



The Future of Big Box Home Delivery

Furniture Today & AHFA Logistics Conference 2015

Agenda

■ Future market outlook

- Trends and growth forecast
- Opportunities through the voice of the customer and consumer

■ Current value chain state –barriers to future promise

- Provider/3PL Industry Structure
- Structural Impasse Today

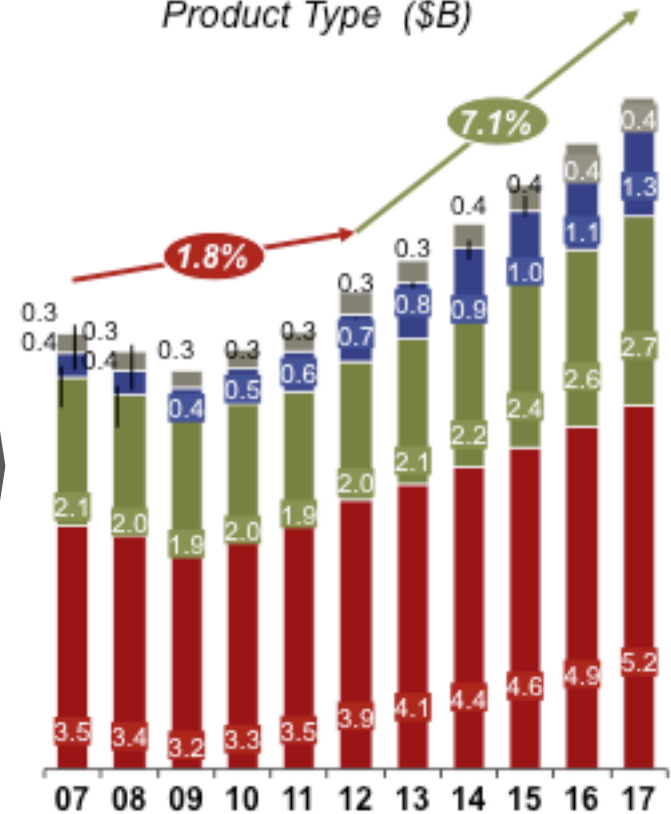
■ National integrator – a breakthrough model?

Big box delivery is an \$8B industry experiencing growth across all segments; ~6% CAGR for Furniture

Delivery Category Growth Insights

Category	\$ CAGR (2012-2017)	Growth Drivers / Key Insights
Furniture	6.2%	<ul style="list-style-type: none"> Unit sales forecasted to grow 2% driven by housing starts Channel switching driving an additional 2% - e-commerce growth (8% today) growing 10% driving increased line-haul revenue Estimated 39-42MM units delivered in 2014
Major Appliances	6.5%	<ul style="list-style-type: none"> Unit shipments are forecasted to grow 4%
Large TVs	13.0%	<ul style="list-style-type: none"> Overall TV unit shipments growing only 1% Yet, unit delivery growth is growing by 8% as customer trade up to 40" and larger TVs which shift from parcel to LFHD Channel switching to ecommerce accounts for the remaining 3% and driving increased line haul revenue
Other	6.8%	<ul style="list-style-type: none"> Sales in the home improvement category is increasing 7% YoY as housing starts accelerate and housing prices move up

LFHD Market Size by Product Type (\$B)








