

THE AGE OF AMAZON: Why 3PLs & Last-Mile Delivery Fleets Must Draw Closer



Connecting and Leading Our Industry



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Rising Demand for Last Mile Solutions

Demand for same-day and next-day deliveries has accelerated during the COVID-19 pandemic. According to a recent Industry Intelligence report from Omnitracs, last-mile fleets serviced 21% more stops in 2020 than 2019.

Much of this growth came after the April 2020 pandemic dip to reach a total of one-half billion delivery stops by year's end across more than two dozen industry sectors.

The fourth quarter of 2020 was the strongest in the history of the last-mile segment. The world's largest parcel carrier, UPS, saw a 21% increase in fourth-quarter revenue, year over year. XPO Logistics, the world's largest provider of last-mile logistics for heavy goods (more than 150 pounds), had its best fourth quarter revenue in history and its annual truck brokerage revenue doubled.

Amazon continued its dominance as the world's largest third-party logistics (3PL) provider, reaching 60% market share in the U.S. e-commerce 3PL segment for 2020, according to 3PL market research firm Armstrong & Associates. Amazon's 3PL revenue comes by fulfilling orders for third-party sellers on its website and using Prime-branded vehicles for delivery.

Overall, the last-mile delivery market in North America is expected to reach \$44.88 billion from 2020 to 2024 at a CAGR of over 14%, according to a report by market research company Technavio.

Investment in asset and non-asset transportation and logistics providers in the last-mile has been soaring for delivery companies that specialize in heavy- and service-sensitive freight that does not fit the delivery models of UPS, FedEx and USPS.

Caroline Broder, an investor at Crosslink Capital, a Silicon Valley-based venture capital firm with holdings in transportation and logistics, sees untapped opportunities for 3PLs to optimize their use of local, short-haul fleets by forming relationships and using technology to solve an increasingly costly and difficult part of the end-to-end freight process.

Defining the 'Amazon Effect'

Same-day delivery expectations in the last-mile existed before the rise of Amazon but were a fraction of today's scale. Amazon currently delivers to 72% of all Prime customers within 24 hours. Its market dominance created the "Amazon Effect" for delivery expectations in all supply chains and freight types, from truckload to LTL and single delivery items.

The defining moment in Amazon's last-mile strategy was the 2018 launch of a Delivery Service Partner (DSP) program. Since then, Amazon has contracted with local delivery companies on a massive scale to compete directly with UPS and FedEx.

Amazon grew the DSP program by offering startup business opportunities, with significant discounts, to individuals for delivery van leases, insurance, mobile devices, uniforms and sophisticated delivery technology.

The DSP program today has more than 1,300 delivery firms and 20,000 delivery vans across five countries that distribute goods from more than 390 warehouses.

Finding a Better Fit

Amazon dwarfs other 3PLs in the last-mile sector but its DSP program has not been meeting the needs of many short-haul fleets who continue to find better opportunities elsewhere. Many DSPs built their business around Amazon only to be dismayed by the ease with which Amazon cuts contracts.

John Rydel, executive vice president of Capstone Last Mile (CLM), a division of Capstone Logistics, an Atlanta-based 3PL, "took a hard look at [the DSP] business" when he was the owner of Priority Express.

When Priority Express looked at Amazon's DSP program 2.5 years ago, "we couldn't figure out a way for it to be profitable for our organization," he said. The decision to not get involved paid off.

"We started to hear horror stories of businesses that were providing good services, and then Amazon would just pull the business from them. Some went out of business completely," he said.

Priority Express was acquired by Capstone Logistics in October 2019 to become the CLM division of Capstone. Its local fleet presence has grown across the Northeast, Mid-Atlantic states and Midwest regions to support Capstone, which also offers freight management and warehousing for an end-to-end supply chain management service portfolio.

Being a DSP for Amazon benefitted Tempo Transportation, said Ruth Ospino, owner of the Kansas City, Missouri-based company. Doing business with Amazon gave the fleet opportunities to extend its delivery footprint to a 200-mile radius around Kansas City.

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Tempo has scaled down its Amazon business as it found new business opportunities with 3PLs that are more relationship-driven, she said.

Tempo Transportation also offers same-day service in the Ft. Lauderdale and southern Florida market. Ospino founded the company 11 years ago after owning a franchise for Dynamex which was purchased by TFI International in 2011 and renamed TForce.

Expanding the Last-Mile

Local fleets with on-demand, same-day delivery service once were simply known as couriers. Many have outgrown this moniker by offering expanded services that include warehousing, distribution, brokerage, and expedited air forwarding.

