, mattresses, appliances, and home electronics, have held up well, Hill notes. But that's not the case across the board. Sales of other hard goods that once provided strong last-mile volumes, like home fitness equipment, "have pretty much faded," he says. During Covid, "everyone was outfitting their homes [with fitness gear]," Hill recalls. Now, "they've gone back to the gym, and in many cases, that treadmill has become a coat rack."

THE CASE FOR OUTSOURCING

With last-mile volumes settling into a lower but more consistent growth trend, logistics service providers potentially have another reason for optimism—increasing interest in outsourcing last-mile delivery operations among companies that today are running their own fleets of trucks and drivers to provide the service.

Satish Jindel, principal at transportation data analytics firm ShipMatrix, agrees that the big and bulky market has weathered the storm better than most. “It’s had fairly good growth,” with large operators like Ryder, Werner, J.B. Hunt, and RXO commanding solid market share through leveraging large networks of multiclient and dedicated warehouses along with teams of independent contractors making white-glove, over-the-threshold deliveries into the home. He notes as well that a full 40% of the last-mile market still is handled by private fleets, where furniture and other hard goods manufacturers run their own trucks and drivers.

Jindel also believes that as buying and operating trucks becomes more expensive, and qualified drivers become harder to find and retain, private fleets making big and bulky deliveries will slowly give way to outsourced solutions.

“There are a lot of headaches in running a dedicated trucking fleet, hiring and training drivers, scheduling, optimizing and maintaining the equipment, and ensuring good performance. And in many cases, they’re not just delivering something to the doorstep, they are taking it into the home and setting it up. It’s a complex operation to manage,” he notes.

That argues for outsourcing this final-mile delivery operation to a provider that performs the service as its core competency, Jindel says. “They will be most current on the latest services and technology, and can scale resources and capacity as needed.

“If you are a small business, you want to concentrate on what it takes to make that business succeed. Running trucks isn’t your [primary] skill set,” Jindel says, adding that a botched delivery can undermine the customer experience and end up getting your business a poor online review.

COST VS. SERVICE: DO YOU REALLY NEED IT NEXT DAY?

Last-mile residential deliveries exploded over the past two years as consumers flocked to online sites and ramped up their e-commerce purchases. They also bought into the Amazon mentality of fast delivery, often opting to get orders the next day—even if they didn’t really need them that soon. And retailers were complicit in that behavior, offering free next-day shipping generally without restrictions.

As shippers (and consumers) begin to understand the costs, practices are changing.

"A few years ago, it was order it now and get it in a day," as shippers wanted goods delivered to their homes right away, recalls Dave Tu, president of Fremont, California-based DCL Logistics, which provides last-mile fulfillment services to major consumer brands. "People were trying to catch up to the Amazon mantra of get it now."

That demand has slackened somewhat in today's post-pandemic economy. Customers he speaks with "are now looking more seriously at transportation cost." Speed remains important, but the focus also is emphasizing consistency balanced with more cost control—and options for deferred deliveries of two to five days. "You can always get it next day as an up-pay," Tu says, "but now [the focus is more on] how can I get it to the consumer within five days with the most cost-effective and reliable option."

"BIG AND BULKY" RESILIENCE

As rising prices have hit consumer pocketbooks for everyday staples—and disposable income from Covid-era relief funds has been exhausted—spending has migrated from online buying of goods for the home to spending on services, such as entertainment, travel, restaurants, and other activities. Yet the last-mile big and bulky space has been resilient, notes Jeff Abeson, vice president of business development at Ryder.

"The mix is really interesting," he notes. Spending for fitness equipment is materially down, yet like other providers, Ryder continues to see strength in "white" goods like appliances and other bulky items like furniture. "One fundamental shift that the pandemic drove was more people buying more products online—and they've stayed there. They've become more comfortable with it. That's a continuing evolution as e-commerce sales continue to grow. It's adding more product variety and more SKUs [stock-keeping units] to the scope of products handled by last-mile providers."

In an industry that remains very fragmented, with many smaller companies providing last-mile white-glove delivery, Ryder's scale, technology, and ability to combine services and resources into a rapidly deployable, high-value package for clients is an advantage, says Abeson.

"We can take a small customer who is local or regional and help turn them into a big customer through scaling our network. It's a consistent national service all along the supply chain that provides visibility and communication tools that enable the customer to grow successfully—without any capital expenditure [for logistics infrastructure] on their part," he adds.

"We are really integrated as a port-to-door solution," he continues. Within its network Ryder operates some 80 multiclient warehousing facilities and provides dedicated resources for larger clients who want the certainty of assigned capacity and reliability.

As the market has softened, it has enabled Ryder to reexamine its network and its business mix. One outcome of that is more space in warehouses that operate as cross-docks where products don't sit, but rather, flow straight through from retailer or manufacturer to customer. That's enabled Ryder to create what it calls "forward allocation centers," primarily for faster-moving SKUs.

"That allows the retailer to put product closer to the end-customers and accelerate fulfillment and delivery. We can also take advantage of maximizing the cube on a trailer with more consolidated orders, and not shipping a bunch of 'eaches,'" Abeson notes. Such flow-through centers also support rapid retail replenishment, "which is key as retailers today have little backroom space to store inventory. We can provide an omnichannel function that supports both brick and mortar and home delivery."