Growth driven by positive market headwinds

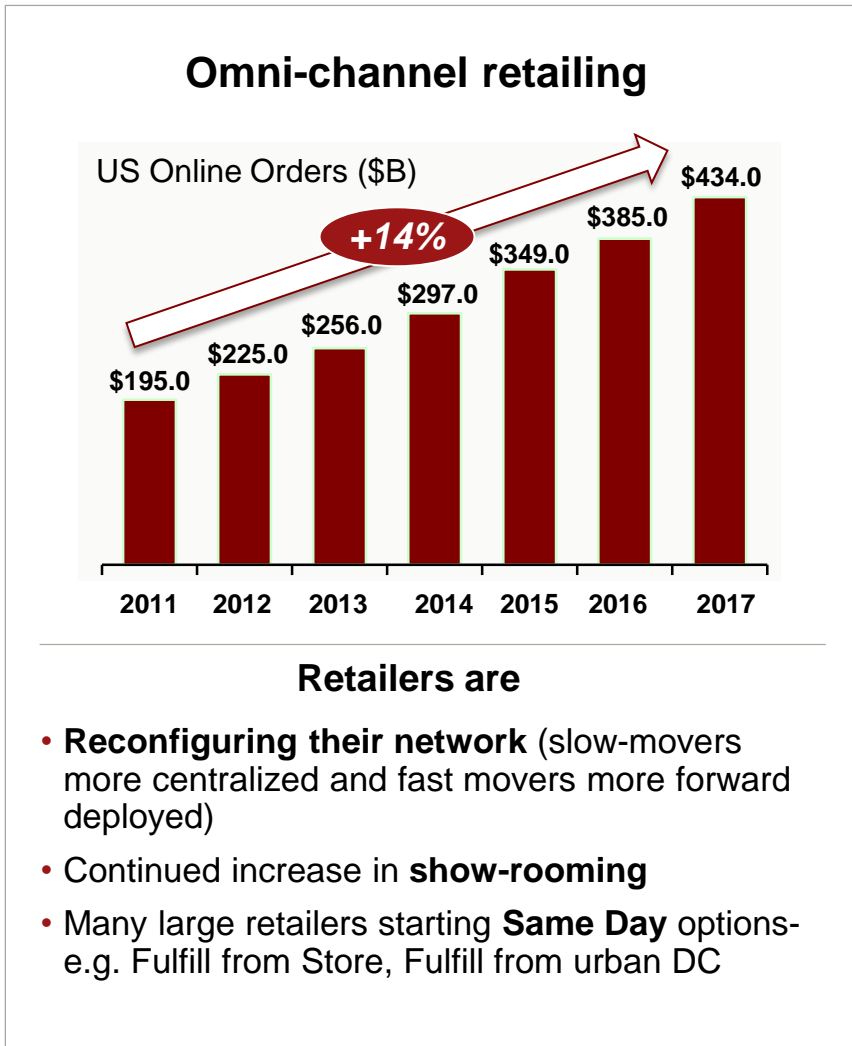
Major Trends in US Retail Market

Major Trends

Implications on Home Delivery Needs

<p>Online Migration</p>	<p>Rapid growth of online / omni-channel</p>	<ul style="list-style-type: none"> • Direct to consumer shipping similar to the parcel space 	
<p>Retail Omnichannel</p>	<p>Retailer's omni-channel transformation</p>	<ul style="list-style-type: none"> • Smaller stores and more showrooming • Direct to consumer delivery 	
	<p>More and Bigger Products</p>	<ul style="list-style-type: none"> • SKU proliferation; larger (e.g., 60" TV) • People buying more units per home (e.g., TVs, fridge) 	
<p>Demographics</p>	<p>Bifurcation of population to millennials & boomers</p>	<ul style="list-style-type: none"> • Boomers and Millennials both looking for more services • Demand convenience, speed 	
	<p>Urbanization</p>	<ul style="list-style-type: none"> • Stores reducing inventory • People living in cities 	

Omni-channel retailing growth is the biggest driver for big box last mile demand



Direct Effect on Last Mile






- Key driver of last mile growth
- Significant growth for line-haul / integrated delivery (DC to home 1-5 day orders); we estimate line haul will see ~2X more growth vs. pure LM

Indirect Effect on Last Mile

- Rising consumer expectations: from *cost vs. service* to *cost and service* (Amazon effect)
- Increased demand from retailers on end-to-end visibility and service (including LM)
- Potential for co-mingling medium format parcel orders (Same Day deliveries outside of UPS/FedEx network)
- Migration of small format technology innovations (route optimization, tracking, agent-based network coordination – e.g. Shutl, Google Express)
- Large OEMs looking to sell direct

