Logistics & Industrial

Assessing Last Mile Logistics in Australia

How are industrial occupiers in Australia approaching 'last-mile' warehousing?

Urban Logistics is a key challenge for industrial occupiers

The significant acceleration of online retailing in Australia has increased focus from logistics and industrial occupiers and owners on how to best manage warehousing requirements to meet the final step of the customer fulfilment process. To better understand the state of play of 'last mile' logistics in Australia, it is important to understand the broad existing strategies that are being utilized by retailers in the Australian market. These strategies are not mutually exclusive, with major groups such as Catch.com often utilizing multiple strategies for different parts of their business

What are the most common models used for urban logistics by retailers in Australia?

'I do it all'

Logistics are entirely sourced in-house by the operator

Under this model, the logistics and supply chain functions are entirely controlled and operated by the retailer. A pure 'I do it all' model is relatively uncommon in Australia, with even the largest groups using a variety of strategies for managing their supply chain. This is reflective of the complexities of freight distances in Australia, which makes having an efficient 'I do it all' strategy extremely challenging.

However, Woolworths can be considered a relatively robust example of this strategy being applied. They see logistics as a core competency of their business, and the in-house logistics division was rebranded as a separate business (Primary Connect) in 2020. The Primary Connect platform has commercialized Woolworths' logistics network, and now services over 1,000 external customers in addition to the supermarkets.

Similarly, food meal kit delivery services such as HelloFresh and Marley Spoon manage their customer delivery processes internally. This is primarily due to the specialised nature of the product that is being delivered and the relatively minimal risk of surges in demand in a short timeframe.

'Operate for me'

Logistics company operates the warehouse, while the customer controls transportation, inventory levels, and warehouse and automation investment

Using the 'Operate for Me' model, a retailer occupies a network of distribution facilities under their own brand but will outsource the operation of some warehouses. This strategy is becoming increasingly popular for those who have previously tried to avoid dealing with their supply chains, as they are able to more easily control the cost and performance of a partner 3PL.

Australia's other supermarket major, Coles, have increasingly shifted towards this model to improve the performance of their online order fulfilment processes. In 2019, Coles partnered with U.K-based Ocado to operate their new fulfilment centres being built in Melbourne and Sydney and transition their in-store picking processes for less populated areas. Furthermore, much of the labour operating within their warehouses are employees of an outsourced 3PL rather than the supermarket itself.

More recently, international homewares retailer Williams Sonoma moved their logistics operations out of a DHL warehouse into a self-branded facility in Horsley Park and outsourced their 3PL needs.

‘Make the best of my stock’

Logistics company controls the fulfilment of all stock that the retailer chooses to place in the warehouse

The ‘make the best of my stock’ strategy encompasses a range of options which are generally utilized by smaller retailers. Typically, the major benefit of this model for retailers is the access to a 3PL’s entire multi-client warehousing network, which gives a lot of flexibility to ramp-up and ramp-down inventory based on expected demand.

Local 3PL group eStore Logistics are a key player in this space specializing in online fulfilment for clients ranging in size from major national retailers such as Temple & Webster and RM Williams to micro-retailers who sell their products through Amazon Marketplace. Similarly, 101Warehousing provides ‘pick and pack’ and eCommerce integration services for retailers who operate through online marketplaces like Shopify.

‘I don’t want to deal with logistics’

Logistics company offers fulfilment and stock management as a wholistic solution, optimizing inventory and fulfilment across locations

In Australia, this strategy appears to be mostly being utilized by omnichannel retailers, who are looking to streamline their supply chains across their online order and store fulfilments. A prime example of this is the recently completed DHL Supply Chain facility at LOGOS’ Truganina Logistics Estate which is being exclusively used to supply Adairs’ online sales and physical store network. Other major 3PL groups such as Toll, who recently moved into a new facility to manage their contract with Mars Wrigley, also provide these services, with new major contracts often requiring 3PLs to commit to additional warehousing space.

Third Party Logistics Strategies - Australia

Source: JLL Research, McKinsey & Co

Major questions about Australia’s urban logstics players

Which retailers are doing “last mile” themselves?

In Australia, Amazon and major operators in the food sector (supermarkets and meal kit delivery providers) are likely some of the only groups with sufficient scale to absorb the entire cost of doing last mile on their own. This is reflective of Australia’s relatively concentrated and geographically dispersed population base, which minimises the number of major catchments that can be efficiently serviced from any one location. Most notably, the largest group operating in the pure ‘last mile’ space nationally is Australia Post, who are most often tasked with moving stock from a ‘last mile’ warehouse to a customer in a business-to-consumer (B2C) online transaction.

How about bottle shops or on-demand liquor delivery services?

The larger liquor operators (e.g., Dan Murphy’s and Liquorland) operate through the same channels as their parent company supermarkets – for example, Woolworths’ new DC at Kemps Creek will service Woolworths, Dan Murphy’s and BWS stores. However, the smaller on-demand delivery groups can have varying strategies.

One of the most interesting examples of this is the ‘Jimmy Brings’ platform, which was acquired by Woolworths in 2017. In effect, this service provides one of three levels of liquor service that a consumer can access through one of Woolworths’ subsidiaries (such as Dan Murphy’s or BWS) – each with a different fulfilment strategy.

On-demand delivery, like that offered by Jimmy Brings, utilizes gig workers who collect single orders from one of the retail stores in Woolworths’ network and delivers directly to consumers. Conversely, delivery that is not same-day or next-day is much more likely to come from a DC alongside a number of other orders in a delivery route. Same-day delivery strategies vary and can come through either the local retail network or a DC. Gig workers are vital to this process, as they allow retailers to maximise the service to their clients with rapid, on-demand delivery and they can also cater for demand spikes with relatively little overhead cost to the retailer.

