

Q1 2023 PARCEL AND LAST MILE UPDATE & OUTLOOK

CATHY MORROW ROBERSON, PRESIDENT OF LOGISTICS, TRENDS & INSIGHTS LLC



AGENDA

- Overview
- Economic Review
- Earnings - 3rd Party National Carriers
- Regional Small Parcel Carriers
- Technology Providers
- Electric Vehicles (Evs)
- Drones
- Retailers
- E-Commerce
- Amazon
- Reverse Logistics
- What Retailers are Saying About the Last Mile in Recent Earnings
- Outlook for Q2



KEY TAKEAWAYS

- Last-mile providers and shippers are investing in technology and automation solutions while cost-cutting and improving efficiencies.
- Investments in electric vehicles and increasing drone testing for last-mile deliveries.
- Shippers are mitigating the costs of returns while new returns partnerships and management solutions enters the market.
- Last-mile speed does matter.



Q1 REVIEW – WAITING FOR IMPROVING SIGNS

Other than handling holiday returns, Q1 is typically a slow quarter for last mile providers. Despite YoY volume declines, the holiday season was a good one for FedEx, UPS and USPS as all three invested in automation and improved on-time delivery times. Throughout the quarter, cost mitigation and investments in automation continued. Amazon also focused on cost-cutting that included store and facility closures and layoffs. Meanwhile, after years of investments, Walmart's supply chain initiatives appear to be paying off within its fulfillment facilities, in-store fulfillment services and last-mile capabilities.

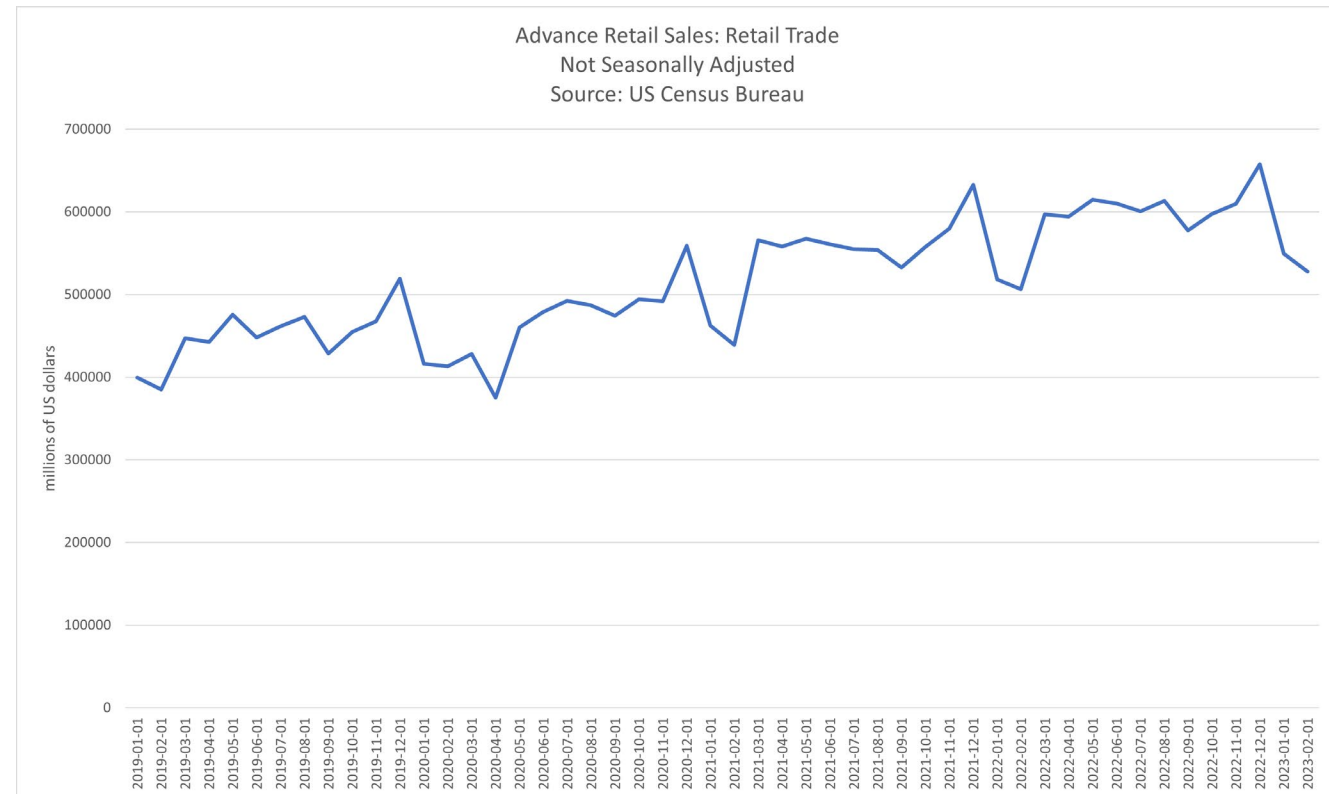
Investments in electric vehicles also remain strong while last-mile delivery services by drones testing picked up during the quarter.

Shippers are also cost-cutting as many continue to work down bloated inventories and figuring out how to reduce the cost of returns. Annual last-mile shipping costs increased once more and thus, many shippers are focused on mitigating these costs in a number of ways such as BOPIS, lockers and raising the minimum online purchase level for 'free deliveries'. Shippers are also revising "free returns policies" by encouraging in-store returns, adding minimal fees and other solutions.