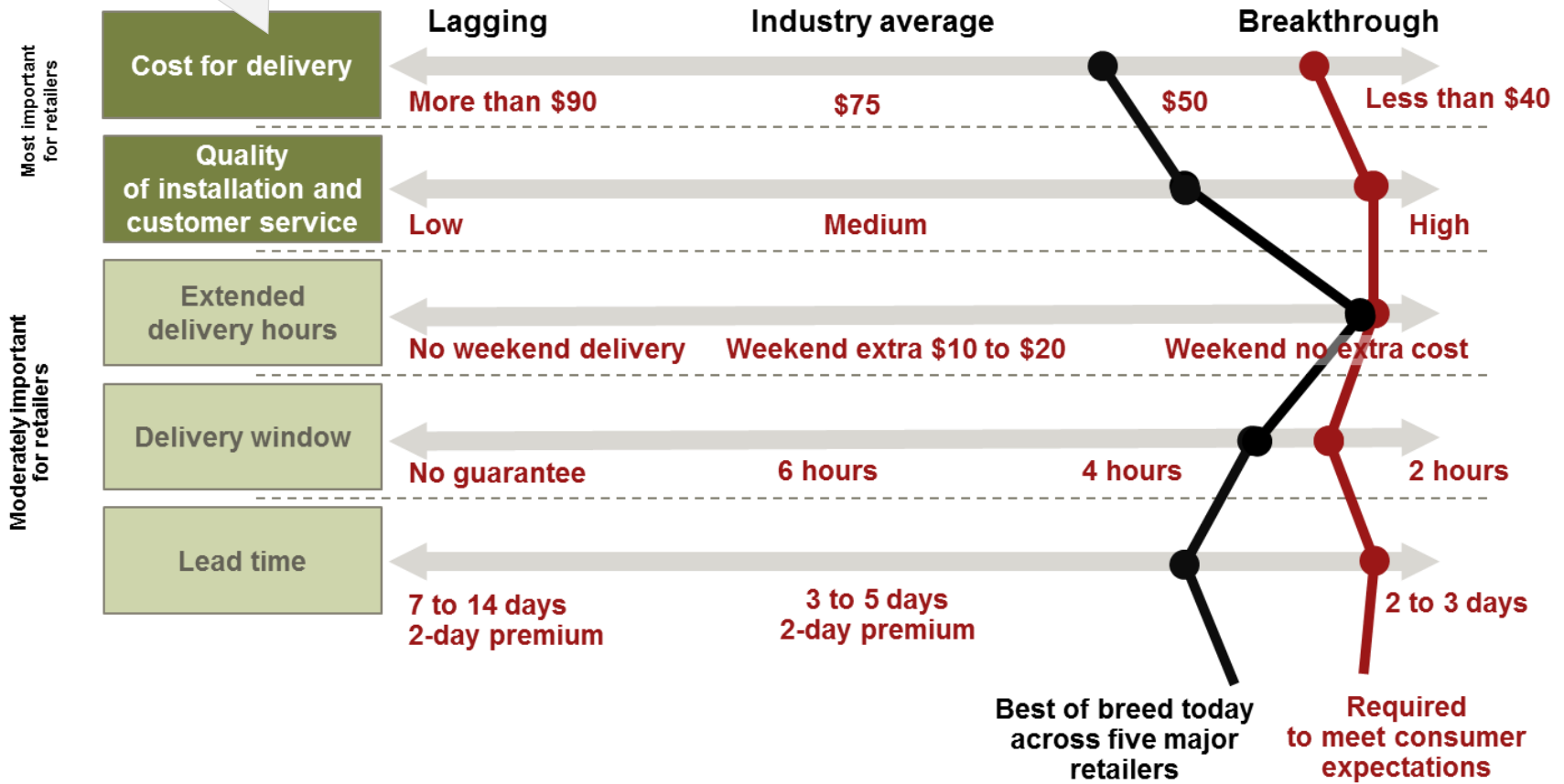
Consumer expectations are also rising

Growing End-Customer Expectations

Product/Service Attribute		Emerging Consumer Expectations for Furniture Delivery
Day Definite		<ol style="list-style-type: none"> 1. Expect absolute day, not ranges 2. 2-3 day lead time preferred not yet expected (not as critical for Furniture)
Time Definite		<ol style="list-style-type: none"> 1. "Leave it there" – end of day 2. "I need to be there" – 2 hour window
Value Added Services		<ol style="list-style-type: none"> 1. Want more DIFM / installation services – make my life easier 2. Do not want to pay more for it
Visibility		<ol style="list-style-type: none"> 1. Expect visibility and tracking every minute from any device 2. Human interaction when needed
Pricing		<ol style="list-style-type: none"> 1. Free delivery is becoming the norm (in-home install can be extra) 2. Expect to pay for "get it now"

