



LAST MILE FULFILLMENT IN CONVENIENCE RETAIL

OVERVIEW



The retail landscape is being increasingly disrupted by last mile fulfillment¹ and convenience retail is no exception.

Last mile fulfillment presents an opportunity to expand a store's sales reach while also introducing operational and implementation challenges.

This research brief explores:

- **How readily convenience retailers are adopting last mile fulfillment**
- **Current and anticipated use of delivery services**
- **Retailer options for accepting orders**
- **Difficulties retailers face with adopting last mile services**

(1) NACS defines last mile fulfillment services as order fulfillment processes that deliver goods to a destination. Fulfillment could occur to the customer's residence, the retail parking lot (curbside pick-up), lockers or in-store pick-up.

KEY FINDINGS



Overall, 57% of convenience retailers currently offer last mile fulfillment services.

More than 80% of retailers located in Australia and Europe currently offer last mile services while only 46% of North American-based retailers do. North American convenience retailers are playing catch-up with the adoption of last mile fulfillment services.



Mobile orders for in-store pick-up is the most frequently offered last mile service.

Retailers anticipate offering a variety of last mile services in the next 12 months, but no single offering has yet emerged as the preferred solution.



A wide range of third-party delivery providers are used currently, with Uber Eats being the most common.

More than one-third of stores use only their staff to make off-premise deliveries.



Third-party mobile apps are the most frequent method for taking orders,

but many retailers use another service instead of the third-party app for completing the delivery (such as delivery from their staff). One-third of retailers take orders through a proprietary mobile app.

RECOMMENDATIONS

1 Third-party services providing last mile fulfillment is an evolving disruptor in the convenience retail landscape with new entrants emerging in some markets. These new services, along with the consolidation of providers through mergers and acquisitions, will reshape shopper requirements. **Retailers should conduct a cost-benefit analysis of partnering with any third-party provider and determine if offering last mile fulfillment through store staff is a better option.**

2 **Ensure your data captured through last mile fulfillment orders is accessible and can be analyzed to understand the benefits/limitations for your store.** Third-party apps may present unexpected challenges with leveraging information about orders/your customers. For some retailers, a proprietary app may be the best option for leveraging data to make decisions about last mile fulfillment.

3 **Confirm that ownership of your customer data is clearly retained in any third-party service agreements.** Retailers should take steps to not only retain ownership but establish language that protects against unauthorized use or resell of this data.

4

Understand whether the benefit of extending the reach of your product availability through last mile fulfillment outweighs the potential burden for store staff.

Some retailers may feel compelled to match perceived consumer demand for last mile delivery without considering the impact on store staff.

5

Even if a consumer has not experienced last mile fulfillment from a convenience store, they likely have preconceived ideas for delivery/pick-up standards. Ensure your store can match already established consumer expectations for order processing visibility, payment acceptance, and low wait times for in-store and curbside pickup.



LAST MILE FULFILLMENT ADOPTION IN CONVENIENCE RETAIL

Convenience retailers express a range of opinions on adoption of last mile fulfillment services. Although 57% of retailers are offering last mile fulfillment services, many operators are choosing not to employ these capabilities. Retailers are less likely to use last mile services for many reasons, but the most frequently cited concerns include:

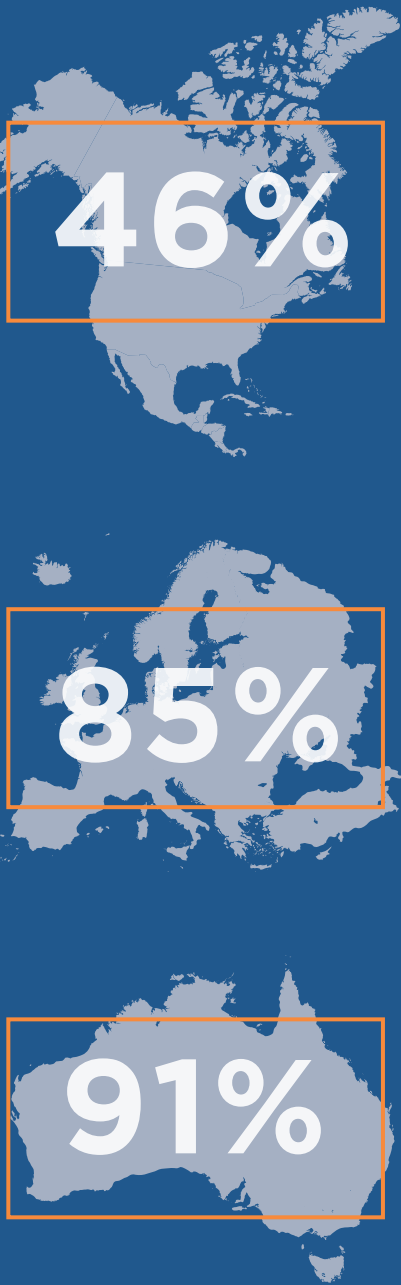
Cost

Technology constraints

(app, ordering & payment processing)

Staffing concerns related to fulfilling orders

FIGURE 1: North American stores are behind global counterparts in last mile fulfillment service use.



Store operators express doubts that they can create a strong experience for customers while not overwhelming existing store operations. However, this perception is primarily held by North American-based operators. NACS research shows that North American retailers are far less likely to be using last mile delivery services compared to peers in Europe and Australia. Figure 1 shows the percentage of stores in North America, Europe, and Australia that currently offer last mile fulfillment services.

North American convenience operators are playing catch-up relative to counterparts in Europe and Australia. However, NACS survey results show that North American stores do recognize they are behind in adoption of last mile services. 68% of North America based store operators state they began offering last mile fulfillment in response to the COVID-19 pandemic. That represents a 9% higher percentage than global counterparts.