Last-mile fleets realize that competing directly with UPS, FedEx and Amazon for density and economies of scale is not possible, explains Tim Cocchia, chief operating officer of Xcel Delivery Services. Instead, local fleets are finding success by targeting customers with on-demand freight that needs higher service requirements and custom delivery experiences.

"We are not going to compete with FedEx for pricing," he said. "We don't do low-dollar type jobs."

Phoenix, Arizona-based Xcel Delivery Services averages between 60 and 70 contracted drivers with operations in Phoenix and Tucson. The last six months have been the highest revenue and most profitable period in the company's history, he said.

Few carriers and 3PLs in the last-mile sector have a national footprint for last-mile delivery. This is changing through continued growth, investment and acquisitions in the market.

Jason Burns, corporate development director of Dropoff, an Austin, Texas-based delivery company, has been part of the company's growth to extend its last-mile service in 43 cities nationwide.

Burns recently sold the company he founded in New Orleans, QCS Logistics, to Dropoff. As the last-mile sector has grown, companies like Dropoff have added box trucks, tractor trailers and a linehaul network to localized delivery fleets with cargo vans.

"A lot has changed in the last five years," he said.

Many fleets in the last-mile sector belong to a national trade association, the Customized Logistics and Delivery Association (CLDA), which has a Find a Delivery Partner service on its website (www.clda.org) that shippers and 3PLs are using to find expedited, last-mile partners for local delivery needs in markets nationwide.

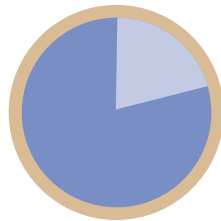
Many fleets in the last-mile sector belong to a national trade association.

Market Opportunities

In the United States, approximately 15,000 registered 3PLs generate about \$90B in annual revenue primarily by managing truckload and LTL freight transactions. The last-mile sector has growing opportunities for 3PLs to broaden their menu of supply chain services by creating partnerships with local fleets in four primary markets:

1. E-Commerce

With people spending more time at home during the pandemic, online sales have increased by 44% in 2020 to reach 21.3% of total retail sales, according to Digital Commerce 360, a media and research organization.



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Same-day delivery of food, beverage and grocery items are a growing area of opportunity for non-parcel freight. Since 2011, funding for crowdsourced last-mile delivery platforms reached \$14 billion with a heavy concentration in food delivery companies such as Instacart and Uber Eats, according to Deloitte research.

Delivery of heavy goods purchased through e-commerce channels is another area of opportunity for fleets that can meet specialized delivery requirements that include setup and reverse logistics for items such as medical devices, exercise and home office equipment.

Tempo Transportation has expanded its business during the past year by providing setup, assembly, installation and other white glove delivery services. Various 3PL customers are bringing linehauls to its 15,000 square-foot warehouse for last mile delivery, Ospino said.

2. Medical Lab Logistics

Laboratory tests for blood and tissue samples are conducted 13 billion times a year in the United States and have time-sensitive and specialized handling and delivery requirements.

Medical logistics is a large part of Capstone Logistics' last-mile business, which provides 24/7 service for doctors' offices and clinics in the Northeast.

CLM contracts with about 1,600 drivers, primarily in the Mid-Atlantic region, and has seen its medical business increase significantly during the COVID-19 pandemic, including work transporting vaccines within hospital networks, Rydel said.

3. B2B

Freight opportunities in the B2B last-mile sector abound for pallet-sized LTL freight and heavier items that have unique service requirements such as after-hour deliveries to business and residential customers.

One area where motor carriers and 3PLs are chasing opportunities in the last-mile B2B sector is offering blended warehousing and delivery services that smooth order fulfillment for customers that have experienced supply chain disruptions from COVID-19.

In the past year, shippers had to re-evaluate traditional concepts like safety stock and just-in-time logistics. "All those things have changed," said Andy Moul, director of warehousing and distribution solutions for A. Duie Pyle (Pyle), an asset-based 3PL headquartered in West Chester, Pennsylvania, with a Northeast service area.

Pyle has a specialty in B2B freight in the Northeast along the I-95 corridor from Baltimore to Bangor, Maine. The company's infrastructure gives shippers forward inventory positions with same- and next-day fulfillment from its Integrated Service Centers that combine warehousing, distribution, and final-mile delivery services with its fleet of 1,077 tractor-trailers, box trucks and Express Solution straight trucks.

4. Special Projects

Last-mile fleets that operate facilities near large urban centers, like New York City, are seeing demand increase from shippers, 3PLs and motor carriers to utilize their local delivery services. These customers are dropping off large-volume truckload and LTL shipments at their docks.