Where are courier companies choosing to locate?

One of the most critical considerations that must be weighed up by an industrial occupier engaging in B2C transactions is where to locate their distribution hubs. This is primarily a balance between locating as close as possible to a defined customer pool and the relative cost associated with industrial assets in those locations. The key metric used in this analysis is the ‘stem time’, which refers to the amount of time between a truck leaving a DC and when it makes its first delivery. Stem time is the least productive, and therefore the least desired, time in a company’s supply chain and must be carefully managed alongside real estate costs.

Based on an analysis of JLL Research data, operators in the “Postal and Courier Pick-up & Delivery Services” sub-sector are heavily focused on proximity to major population bases, with 94% of gross take-up recorded in the sub-sector since the start of 2015 located in the three eastern seaboard markets. However, at a sub-market level these decisions have been primarily driven by asset availability, with weighting across each market to the precinct which has delivered the highest volume of new stock over the last five years.

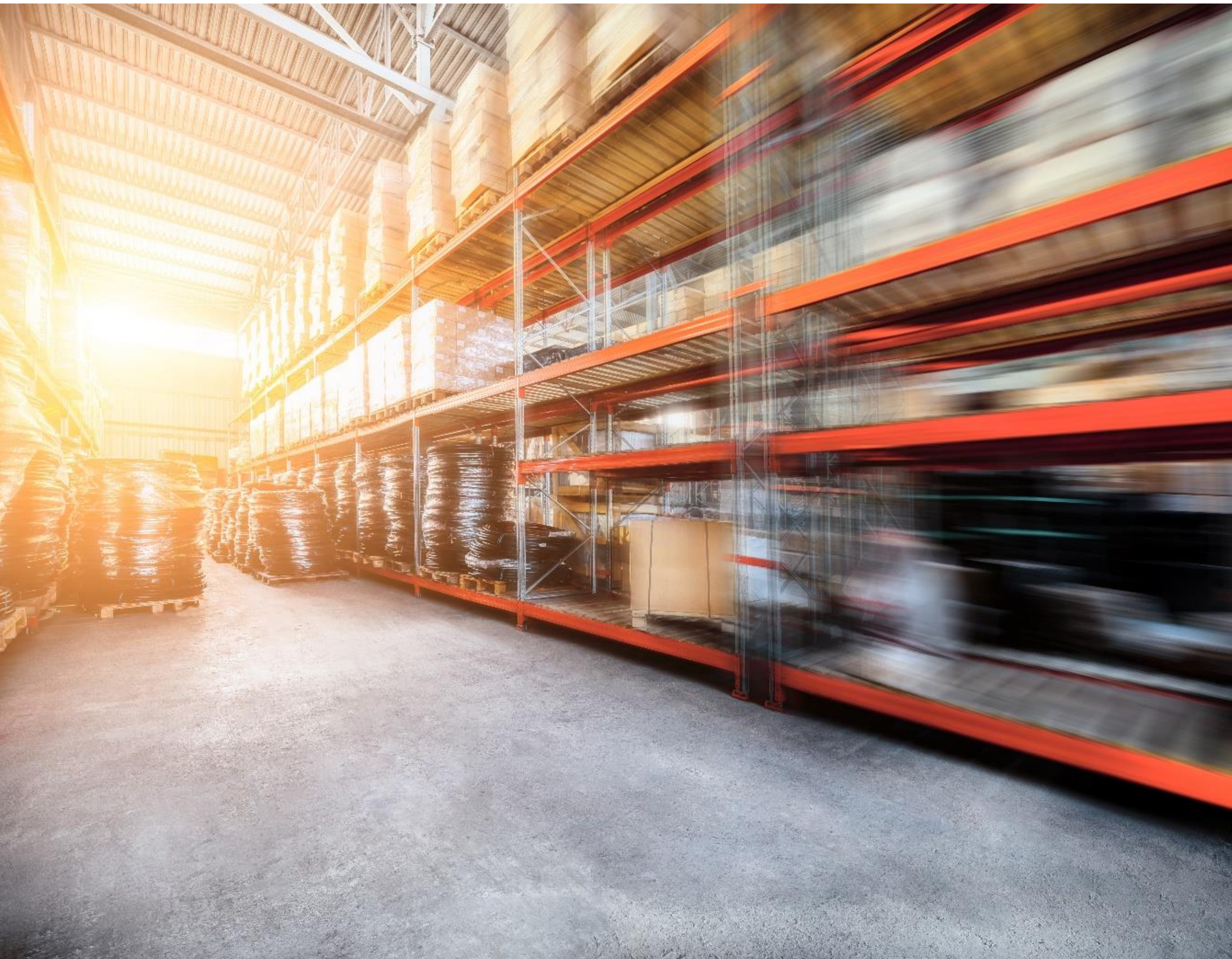
Do multiple companies combine within a shared 3PL facility?

This is primarily a question of scale. Groups that are of sufficient size will command a dedicated facility regardless of whether their logistics processes are outsourced or in-house. Conversely, smaller groups who rely more heavily on a 3PL to hold and distribute their stock would occupy space alongside other retailers across a 3PL's network.

For retailers that are of a smaller scale, the use of an external 3PL's network has an added advantage of providing flexibility in inventory management. The option to scale-up and scale-down held inventory at short notice is vital to smaller retailers to manage demand surges without incurring major overhead costs.

How customized are the facilities used for urban logistics?

The level of building customization is relatively limited in most examples of urban logistics facilities in Australia. However, in larger buildings occupiers are installing highly bespoke automation and technology infrastructure to maximise efficiencies. From an owner perspective, the relatively low level of base-building customization limits the potential risk of obsolescence for assets being used for urban logistics, provided that the building is up to modern occupier standards.



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