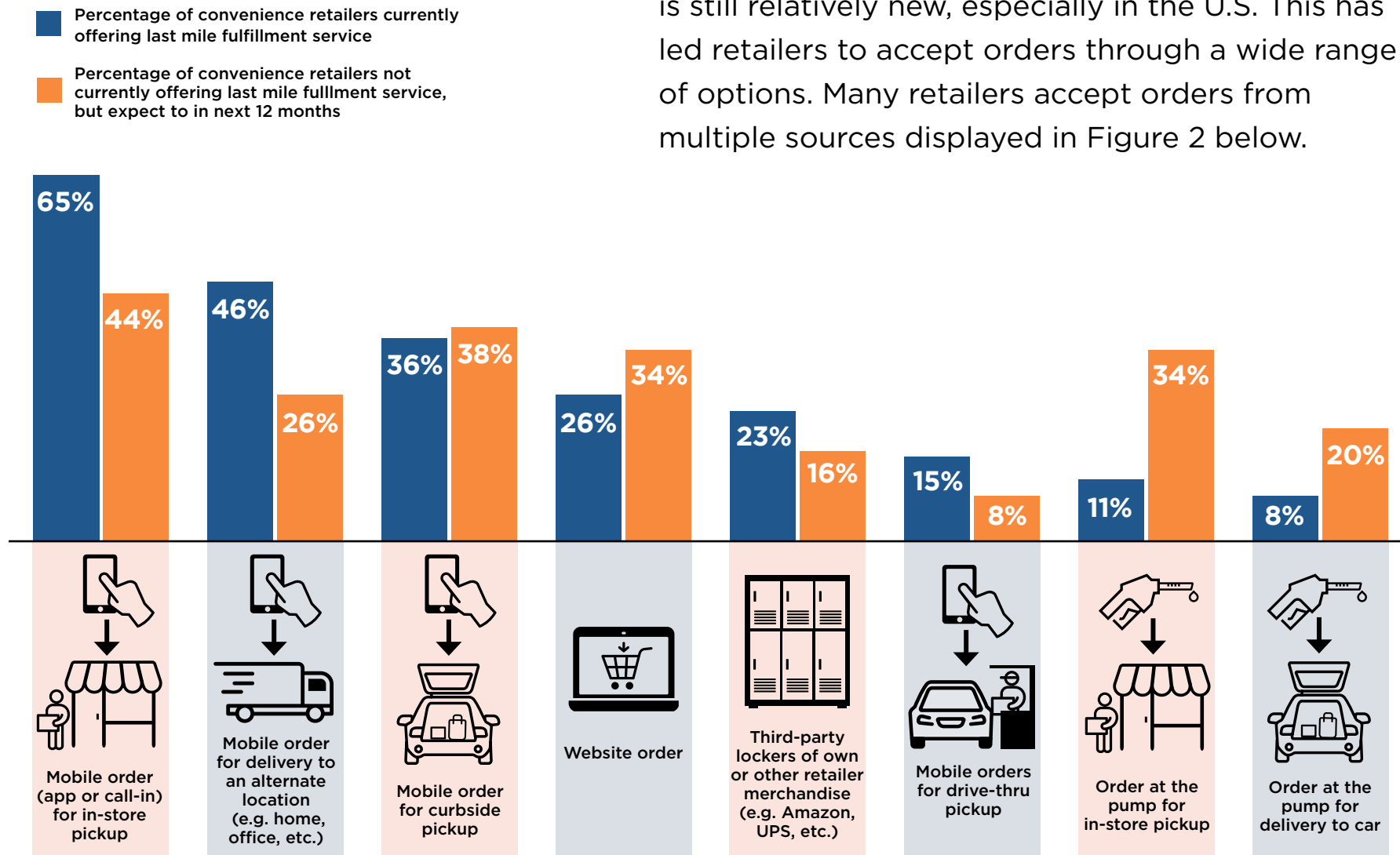
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North American stores will likely feel increased pressure to offer last mile services in the coming months following the emergence of the DashMart convenience offering from DoorDash, goPuff's delivery service offering and other similar delivery offerings. With an ever-growing footprint that covers 500 cities through more than 200 distribution facilities, goPuff—and other delivery services—will challenge convenience retailers for consumers' share of wallet. Still, 22% of retailers state that they do not have plans to offer any kind of last mile fulfillment in the next year. **Despite the challenges with adopting last mile services some operators may be missing customers by not offering these services.**

FIGURE 2: Mobile orders for in-store pickup is the most frequent last mile service currently offered.

Convenience retailers have several options available for accepting last mile fulfillment orders. Convenience retailer adoption of last mile services is still relatively new, especially in the U.S. This has led retailers to accept orders through a wide range of options. Many retailers accept orders from multiple sources displayed in Figure 2 below.



CURBSIDE PICKUP AREA



Fulfillment options prioritized by store operators tend to be ones that are easiest for delivery, but also minimize in-person interactions with customers.

Although not widely available currently, store operators are increasingly looking to take orders at the pump for in-store pickup or delivery to the customer's car.

Stores are looking to make purchases easier for customers while minimizing touch points between other customers and store staff.

Store operators outside of North America are more than twice as likely to offer delivery to an alternate location. Only 31% of stores deliver to an alternate location in North America compared to 65% of stores in Europe, Australia and Asia. Additionally, stores outside of North America are more than five times as likely to offer third-party locker fulfillment services. In contrast, North American stores that offer last mile services are more likely to offer curbside pickup (51%) relative to stores outside of North America, which only offer this service at 15% of stores.



Drive-thru pickup is not frequently offered, likely due to many stores not having a drive-thru window available. Few stores outside of North America offer this service while 26% of stores in North America do. **By not having a drive-thru, or not offering drive-thru mobile order as an option, store operators may be missing a potential fulfillment source.**

An [AlixPartners study](#)² from April 2020 on foodservice customers found that the largest percentage of customers (43%) preferred drive-thru pickup relative to other fulfillment options.