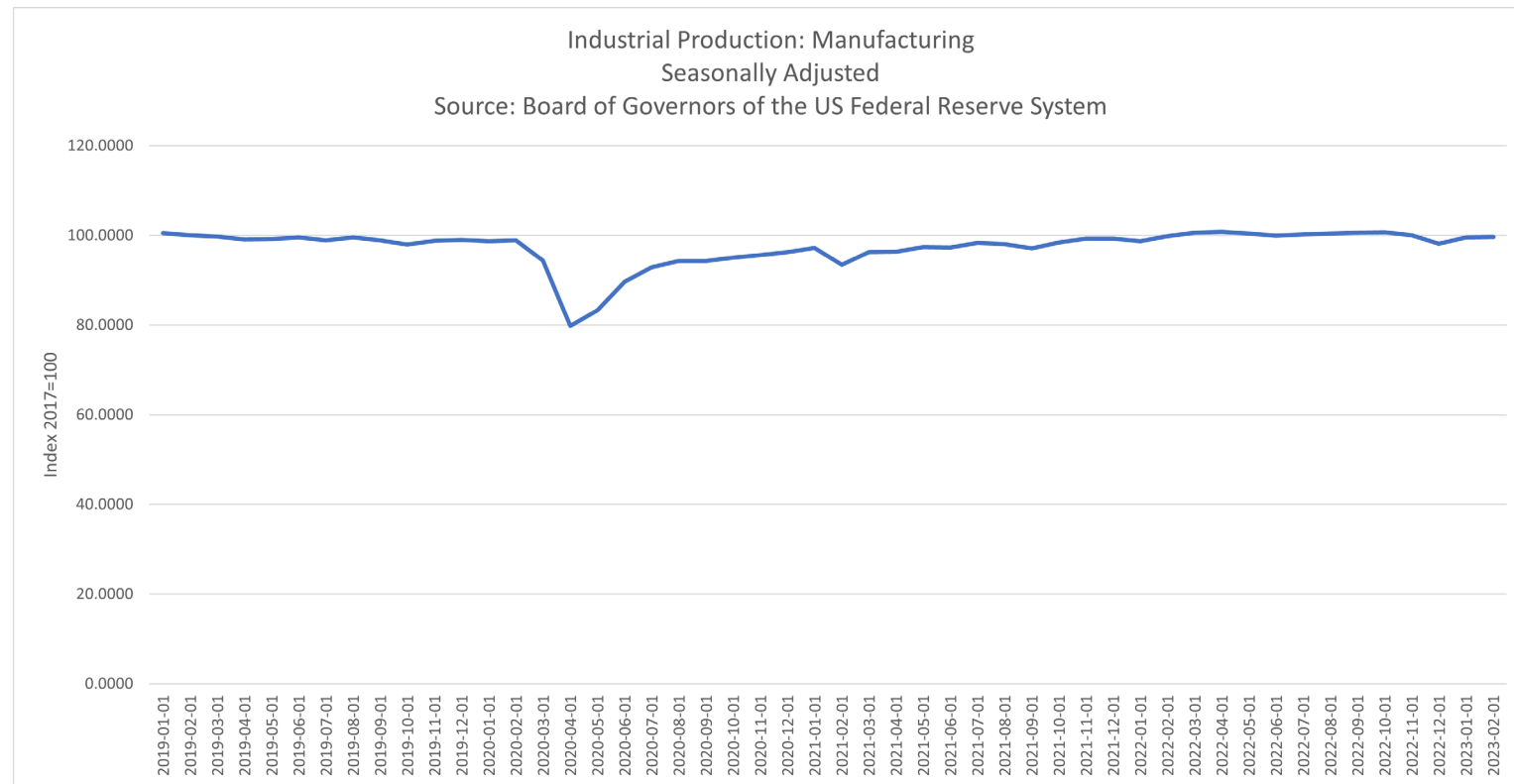
RETAIL SALES

- US retail sales, including e-commerce sales but excluding food services and auto sales peaked in December and have declined in January and February.
- Cautious consumers took advantage of promotions as retailers unloaded inventories to make way for new/seasonal inventories. However, retailers plan to mitigate promotions this year.
 - “As it relates directly to the question about level of promotion, we continue to be steadfast on not going backwards in terms of a promotion. Our strategy is to leverage our loyalty program and to entice consumers at their tier level based upon their spend and we’re going to continue on that front as we move forward throughout the year,” Chico’s CEO Molly Langenstein said on Feb 28 during the company’s Q4 earnings.
 - “Regarding this upcoming year, our consumer research indicates that our customers, like most U.S. consumers are concerned about various financial aspects of life, most notably food and utility cost. When it comes to discretionary spend, we anticipate that customers will make reductions in entertainment, travel and eating out before reducing retail expenditures. Also, our research indicates that customers likely plan to spend the same or more as last year on footwear and specific key brands,” Hibbett SVP of Marketing & Digital, Bill Quinn said on March 3 during the company’s Q4 earnings.