The pandemic was a time when just getting the product out the door and onto a truck seemed like enough for last-mile providers, Abeson recalls. Yet he heard from a number of clients that some last-mile providers "lost sight of the fundamentals and taking care of the customer." Failures included partial and damaged shipments, incorrect products, poor communications, and orders suffering from multiple delivery delays.

"You can never forget that we are an extension of the retailer's brand, [and that] they put a tremendous amount of trust [in us] to do the work properly, whether we go into the home or not," he says. "It's about keeping the quality where it needs to be at all times, with every transaction." Given how discerning customers are today, "if you don't have the quality, that's going to reflect not only on your delivery service but also the brand of the product itself," says Abeson. "When you lose sight of that, you're in trouble."

SAME-DAY STILL DRAWING FANS

One of the subsets of last mile that surged in popularity, particularly during the pandemic, was "same day" delivery. Consumers would order online and have the order picked up at a local retailer for delivery, generally within two to three hours, to a residence. Items such as groceries, home improvement goods, household staples, prescriptions, and take-out orders all were popular candidates for same-day delivery.

It was, again, a highly fragmented market. It was also one that offered promise but needed enabling technology and a flexible way to deploy driver resources. That was the challenge that Roadie took on when it entered the market several years ago. It came up with a unique same-day, last-mile delivery model, applying its proprietary technology and crowdsourcing to attract and deploy a network of drivers who would make "on the way" deliveries—for example, picking up an online purchase at a store like a Home Depot, a Restoration Hardware, or a Nothing Bundt Cakes retail outlet, and delivering it to the consumer's door.

Initially focused on smaller products that one driver could deliver with their personal vehicle, Roadie has since expanded into larger goods and today, boasts a network of over 200,000 drivers that can reach 95% of the U.S. population in two hours. "We like to say Covid finished what Amazon started" regarding demand for same-day deliveries, says Dennis Moon, Roadie's chief operating officer.

Acquired by UPS in 2021, Roadie has been expanding from its "one package, one driver" model. It recently rolled out Roadie Direct, a delivery solution that provides same-day order pickup and delivery from a warehouse. It responds to customer demands for more service options at a lower cost, notes Moon. "While during the pandemic, getting product to the customer fast was the most important thing, now we have to take a step back … and work with the customer to do more around controlling cost, but still have fast, reliable delivery."

Moon says Roadie Direct benefits both shipper and driver. Rather than one driver taking one order to one location, multiple orders are consolidated at the warehouse. The Roadie driver picks up those multiple orders, instead of just one, enabling more productivity and earning power. The shipper gets reduced overall cost from consolidated orders.

"Pickup times can be more flexible, [and] we can do a quick consolidation of several shipments," Moon explains. Fulfilling from a DC versus a brick-and-mortar site also eliminates the need for a retail store clerk to pick, pack, and prep an item for driver pickup. "It better serves the customer and provides a less-expensive and more-efficient process since we are giving the driver multiple deliveries. Drivers love it because they are maximizing their time and revenue," he says.

PARTNERING FOR GROWTH, TECHNOLOGY EVOLVING

Last mile remains a trucking market that continues to attract new players, and new technologies. Entrepreneur Arelis Bonilla initially got into the business in 2013 as an independent contractor, providing white-glove deliveries with a single delivery truck. By 2016, her business, the New Jersey-based Aria Logistics, had grown into a full-fledged 3PL (third-party logistics service provider), offering a portfolio of services, including commercial trucking, multimodal, warehousing, cross docking, and last-mile and white-glove delivery. A family business, the company has emerged as one of the fastest-growing woman- and minority-owned logistics providers in the U.S., running over 200 trucks daily.

That drew the attention of LTL (less-than-truckload) carrier Pitt Ohio, which last year made a strategic minority investment in Aria Logistics. For Pitt Ohio and Aria, it was a good fit, notes Bonilla, who today is Aria's CEO. "They have customers who from time to time need a final-mile white-glove service, which they can now offer through Aria," she explains. And for Aria, it was a strategic investment that provided capital for growth and expansion, provided access to fresh resources and expertise, and aligned it with a well-recognized and respected brand name in trucking.

Bonilla noted as well that Aria recently launched a new app that opens up the big and bulky delivery market to anyone who needs something big moved. Developed by her team, it's called MyHomeDelivery.com. "It's for anyone, a business or consumer, who needs to move something big and bulky," she says. Users enter the item's dimensions, weight, and pickup and delivery location and upload a photo of the item. The app then provides a quote, and if the quote is accepted, books a truck instantly, if one is available, or later at a time designated by the shipper.

"We use proven independent contractors experienced in across-the-threshold deliveries and who are fully insured," Bonilla adds. "It's a big and bulky service for general consumers," which she plans to expand to retailers as well so they can offer the service in-store. (In this case, a consumer might buy a large item at a Home Goods or Costco store, and then tap the MyHomeDelivery app to arrange for a pickup and home delivery.) Aria's independent contractor drivers can also register on the app and make themselves available for loads that represent new business—and additional revenues.

For Aria Logistics, even as the last-mile market has seen a bit of a shakeout, Bonilla is encouraged about the future. "We see promising opportunities with a lot of contracts coming up for bid," she notes. "Some of our clients have a busy agenda opening new stores in 2024, and we are in a great position to support those expansions."