Many LTL and truckload fleets do not want to go past New Jersey to drop off pallets, said Ralph Perrothers, CEO of On The Go (OTG) Cargo, a last-mile fleet based in Moonachie, New Jersey

OTG Cargo has six buildings with docks it uses for distribution. Motor carriers that drop freight off in the mornings will have same-day delivery in New York City by noon, he said, with its use of cargo vans and straight trucks.

Last-mile carriers separate volume loads into smaller shipments and make urban deliveries on repeat schedules, such as distributing shipments to retail stores. They are also doing special projects, explains Keith Kirk president and owner of Eveready Express.

A freight broker may need a truckload of building materials delivered to multiple construction sites in the city. Rather than make the stops with a tractor-trailer, "it is better for us to bring it in," Kirk said.

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Last-mile carriers know the geography and idiosyncrasies of city routes. They can provide flat rates and continuous shipment visibility, he noted. Similarly, last-mile carriers such as Eveready Express can pick up shipments and consolidate loads at their docks for customers to have outbound truckload and LTL shipments.

About 30 percent of Eveready Express' business volume comes from its handling first- and last-mile shipments from motor carriers and 3PLs that have shipments going into and coming out of the greater New York City metro area, he said. Many of its pickups and deliveries are made outside of normal business hours to help its customers keep their trailers moving on schedule.

3PL Partnership Opportunities

The last-mile sector presents both an opportunity and challenge for 3PLs that have traditionally been focused on truckload and LTL shipments. 3PLs that offer warehousing services may already have partnerships with last-mile carriers to offer end-to-end freight management services for shipper customers.

The acquisition of Priority Express by Capstone Logistics started with a business relationship in 2018 between Capstone's Warehouse Services division (CWS) and Priority to have dedicated, last-mile capacity for a major retail customer in the Mid-Atlantic area.

The last-mile sector presents both an opportunity and challenge for 3PLs

"A lot of resources, time and effort went into that relationship and we decided it was something we wanted to move forward with," said Rydel about the acquisition.

Capstone Logistics plans to expand its CLM division to a national footprint, just like its freight management (CFM) and CWS divisions already have, Rydel said.

All three divisions hold weekly meetings to discuss crossover business opportunities. Increasingly, Rydel sees opportunities for CLM and CWS to provide grocery customers with home delivery solutions that surpass the level of service of crowdsourced delivery apps like Door Dash, Instacart and Uber Eats.

"That is not a very customer-friendly type of delivery," Rydel said of crowdsourcing apps. CLM, like other last-mile fleets, can do custom deliveries in customer-branded vehicles and uniformed drivers, Rydel said.

Similarly, Tempo Transportation's Ruth Ospino sees more opportunities for 3PLs to offer better technology and delivery experiences to shippers through apps that connect the shipper and its brand with last-mile delivery fleets and to the end consumer.

Building freight density is the main challenge for 3PLs to enter the last-mile sector, said Michael Fullam, executive vice president of ReedTMS Logistics, an asset-based 3PL based in Tampa, Florida.

ReedTMS Logistics already provides its shipper customers with end-to-end freight and warehouse management for dry van and temperature-controlled LTL and truckload shipments. Many of its customers are in the grocery industry.

Fullam sees opportunities to provide last-mile grocery deliveries for customers using its own assets or partnering with local carriers that can deliver temperature-sensitive items and represent its clients' brands.

"I think those touch points are really important to customers that are willing to pay for it," he said. The challenge, he notes, is that "when you come in as a smaller player, you either start out not making an ROI or take a considerable amount of time to get density to make a return."

Getting Digitally Connected

Digitizing the flow of information is a critical step for shippers, 3PLs and last-mile carriers to scale their efficiencies, provide real-time shipment visibility and control the quality of shipments from the first to the final mile.

Unlike the truckload and LTL spot market where freight is typically posted to a load board, most 3PLs doing business with last-mile carriers tender freight directly to carriers with whom they have relationships, said Tempo Transportation's Ruth Ospino.

Tempo Transportation regularly logs into web portals of its 3PL customers to see details for upcoming orders that include the expected delivery dates, weights and dimensions. This visibility has been critical during the COVID-19 pandemic, Ospino said, to plan ahead for unexpected swings in order volumes.

Larger 3PL customers of Tempo Transportation are connecting directly to its dispatch system to drop in orders and receive automatic shipment status updates.

Last-mile fleets that use off-the-shelf technology can provide shippers and 3PLs with a seamless delivery experience on the scale of Amazon. When a customer schedules a same-day delivery with Pearl Transportation and Logistics, the receiver gets an email that says the driver is on the way and shows the name and picture of the driver and the expected time of arrival, said Lorena Camargo, founder and CEO.