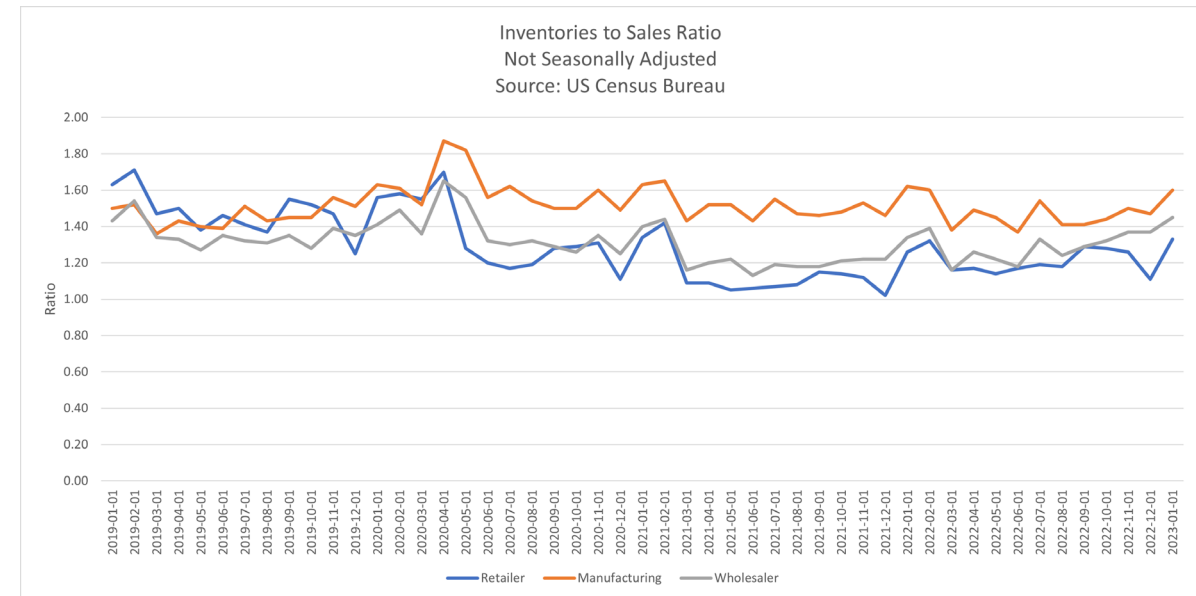
INDUSTRIAL PRODUCTION

- After peaking in April 2022, industrial production has experienced more declines than expansions.
- According to Reuters, higher interest rates are undercutting demand for goods, which are mostly bought on credit.
- High inventory levels are also reducing demand.



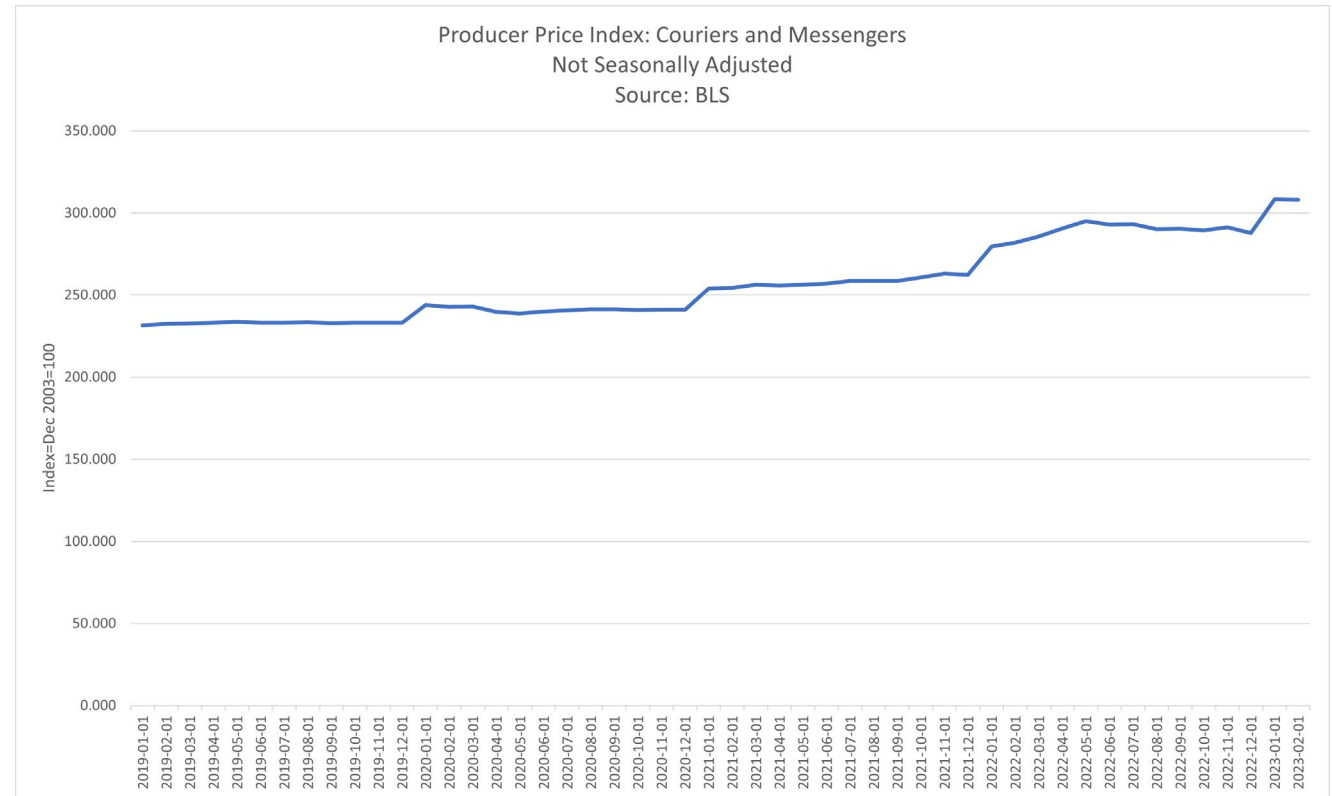
INVENTORIES

- The increase in inventory to sales ratios for January was due to a month-to-month decline in sales while manufacturers' inventories increased.
 - Month-to-Month Sales:
 - Retailer: down 16.5%
 - Manufacturer: down 6.1%
 - Merchant Wholesaler: down 5.3%
 - Month-to-Month Inventories:
 - Retailer: 0.08%
 - Manufacturer: 2.2%
 - Merchant Wholesaler: 0.1%
- Sales and inventories remain high for the three segments compared to January 2022.
- Retailers, merchant wholesalers and manufacturers expect the first half of 2023 to be slower in terms of sales before picking up in the second half of the year.
- All three segments are taking a more cautious approach in inventory replenishment/build-ups.
- Advanced wholesale and retail inventories increased in February, 0.2% and 0.8% respectively from January.
 - December – January growth in wholesale inventories was revised down from down 0.3% to down 0.5%.
 - December-January growth in retail inventories was revised down from up 0.2% to up 0.1%.