(2) Covid-19 Crisis: U.S. Restaurant Consumer Pulse Survey

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Retailers leveraging curbside pickup should emphasize the importance of short wait times for customers.

A [recent Rakuten report³](#) showed that customers that experienced wait times for in-store and curbside pickup of two minutes or less were four times as likely to be a repeat customer. As customers turn to contact-free transactions and more retailers offer curbside pickup it will be viewed as less of a differentiator over time. However, where retailers can stand out is making

that pickup as short and seamless of an experience as possible for customers. Convenience retailer adoption of last mile fulfillment is an exercise in balancing cost, not overburdening internal staff/operations, and ensuring customer expectations are met. These areas may pose a challenge for stores. Stores that already offer some form of last mile fulfillment should closely monitor the impact on in-store operations, inventory and overall sales.

(3) Rakuten Ready 2020 Time Study



DELIVERY SERVICES USED BY CONVENIENCE RETAIL

**50% of retailers that
offer off-premise
delivery use more than
one delivery service.**

Similar to the range of fulfillment options, convenience retailers leverage several delivery services. The landscape of delivery service providers varies significantly by region and is constantly evolving due to new third-party entrants and mergers/acquisitions in this space.

With several delivery partners available in their store trading area, convenience retailers frequently leverage more than one

fulfillment option. In fact, 50% of retailers that offer off-premise delivery use more than one delivery service, showing that retailers are likely continuing to explore which service performs best for their stores, recognizing that customer adoption and preference for delivery service partners can vary significantly by location. Figure 3 represents a global view of the percentage of retail operators that leverage each of the most frequently used delivery services.