Last-mile fleets that use off-the-shelf technology can provide shippers and 3PLs with a seamless delivery experience on the scale of Amazon.

Pearl Transportation and Logistics is a Los Angeles-based carrier that operates 50 trucks with a delivery footprint in all of California with a specialty is medial logistics. The company recently began using this new visibility feature in its cloud-based dispatch system from CXT Software.

Eveready Express uses a cloud-based dispatch platform from e-Courier that comes with pre-built integrations for transportation management software (TMS) systems used by hundreds of 3PLs and shippers. With the integrations, its customers receive automatic shipment updates, Kirk said.

The company also uses the Sylectus Alliance load board that shares data between carriers and 3PLs for end-to-end shipment visibility and electronic proof of delivery, he said.

Some 3PLs and last-mile carriers have developed their own cloud-based platforms that connect all stages of the freight delivery process. Capstone Final Mile is using a proprietary Mile Zero cloud-based platform that was acquired by Capstone Logistics in October 2019 before it purchased Priority Express.

Mile Zero was founded by a former Amazon software developer. It integrates with the back-end commerce systems of Capstone's customers and has consumer-facing interfaces.

"Our partners and customers love it," Rydel said of Mile Zero. "We are excited about having a system that is not off-the-shelf."

Competing for Drivers

Most last-mile carriers are using independent contractors as drivers. The competition for delivery drivers either as employees or contractors has become intense among local fleets, Amazon and other 3PLs.

ShipEX Last Mile is a division of ShipEX, an asset-based 3PL in Salt Lake City, Utah. The company is using only company drivers for its fleet of box trucks and sprinter vans that specialize in delivering heavier items from shippers to residential and commercial destinations.

"Because we control our own units and equipment, we ensure that every delivery is always paired with the necessary tools to get the job done properly and efficiently, which also saves time and money," said Heather Mendoza, last mile program manager of ShipEX Last Mile.

ShipEX Last Mile has delivery operations in Salt Lake City, Dallas, Oklahoma City and Houston, and is planning to steadily expand in new locations.

No matter the driver model, technology makes it possible for 3PLs and carriers to compete for labor resources by offering drivers a better work experience while dynamically adjusting to business demands of the day.

"The more efficient we can be with their day — by giving them a lot of work, and consistent work — it allows them and their business to grow," said Xcel Delivery Services' Tim Cocchia. All of Xcel's drivers are independent contractors.

Technology for efficient route planning and communication is critical for last-mile fleets to have a good working relationship with drivers, which translates to excellent service for 3PL and shipper partners, he explains.

Conclusion

Events during the past year of the COVID-19 pandemic have caused shippers and 3PLs to connect with last-mile transportation providers in new ways that go beyond purchasing their commercial service offerings.

Many shippers and 3PLs have searched for, and found, companies to form strategic partnerships with to solve critical needs in the first, middle and final-mile of supply chains to meet the same-day delivery expectations fueled by the "Amazon Effect."

"The marketplace has been transformed by Amazon," said A. Duie Pyle's Andy Moul. "Our response is to answer the call and develop a network such that we can provide a high level of service."

This whitepaper is brought to you by the Custom Logistics and Delivery Association (CLDA), a trade association for final-mile delivery companies, and by the Transport Intermediaries Association (TIA), a trade association for 3PL professionals.

A special thanks to the executives from last-mile fleets and 3PLs who contributed to this article:

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Andy Moul, director of warehousing and distribution solutions for A. Duie Pyle

Ralph Perrothers, CEO of On The Go (OTG) Cargo

Keith Kirk president and owner of Eveready Express

Michael Fullam, executive vice president of ReedTMS Logistics

Lorena Camargo, founder and CEO of Pearl Transportation and Logistics

Heather Mendoza, last mile program manager of ShipEX Last Mile



Connecting and Leading Our Industry

ABOUT CLDA | *Founded in 1987, CLDA is a non-profit trade association that advances the interests of the customized logistics and delivery industry through advocacy, networking and education. As an industry*

thought leader and representative for our members, the CLDA is committed to providing the resources and education for first, middle, and last mile carriers to stay educated about industry trends and opportunities.

The CLDA Membership is comprised of first, middle and last mile delivery companies. They are the people who transport goods to the home, office and everything in between.

For more information visit www.clda.org



ABOUT TIA | *TIA is the leading voice of third-party logistics professionals doing business in North America and abroad. TIA provides*

resources, education, information, advocacy and connections for new 3PLs and established companies.

TIA members range in size from startup 3PLs to large, international shipping companies. TIA members are recognized in the industry by shippers and carriers as being among the best and most ethical 3PLs. TIA's Associate Supplier members have the latest technology available to support the 3PL industry.

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