PRODUCER PRICE INDEX (PPI) – COURIERS & MESSENGERS

- US messengers and couriers PPI for February remained unchanged from January as GRIs and surcharges took affect in January and held into February.
- “We are very pleased with the results from the implementation of our global rate increase this past January, which has maintained a very high capture rate,” said FedEx Chief Customer Officer, Brie Carere on March 16 during the company’s FY23 Q3 earnings call.
- Compared to February 2022, the PPI is up 9.3%, up 21.1% from February 2021, up 26.9% from February 2020, and up 32.6% from February 2019.



The Bureau of Labor Statistics defines the PPI as a family of indexes that measures the average change over time in selling prices received by domestic producers of goods and services. PPIs measure price change from the perspective of the seller.

EMPLOYMENT – COURIERS & MESSENGERS

- Couriers & messengers employment for March declined 1.12% from February and was down 1.4% compared to March 2022.
- Seasonality is likely part of this decline as peak holiday workers' contracts end. Other than handling holiday returns, Q1 is also one of the slower period for this group.

- By quarter:

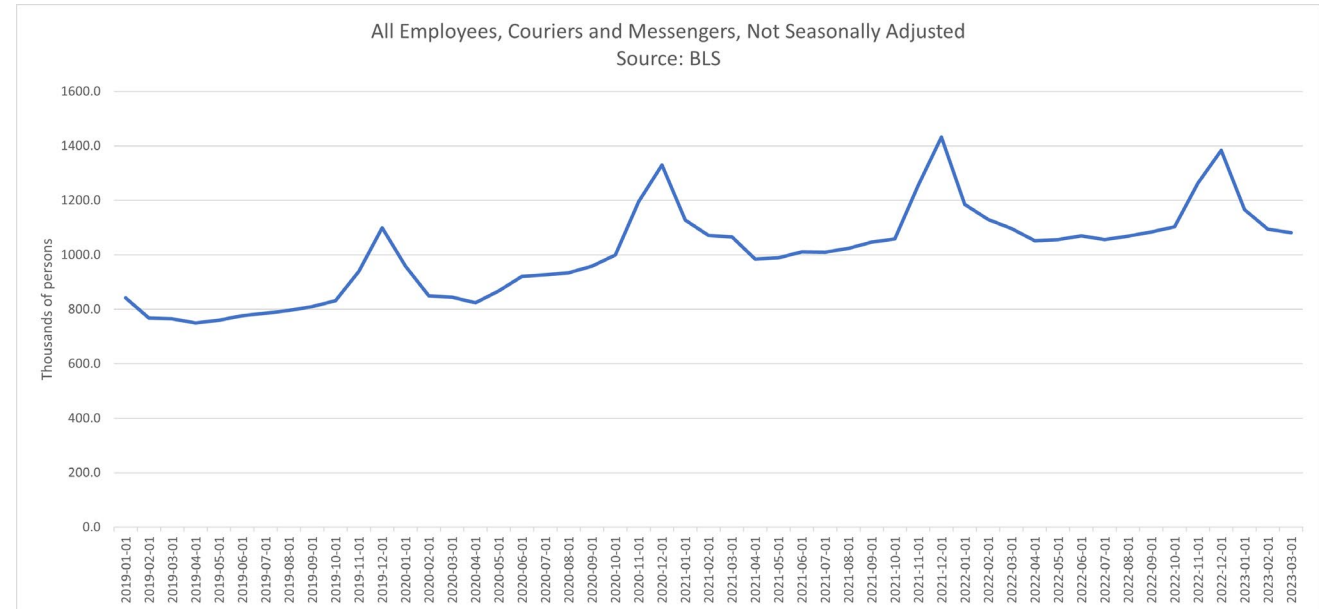
Q1 2023 from Q1 2022: -2.03%

Q1 2023 from Q1 2021: 23.9%

Q1 2023 from Q1 2020: 26.04%

Q1 2023 from Q1 2019: 40.8%

- Employment peaked in 2022 but has fallen as more consumers return to stores and manufacturing slows as retailers work down bloated inventories and manufacturers work down backlogs.