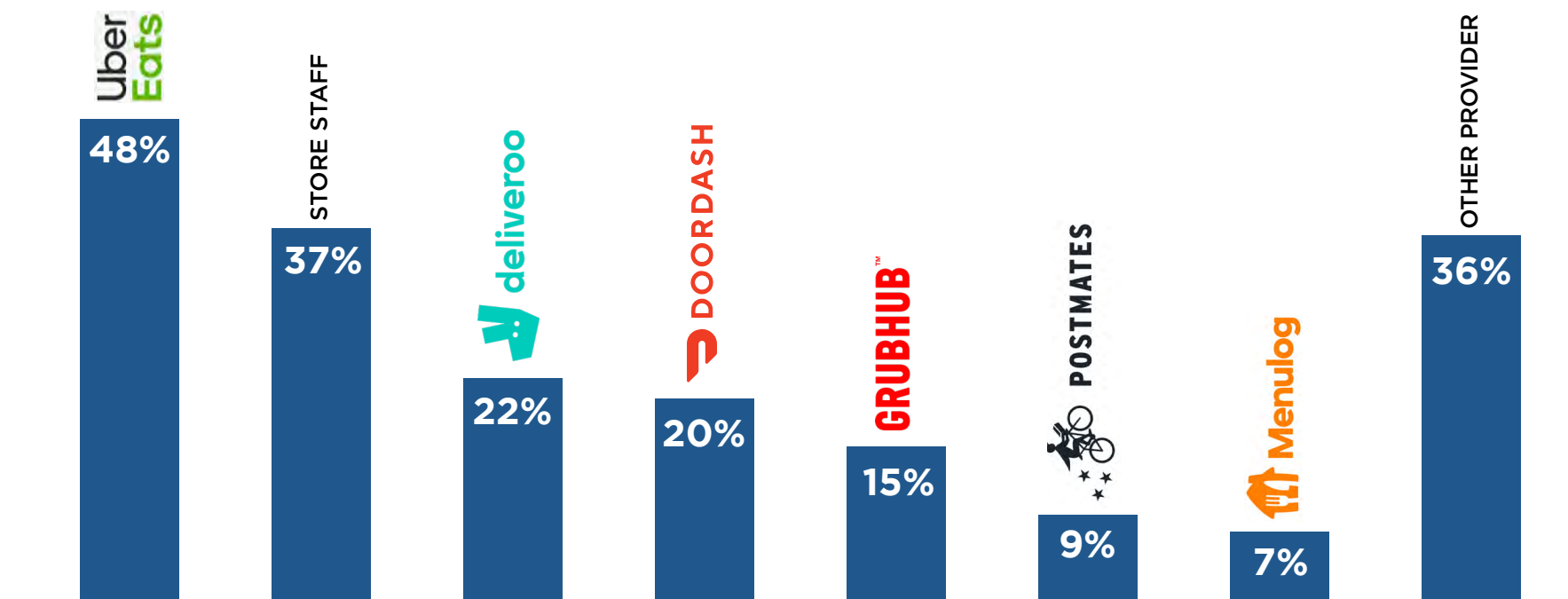


FIGURE 3: Convenience retailers most frequently use Uber Eats and their own staff for delivery.



Given some delivery service providers are more regional in nature, the delivery services used varies considerably between North America, Europe and Australia. For instance, North American stores are more likely to use their own staff (48%) or DoorDash (33%) for delivery. Retailers in Europe and Australia are more likely to use Uber Eats (74%) and Deliveroo (53%). Aside from the delivery services shown in Figure 3, other delivery options retailers are partnering with include smaller players such as Glovo, Hugo, Vroom and WAITR.

**Uber Eats is the most
downloaded food
delivery app worldwide.**



As new entrants (such as TripDelivers) emerge in the delivery space and mergers/acquisitions among delivery providers take form, the use of third party services will likely shift considerably. Retailers will be challenged to not immediately partner with the largest or most up-and-coming delivery provider, assuming they are most likely to deliver the highest increase in sales.

Convenience retail will need to understand the costs associated with vendor partnerships, both in monetary terms and the impact on store staff time and engagement.

**Only 61% of retailers are
satisfied with their last
mile fulfillment partners.**



As retailers are partnering with a variety of third-party delivery services it is clear that they see room for improvement in their partnership with these providers. Only 61% of retailers are satisfied with their last mile fulfillment partners. **Some of the reasons why satisfaction is not higher with third-party providers include:**



Picking up orders late



Pressuring store staff to hurry after arriving early



Delivery cost is too high



Data sharing/processing is not as expected

Chief concerns among retailers is ensuring their staff is not burdened by the delivery service and that they receive timely access to the data necessary to gauge the success of their partnership and customer satisfaction. These two areas are frequently cited as shortcomings for third-party delivery services. Importantly, retailers should have a full understanding

for how third-party services use data from last mile fulfillment and what data/how frequently data is made available to the store operators. Additionally, retailers may compare third-party delivery to the expectations they have for delivery from their own staff and not see the same level of quality between the two. Finally, retailers must ensure their ownership of all customer data is never relinquished and they have a voice in the use of the data by any other entity.



60% of retailers place restrictions on the products available through last mile fulfillment. Age-restricted products and food safety concerns are the primary reasons more retailers do not make all products available through last mile fulfillment. Results show that stores that use their own staff for off-site delivery are more likely to deliver a full complement of products from the retail location. Also, stores that use their own staff for delivery are more likely to restrict drop-offs to certain operating hours. Third-party delivery providers are more likely to

be used during all store hours. Retailers should gauge demand for delivery during non-peak hours and the type of products consumers are requesting for delivery prior to determining whether to use their own staff or third-party services to fulfill orders.

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METHODS FOR TAKING ONLINE ORDERS

In addition to determining which delivery service to use, what products to offer for delivery and the available times for delivery, retailers have a few options for how they can accept online orders.

While each consumer has their preferred method for placing an order, Figure 4 shows that retailers are primarily accepting orders from one source.