Home delivery industry today falling short of expectations

Average 1 piece white-glove, light install



Source: A.T. Kearney analysis

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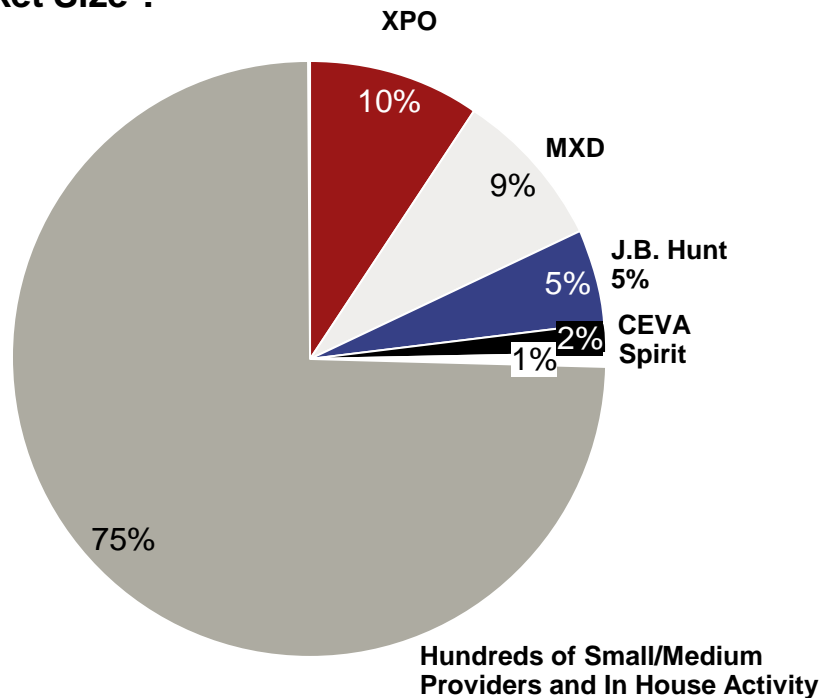
■ National integrator – a breakthrough model?

The provider market is fragmented

Estimated

BBHD Market Share by Competitor - 2014

Total Market Size¹:
\$6.9 B



Implications

The top 5 providers control less than 25% of the market

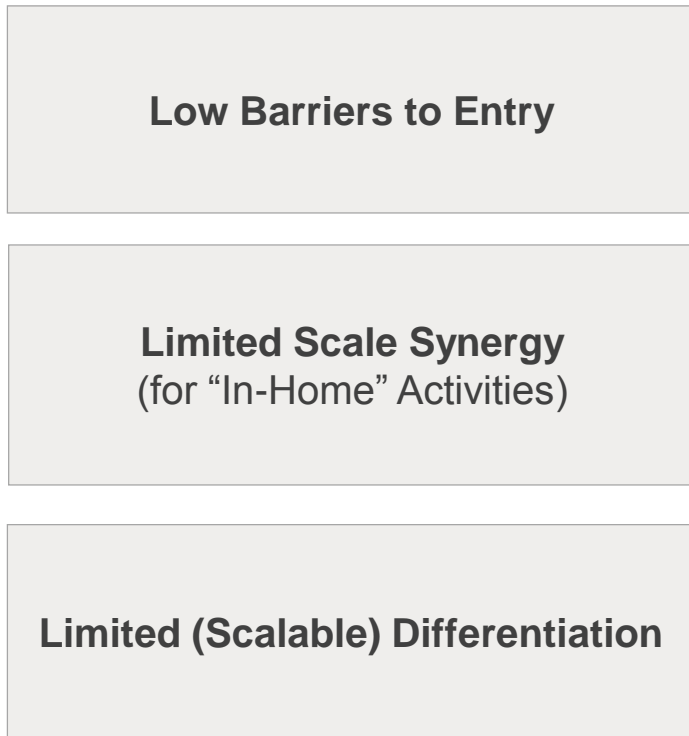
Significant geographic and supply chain role fragmentation