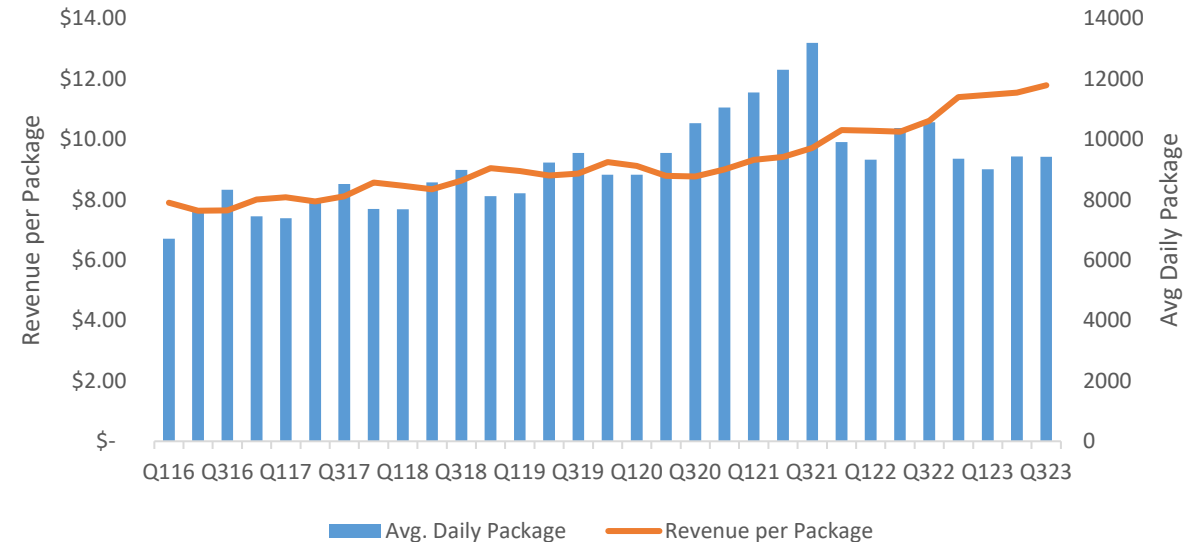


Q3 EARNINGS (PERIOD ENDING FEB 28)– FEDEX

- Ground revenue was down 2% to \$8.7 billion.
- The volume decline was significantly offset by a double-digit percentage yield increase driven by better product mix, fuel and large package and peak surcharges.
 - Ground Commercial: ADV (-6.2%),
 - Home Delivery: ADV (-10.3%)
 - Economy: ADV (-30.2%)
 - Total ADV: (-10.8), Revenue per package (Yield): +11.1% to \$11.80
- Total operating income increased 32% to \$844 million. Ground expenses were down 8% year over year due to reduced salaries, benefits and purchased transportation costs.
- Launched picture proof of delivery ahead of peak season.
- Focused on its DRIVE Strategy and Network 2.0 initiative – Conference call on April 5.

FedEx Ground - Average Daily Volumes & Average Revenue per Piece

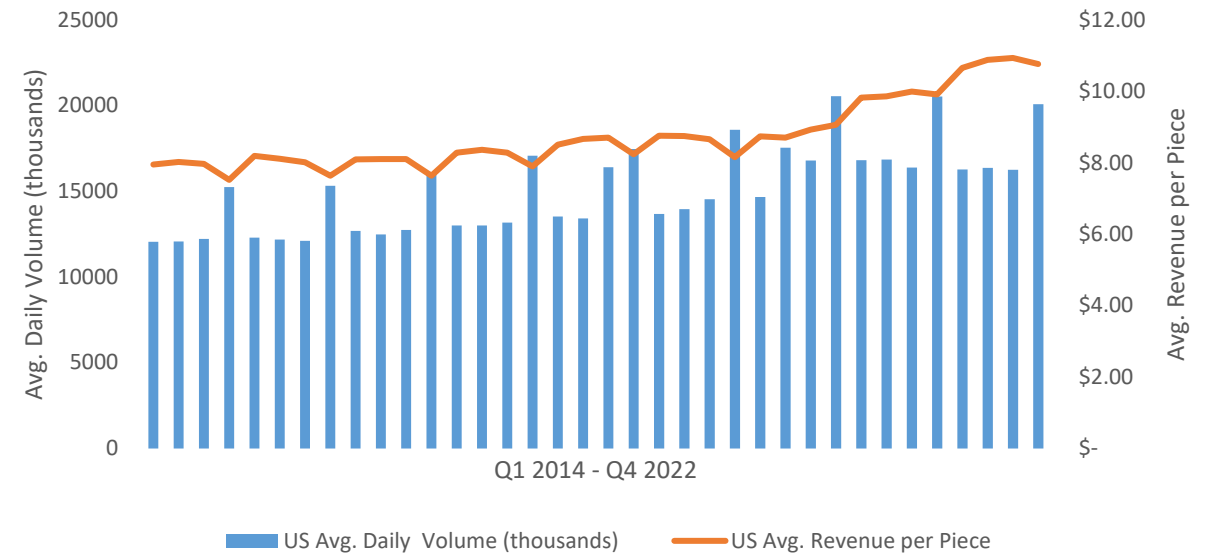
Source: FedEx



Q4 EARNINGS (PERIOD ENDING DEC 31) - UPS

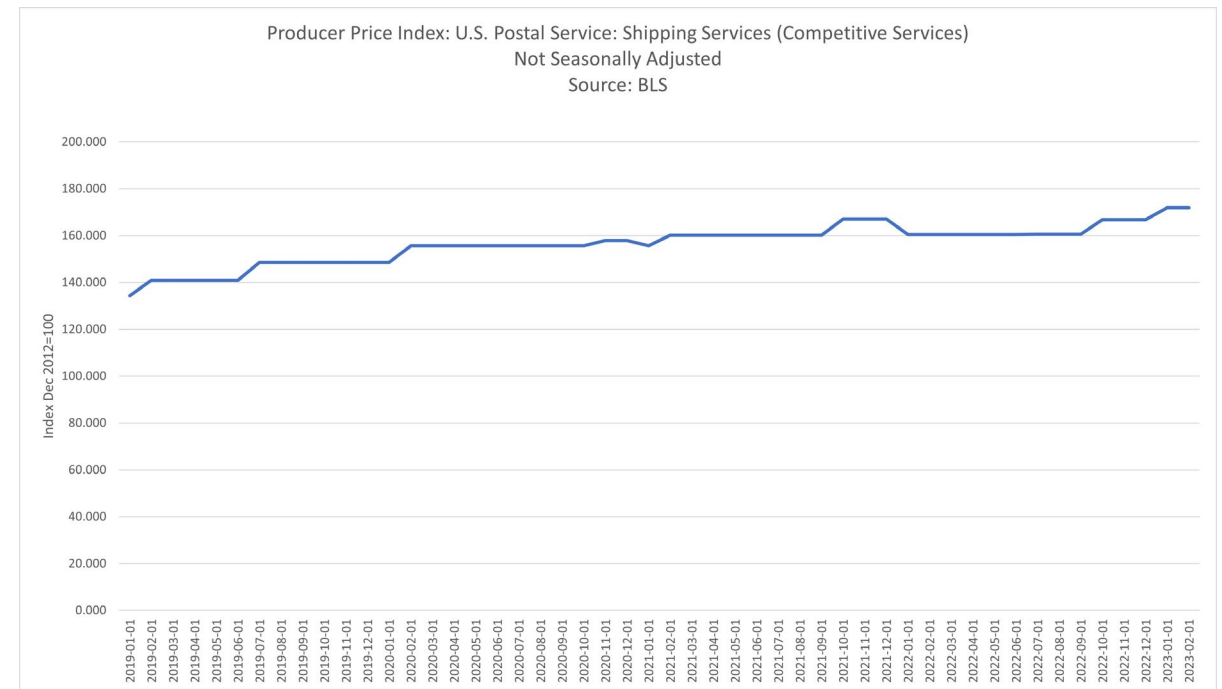
- The U.S. Domestic segment reported Q4 revenue up 3.1% YoY to \$18.3 billion due to a 7.2% increase in revenue per piece.
- Q4 average daily volume declined 3.8% versus the same time period last year, with about half of the decrease coming from Amazon, “per the mutually beneficial contractual agreement we reached some time ago,” UPS CEO Carol Tome said during UPS’s earnings call in January.
- B2C average daily volume declined 3%. B2B average daily volume was down 5.2% year-over-year, driven by declines in retail and industry sectors.
- B2B represented 35.3% of volume, which was down slightly from 35.8% in the same time period last year.
- SMBs made up 26.5% of total U.S. domestic volume, the 10th consecutive quarter of increased SMB penetration.