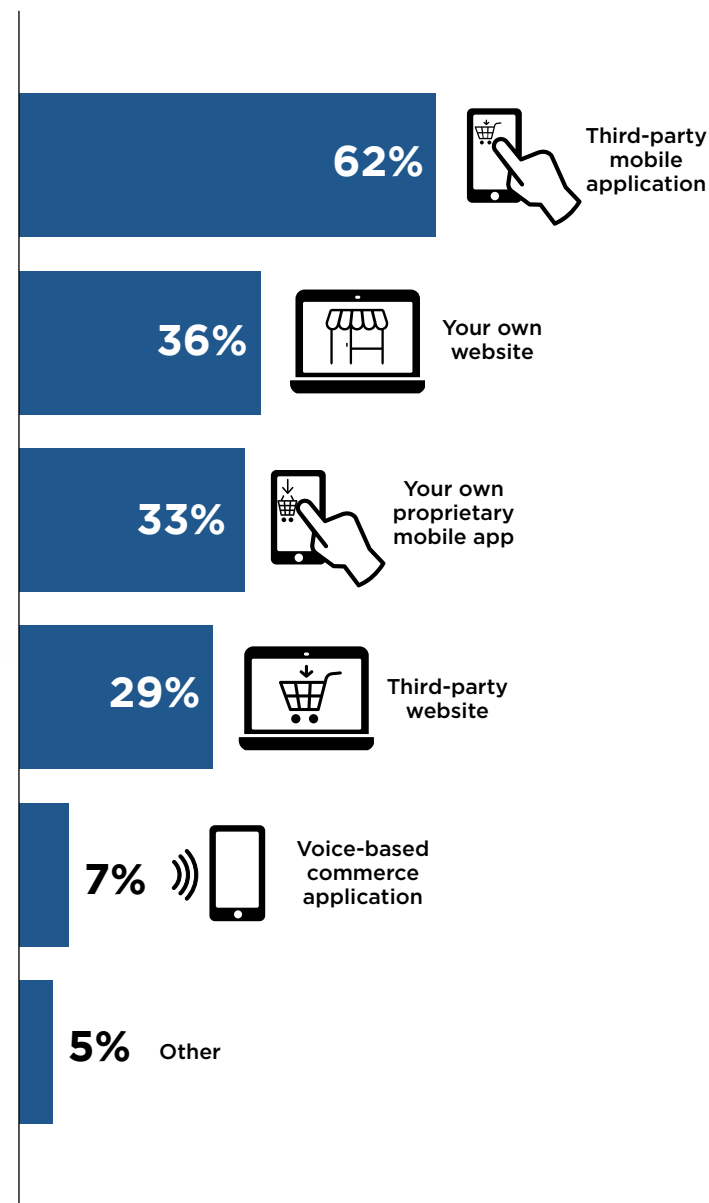


FIGURE 4: Retailers are most likely to rely on third-party mobile apps for taking orders.

NACS research shows a few interesting characteristics related to mobile app use for taking orders among retail operators:



25% of retailers that take orders through a third-party mobile app use their own staff to deliver orders.



Nearly half of retailers that use their own website or proprietary mobile app to take orders use third-party services for delivery.

Clearly, some convenience retailers have a blended approach for fulfillment in that they use different services for order intake than delivery. Many retailers see the value of leveraging third-party mobile apps consumers are accustomed to using for taking orders but may be skeptical of the actual delivery service. Retailers should be mindful of the challenge multiple systems (for order intake and delivery) may cause consumers and store staff.

More than 90% of convenience retailers fulfill orders from individual stores rather than a dark store or warehouse.

A sizeable minority fulfill delivery with their own staff. For some stores, completing the delivery themselves may not be an option. As a result, nearly 50% of stores that take orders through their proprietary sites use a third party for delivery. Finally, one-third of convenience retailers use their own proprietary mobile app for taking orders. Convenience operators leveraging their own app likely have more opportunity to use loyalty points and offers to keep customers and have more control over their customer data.



ABOUT THIS RESEARCH

This research is based on data from the NACS Last Mile Fulfillment in Convenience Retail Survey conducted from May-August 2020. The analysis is based on a total of 144 responses. 74% of responses are from North America, 14% from Europe, 8% from Australia and 5% from the rest of the world.



Advancing Convenience & Fuel Retailing