



Urban Logistics overview

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Executive Summary

With all the pressure to get what the customer wants, when the customer wants it – it has become clear that the pre-pandemic delivery model will not suffice. This report will provide insights into strategies, both existing & emerging that are underway to address the challenge.

Background

Shippers and logistics companies are bidding up warehouse rental prices in a scramble for space to meet e-commerce demand. It is a known fact that average base rents that landlords and tenants have agreed to so far this year 2022, have grown faster than the asking prices in most markets across Southeast Asia.

The WSJ (Wall Street Journal) Logistics Report's Jennifer Smith writes that prices are rising especially fast for space near ports and cities, and for big-box warehouses.

The competition, driven by the push to get goods in position for faster distribution of online shopping orders, shows how the impact of accelerating e-commerce demand during the pandemic is cascading through supply chains.

That puts warehousing alongside an array of other markets, from raw materials to transportation capacity, where supply constraints are driving up costs.

The big Industrial Real Estate Companies say another 330 million square feet of distribution space will be needed in the U.S. alone by 2025 just to meet e-commerce demand.

We know that the evolution of human behavior radically changes consumption patterns. We also know that these changes historically used to be slower than today. This allowed the market to prepare step by step.



The reality is that today changes can happen from one day to another, without waiting for industry readiness.

The goal of getting goods closer to customers will continue to accelerate as we know it as the benefit is to trim order costs and boosts on-demand services.

Additionally, to help with this growth, 3PLs have been tasked to put more products closer to the customer while expanding delivery options to include parcel, same-day, and local carrier white glove services.

Demand drivers

Technology and information advances, no more than a couple of decades ago, information belonged to a privileged few.

This changed and the Internet, smartphones, tablets, laptops, wearables, and others, have introduced a large portion of the population to this technology.

Demand source and the development of digital platforms, such as marketplace and e-commerce.

Ease of payment, until recently, was limited to credit cards, but now the use of debit cards and payment by wallets & Apps helped to bring a large percentage of people belonging to the informal economy into to digital commerce.



Reducing the length of time for order processing and enabling last-mile delivery within hours, if not minutes.

Alternatively, this model will be applied to enhance the use of store pick up, which is being used to create a comprehensive omnichannel environment.

Customers have the option to have products shipped to home or the store, and this eliminates any confusion about how much space is needed within each store. Furthermore, this model of e-commerce allows optimized load consolidation processes and reduces costs across the organization.

According to Patrick Burnson of Logistics Management, small facilities and storefronts may become miniaturized order fulfillment centres.

Impact on traditional cities & traditional stores

Urban growth and Smart Cities. By 2030 it is estimated that there will be around 8.5 billion inhabitants on the planet; of these, 5.5 billion will live in large urban centres.

This will force cities to become Smart Cities, capable of serving this population mass in a clean, efficient, and fast way.

The premise will be impossible without further important developments of AI (Artificial Intelligence), BD (Big Data), IoT (Internet of Things).

So, we can expect this unbridled growth of logistics models to remain constant in the following years.



Disadvantages of DCs on outskirts of large cities, it distances goods from the final buyer and therefore increases transportation costs, lengthens delivery time, adds operating costs such as transportation of operating staff, makes it difficult to attract human talent, which can lead to higher turnover with the consequent hidden costs.

Last Mile delivery can be up to a third of the total cost of the product price (depending on product type).

Of that huge portion, between 28 and 35% corresponds to transportation.

This is where urban logistics plays its part assisted by new Omnichannel strategies.

Where the emergence of Micro-Fulfillment Centers and Dark Stores stands out, which are becoming powerful allies for the optimization of logistics costs.

Short-term impact:

E-commerce related demand is becoming more strategic in focus.

The short-term space requirements of last year, beginning to change with occupiers and supply chain players keen to get a future-fit, strategic network in shape.

In some markets it includes urban logistics facilities for last-mile deliveries.

Longer-term:

This rightsizing of large operators is likely to result in an overall reduction of space in most developed markets, certain retail places will profit from demand for space coming from a broader occupier base.

With these new operators and business models a growing number of FMCG players are embracing the direct-to consumer business model.

Non-retail groups, including flexible office space operators as well as specialists running **'dark stores'** and **'dark kitchens'**, are also showing interest in taking retail space.

Both the MFC (Micro-Fulfillment Center) and the Dark Store are relatively new concepts in the market, we can define them as mini logistics hubs strategically located in high-density urban centers.

They allow the preparation of orders quickly and quite often are manual.

Both are focused on fulfilling the value promise optimizing or reducing as much as possible 2 big headaches, the cost per pick and the last mile.

Although at first glance they could be interpreted as the same concept, we are talking about 2 different logistics strategies, but highly complementary.

Layout will depend on the type of product clients served, their geographical location.

Developing trend (D2C) Direct to customer

Is (Micro Fulfilment as a Service) providers will purchase or lease a building to install Micro Fulfilment Centres or install an MFC onsite in a facility owned by their client.

MFaaS providers leverage existing micro-fulfilment sites on a by-use basis, offering businesses and growing brand benefits.

Customer proximity, serving them at the speed they demand by localizing inventory stock everywhere it is needed.

Once an online order is made, robots fulfil it faster by picking, packing, and shipping in a matter of minutes.

Immediate ROI without a large upfront investment because MFaaS is charged on a by-use basis.

There is little or no upfront capital investment, and all areas of the operation are handled by the MFaaS provider.

Control of customer relationship management, by maintaining control of their fulfilment, brands can manage their customer relations, monitor the delivery experience, and generate valuable data to aid continuous improvement and targeted consumer offers.



Triple EFF's View

For all the right reasons companies are trying to keep pace with or even get in front of the trends we have given a high-level view of in this eBook.

The reality of MFCs are they are about trying to provide faster service for the consumer ... but the flip side of that is it's got to make economic sense.

Retailers are scratching their heads to make sure the math works, so that they just don't plow money into something that can [help] meet consumer demand but doesn't help the bottom line."

Perhaps an interim step is manual dark stores, backroom picking and in-store picking using handheld devices, rather than robots.

There are plenty of case studies for review on Dark Stores & Ghost Kitchens.

In closing we have provided you with some insight into the world of Urban Logistics. If you know anything about moving goods across the world's largest archipelago, you will be aware of the challenges involved.

Triple EFF has worked in Logistics & Supply Chain in Indonesia for almost 15 years and along the way we have accumulated a lot of knowledge.

We are of the firm belief that ***"Knowledge not shared is Energy wasted"***.

This is one of the main reasons why we have prepared this paper, the other reason is to help you on your way to get to ***"What good looks like for your business"***.



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