UPS Ground - Average Daily Volumes and Average Revenue per Piece
Source: UPS



Q1 EARNINGS (PERIOD ENDING DEC 31) - USPS

- Q1 total operating revenue increased 1% to \$21.5 billion. Total volume declined 4.8%, 1.7 billion pieces, compared to the same quarter last year.
- Shipping and Packages revenue increased 2.4% to \$203 million. Volume declined 3.5%, 70 million pieces compared to the same quarter last year. Volume decline reflects the continued decline of the pandemic-related surge in e-commerce. However, Shipping and Packages volume remains higher than pre-pandemic levels.
- “Our initiatives in cost reduction and revenue growth are underway. However, in addition to facing the same inflation and other post-Covid economic realignment issues that every business is facing, we continue to operate in an administrative environment beyond our control that slows the pace of improvement,” Postmaster General and CEO Louis DeJoy said in a statement.
- According to the USPS, competitive products are defined as a category of postal products and services for which similar products and services are offered by private sector carriers. The Postal Service has more flexibility in pricing competitive products. Indeed, it has steadily increased the price of these products and as a result, the PPI for January and February was the highest ever.



FEDEX, UPS, USPS - IMPORTANCE OF TECHNOLOGY

FedEx

- FedEx utilized dynamic pricing during the peak holiday season to adjust residential surcharges based on individual customers' weekly peaking factor by delivering \$150 million in profit, according to Executive Vice President and Chief Customer Officer Brie Carere. "In the coming fiscal year, our predictive anomaly detection will improve revenue quality. We have already built infrastructure that helps us identify instances when we have overbilled our customers. Now, we will use those same capabilities to better manage customer performance and contract compliance, Carere said during the Company's Q3 earnings call in March.

UPS

- UPS plans to spend up to \$830 million on technology this year to accelerate the rollout of its Smart Package/Smart Facility initiative to all U.S. facilities, invest in its logistics-as-a-service platform and on additional operational efficiencies.
- Goals achieved include reducing misloads from 1 in 400 to 1 in 800, improving driver dispatch timeliness by 13%, and automated tagging, robotic small store induction, and autonomous vehicles

USPS

- Ahead of the holiday peak season, USPS completed the installation of 137 new package sorting machines across its network which will expand daily package processing capacity to 60 million. This brings the organization's total to 249 new processing machines since the launch of the Delivering for America plan in March 2021 and are part of a \$40 billion investment in the postal network.

REGIONAL SMALL PARCEL CARRIERS

- LaserShip and OnTrac announced that the companies will be jointly marketed under the name “OnTrac” and launched a new brand identity.
 - This year, OnTrac plans to expand its network to Texas in Austin, Dallas-Fort Worth, Houston, and San Antonio to reach an additional 19 million consumers. Once complete, retailers partnering with OnTrac will be able to reach approximately 80% of the U.S. population according to OnTrac
- Pitt Ohio Transportation Group made a minority investment in residential delivery provider Aria Logistics.
 - Aria Logistics specializes in large-format residential delivery services. The company provides services that include curbside, threshold, room of choice and white glove delivery.
- According to online publication Supply Chain Dive, as a means to address shippers’ concerns of a potential UPS strike (contract ends July 31), Lone Star Overnight (LSO) is allowing its existing customers to increase their volume thresholds by the end of May.
 - LSO CEO also told Supply Chain Dive that LSO plans to expand into new markets. It launched in Tennessee on March 1 with facilities in Memphis and Nashville.



TECHNOLOGY PROVIDERS

- Locus introduced its Last-Mile Maturity Assessment benchmarking tool designed to help enterprises evaluate strengths, uncover hidden inefficiencies and identify new growth opportunities in their last mile.
- AxleHire announced a new agreement with SEKO Logistics to provide last-mile delivery service to cross-border parcels.
 - According to AxleHire, by using its technology, SEKO Logistics will be able to provide offshore ecommerce businesses with next-day shipping once a product enters a SEKO warehouse in the U.S.
 - Once packages arrives in the U.S., SEKO utilizes AxleHire's proprietary technology to sort and route the packages at their warehouses. AxleHire then sends drivers directly to SEKO's fulfillment center the next day to deliver the packages to customers.
- WARP launched DirectFresh a service enabling perishable shippers with same-day and next day direct store delivery. According to WARP, the service enables shippers to transfer product from cold storage directly to a store or a WARP Station (cross dock) depending on their inventory needs within the same day without needing to work with a last-mile delivery service.
- Shippo launched Shipping Elements which provides e-commerce platforms with a full suite of embedded fulfillment and delivery functionality to offer to their merchant customers.
- Descartes acquires final-mile automation platform, GroundCloud. Its platform automates operations and compliance by helping final-mile carriers manage assets and routing, fill orders, meet delivery windows, and provide safety training and monitoring of drivers. The network integrates video telematics, providing event detection with suggested coaching tips to drivers.