Low barrier to entry further drive fragmentation

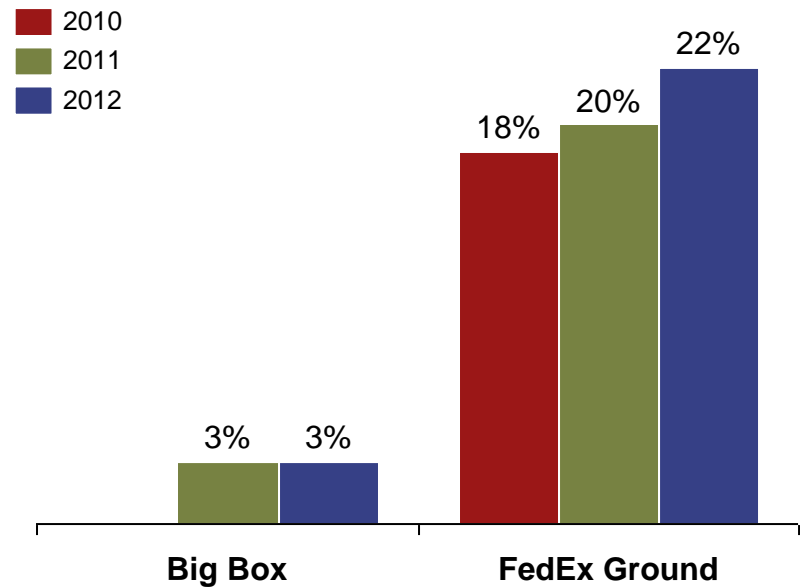
Limited capital for innovation and differentiation

1. Includes Last-mile and Direct-to-Consumer Line-haul business
 2. HDU revenue estimates based on interview with CEO Brian Gallagher
 Source: Competitor interviews, Company Websites;; A.T. Kearney Analysis

Structural factors drive aggressive competition and low margins

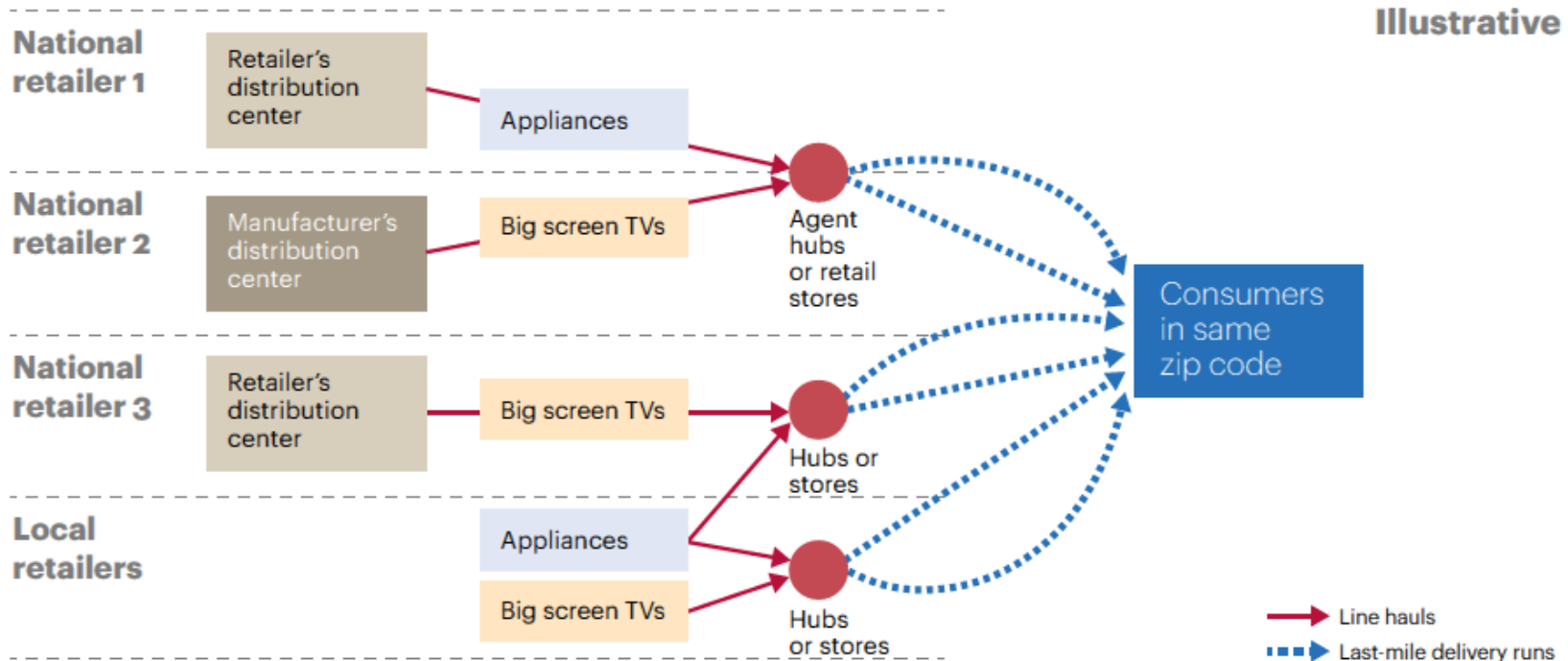


EBITDA Margin vs. FedEx Ground



Implication: profit challenged regardless of demand growth; structural change needed