DRONES

- Alphabet drone division Wing launches its Wing Delivery Network, a decentralized, automated system that can support high-volume drone delivery across a major metro area or a more sparsely populated region and include deliveries by delivery apps, from rooftops, parking lots and curbside deliveries. By the middle of 2024, Wing expects its system to be capable of handling millions of deliveries for millions of consumers at a lower cost per delivery than ground transportation can achieve for fast delivery of small packages.
- Flytrex announced that its partner, Causey Aviation Unmanned, received Standard Part 135 Air Carrier Certification from the Federal Aviation Administration. A Part 135 Air Carrier Certification allows companies to operate and complete long-range, on-demand commercial drone deliveries across the U.S. Only four other companies have this certification: Amazon Prime Air, Alphabet's Wing, UPS and Zipline.
- According to Walmart, it made more than 6,000 deliveries by drone last year from the seven states where the service is available.
 - 36 of its stores now serve as drone delivery hubs. These are located in Arkansas, Arizona, Florida, North Carolina, Texas, Utah and Virginia. Texas has 11 hubs -- more than any other state.



Photo credit: Walmart

ELECTRIC VEHICLES (EVS)

- Purolator will invest approximately \$1 billion to electrify its Canadian network over the next seven years. This includes a plan to purchase more than 3,500 fully electric last-mile delivery vehicles and the electrification of more than 60 terminals across Canada.
 - Purolator expects to add over 100 all-electric vehicles to its fleet this year and an additional 150 in 2024.
 - In March, Purolator planned to deploy 25 Ford E-Transit vans in London, Ontario.; Richmond, British Columbia and Quebec City. A further 55 Motiv and 15 BrightDrop models, along with several low-speed vehicles and electric cargo bikes (e-bikes), will be added later this year.
- The United States Postal Service (USPS) awarded contracts for 9,250 commercially available left-hand drive battery electric vehicles as well as initial orders for more than 14,000 charging stations to be deployed at Postal Service facilities.
 - In addition, the USPS awarded a contract to Ford to purchase a total of 9,250 Ford E-Transit Battery Electric Vehicles (BEVs). Delivery of the vehicles is intended to begin in December.
- The Shyft Group received certification from the United States Environmental Protection Agency (EPA) for the company's Blue Arc™ EV Solutions Class 3, 4 and 5 electric delivery vehicles. EPA test results have revealed the Blue Arc™ Class 3 all-electric delivery vehicle can achieve up to a 200-mile range based on the EPA cycle test with a 165kwh battery pack.

RETAILERS

Target

- Plans to invest \$100 million to expand its sortation network to more than 15 facilities by the end of 2026.
 - Currently has nine sortation centers in Minnesota, Texas, Colorado, Illinois, Georgia and Pennsylvania, including three recent ones in the greater Chicago and Denver metro areas.
 - Investment supports its stores as hubs strategy which leverages its store network as a launchpad for online orders.
 - “There are three high-level goals that existed on day one and still hold true today: decreasing costs, increasing speed and increasing last-mile capacity,” said Doire Perot, operations director for the Minneapolis sortation center.

Walmart

- Walmart will offer its store fulfillment technology and local delivery services to other retailers on Salesforce Commerce Cloud.
- CFO and Executive Vice President John David Rainey said on the company’s earnings call in February that Walmart’s store-fulfilled delivery sales have nearly tripled over the last two years, and the company is now seeing more than \$1 billion a month in that category.
- Plans to open 28 new Walmart Health centers in 2024, giving it a total of more than 75 locations by the end of the year.
- Partnering with Citi to introduce the Bridge built by Citi platform to the 10,000 SMBs in its U.S.-based supplier network to provide loans up to \$10 million.
- Introduced Walmart Business, a B2B website focused on nonprofit organizations and SMBs.
- Walmex, Walmart’s unit in Mexico and Central America, plans to increase its spending in the region by 27% in 2023. Of the investment, nearly half will go towards remodeling and maintenance of existing stores while 30% will be used for new stores and clubs.

ECOMMERCE

Amazon

- Amazon's Buy with Prime feature, which allows retailers to offer the benefits of Prime membership on their own DTC websites — will be available to all U.S.-based Amazon merchants at the end of January. The offering was previously only available by invitation.

BigCommerce

- Became the first ecommerce platform to offer Buy with Prime, enabling merchants to add Amazon's Buy with Prime to their BigCommerce storefronts.
- Added BOPIS capabilities for its sellers.

Shopify

- Introduced Commerce Components by Shopify that allows large retailers to pick and choose from the company's array of tools and services such as checkout and social commerce to integrate into their existing commerce stack.
- Flexport Inc. to manage the flow of imported goods and will add estimated delivery dates for companies using Shopify's platform.

AMAZON

- Cost cutting is high on Amazon's agenda as it announced layoffs, closures of Amazon Go stores and other measures as it right-sizes its network that ballooned during the pandemic.
- During the quarter, it launched two-hour delivery from a select group of Rite Aid stores to its Amazon Prime members. According to Supply Chain Dive, Amazon also offers two-hour delivery from retailers such as Bartell Drugs, Cardenas Markets and Save Mart in select cities for Prime members.
- It also introduced RxPass, an add-on to Amazon Pharmacy that allows Prime members to have multiple prescription medications delivered to their doorsteps for a \$5 monthly subscription fee.
- As part of its 'normalization', Amazon Air began to take on more of a hub & spoke network, similar to UPS and FedEx, as it reduces its flight activity elsewhere.

Q4 earnings commentary (February):

- "We believe that continuing to get products to customers faster, makes customers happier, and they also converted a higher rate when they can see promises of deliveries that are faster." Andrew Jassy, CEO
- "In this past quarter, 59% of the units sold were from our third-party selling partners, and we work very hard to provide unmatched selection." Andrew Jassy, CEO
- "So the health of Prime is very strong. We are continuing to work to get our speed of delivery up to get more one-day shipments. And we think that will also be well received by Prime members. But it's a combination of price selection and convenience." CFO Brian Olsavsky

REVERSE LOGISTICS

- DoorDash launches Package Pickup for returns. The service lets users request a delivery person to pick up their prepaid package from their home and drop it off at a UPS, FedEx or USPS location.
- As part of its drive-up services, Target has added returns without customers leaving their car.
- SEKO Logistics partners with Happy Returns. The partnership provide SEKO clients with the ability to offer their shoppers the option to utilize Happy Returns' in-person Return Bars.
- Amazon changes policy on reverse logistics. Previously, if additional costs were incurred from returns they would be absorbed by Amazon. Now, the burden of additional logistical costs falls upon the seller. This only applies to orders that are fulfilled by the seller and does not apply to sellers using the Fulfilment by Amazon (FBA) service.
- GoTRG launched GoWholesale Platform, a new platform that leverages real-time data to enable retailers, manufacturers and wholesalers to buy and sell new, refurbished and overstock premium wholesale goods.
- Return management platform Loop introduces its Returns Benchmarking App. The app automatically pulls merchants' return data to compare to industry benchmarks including refund rate, top refunded products, and time to repeat purchase. All of these data points are provided on a centralized dashboard.
- FedEx Freight expanded its FedEx Freight Direct e-commerce offering to include returns. It offers label-less returns, flexible pickup windows and technology capabilities connecting the return to the original shipment.
- Resales are on the rise as a number of retailers partner with such technology firms as ThredUp and the RealReal. (For more, see my March 31 Substack post on this topic)

WHAT RETAILERS SAID ABOUT THE LAST MILE DURING RECENT EARNINGS...

- Our partnership with DoorDash continues to serve us as an important extension of the value offering of Dollar General, combined with the convenience of same-day delivery in an hour or less. DoorDash is available in nearly 14,000 stores, and we anticipate extending this offering to an additional 1,000 stores in 2023. We are pleased with the incremental sales growth attributed to this partnership as well as its profitability, and we believe we have an opportunity to drive even stronger growth moving forward. – Dollar General CEO Jeffery Owen on March 16.
- E-commerce shipping costs were up slightly versus the prior year, reflecting the launch of our in-home delivery service. – Kirkland's CFO, Mike Madden on April 4.
- We continue to make strides in the rollout of our market delivery model for appliances and other big and bulky products. We added two new geographic areas this quarter, bringing us to 10 geographic regions across the country supporting more than 1,000 stores. As a reminder, in the market-based delivery model, big and bulky products flow from our supply chain directly to customers' homes, replacing our inefficient store delivery model.- Lowe's CEO, Marvin Ellison on March 1.
- We increased delivery speed from click to delivery overall. For instance, our share of orders delivered within four days or less is up 40% from last year. These actions will continue to improve the customer experience, increased sell-through and reduce markdowns by allowing us to place the right assortment with the right depth closer to the customer. President & Chief Brand Officer, Pete Nordstrom on March 2.
- Same-day services grew nearly 7% last year...And because we own our same-day capabilities, pickup and Drive-Up are much more economical and flexible than other forms of digital fulfillment. In fact, our average fulfillment cost per unit has come down 40% over the past four years as our same-day services have grown to account for over half of our digital sales. Target COO, John Mulligan on Feb 28.

Q2 OUTLOOK

- On April 5, FedEx announced it would become One FedEx by combining Ground and Express. FedEx Freight would continue to be run as a separate group but will roll up into the FedEx organization. This reorganization is part of its DRIVE Strategy and Network 2.0. Reorganization and cost-cutting will continue for the next year or so.
- UPS begins national negotiations with the Teamsters in April. The contract expires on July 31 and the rhetoric from the Teamsters grows louder. Among the changes the Teamsters are looking for are higher wages, the elimination the “22.4” employee classification and the use of personal vehicle drivers and surveillance cameras on package cars and improved safety measures inside vehicles during extreme temperatures.
- Retailer AEO announced in early April that it was reducing the size of its workforce, including the head, at its Quiet Platforms logistics unit due to macro headwinds and Quiet Platform 3rd party services to grow profitably.
- During its Investor Days in early April, Walmart shared its supply chain plans.
 - By the end of Fiscal Year 2026, 65% of stores will be serviced by automation, approximately 55% of the fulfillment center volume will move through automated facilities, and unit cost averages could improve by approximately 20%.
- Package volumes are not expected to increase until the second half of the year as retailers remain cautious on inventory replenishments and manufacturing demand remains low.
- FedEx and UPS will continue to manage volume declines through revenue management initiatives.

ABOUT LOGISTICS TRENDS & INSIGHTS LLC

Logistics Trends & Insights LLC is a boutique market research firm that specializes in global supply chains. The approach is to provide a third-party unbiased solution to supply chain providers as well as to shippers. Whether the solution is a market report, a customized white paper, competitive analysis, due diligence for an IPO or M&A, strategy development, or a specialized consulting project, the goal is to cut through the noisy content and analysis space and make sense of it all in a clear and concise manner.

Cathy Morrow Roberson heads up the company. Her career spans libraries, startups, market research firms, and supply chain firms UPS and Transportation Insight. For more information, email Cathy at croberson@LogisticsTI.com