The entire industry value chain level is fragmented and sub-scale



- **Sub-scale volume**

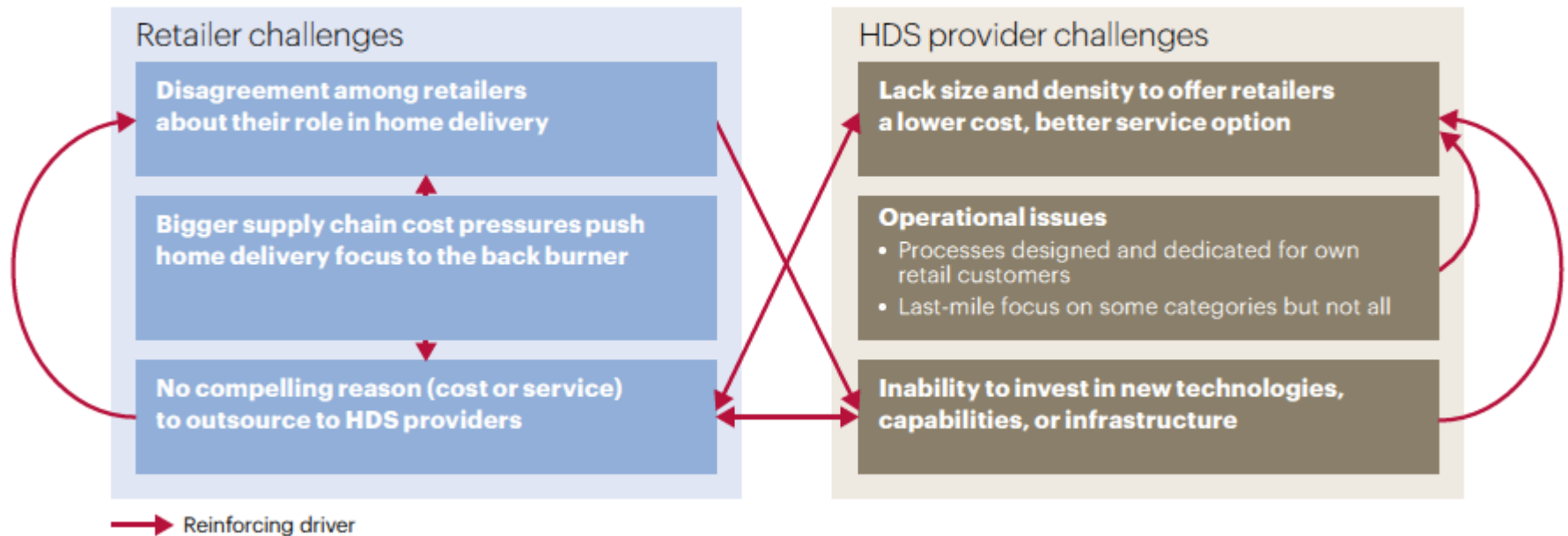
- Limited cross category co-mingling
- Limited cross-retailer co-mingling
- Limited appetite for technology investment

- **Fragmentation complexity**

- Coordination complexity
- Limited end-to-end view

Structural Impasse: all players recognize the problem, but structural barriers reinforce sub-optimal state

Challenges for Retailers and HDS Providers



Implication: negatively reinforcing! ... simultaneous Retailer and Provider action needed

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■ National integrator – a breakthrough model?

Solution thesis: creation of a (or several) Nationwide Home Delivery Service Integrator

Call for a Nationwide HDS Integrator

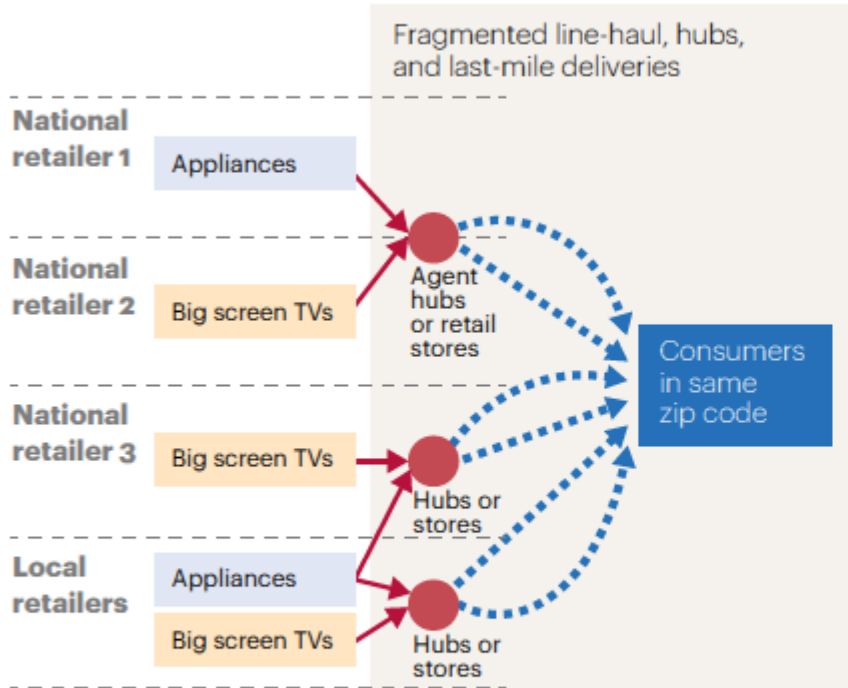
A leading HDS integrator could solve today's retailer and HDS challenges (see figure 8). Similar to UPS and FedEx in parcel delivery, an integrator would be a national service provider that can offer an end-to-end (line haul and last mile) network with leading capabilities and technology to sustain best-in-class performance. Rather than being dedicated to a specific retailer or product category, an integrator serves a pool of clients. This emerging player could unlock value—building scale advantage and reducing coordination complexity—by performing a crucial set of integration activities that are thus far absent or underdeveloped.

Integration will encompass a variety of actions:

- Coordinate pooling across retailers to increase scale and density in last-mile delivery, thus reducing cost per delivery and increasing flexibility. Although the trucks and delivery uniforms would not be dedicated to one retailer, differentiation could occur at the point of delivery, for example by providing retailer-branded invoices and information packets and using wireless tablets to access retailer-specific product information.
- Configure last-mile delivery to commingle orders across categories.
- Develop integrated system platforms for end-to-end order management and tracking visibility, enabling a seamless customer service experience from order to post-delivery.
- Develop software tools to improve productivity, such as route optimization and delivery management, and provide incentives for continuous improvement across downstream local delivery networks.
- Establish a national training program to ensure consistent delivery quality.

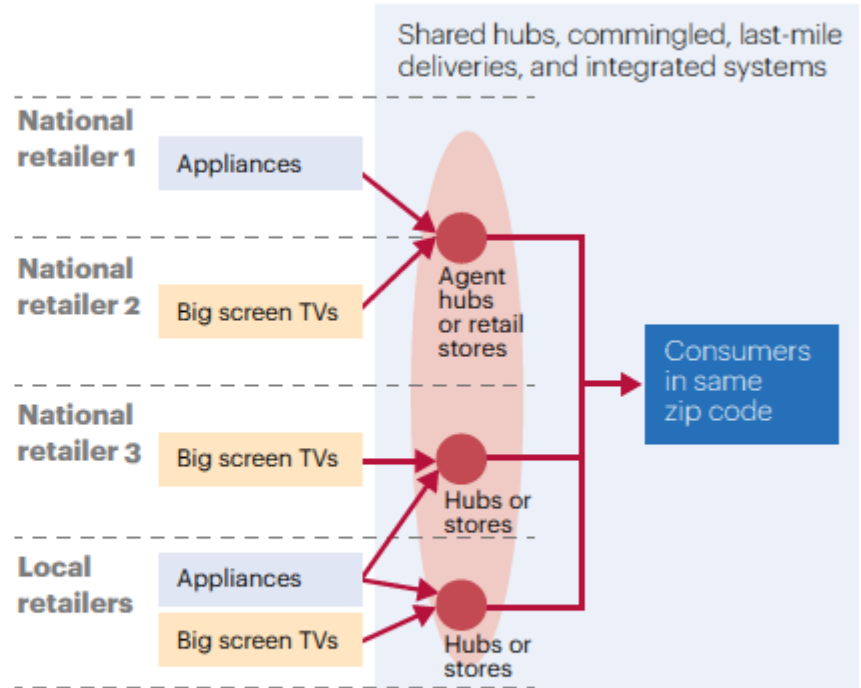
Home Delivery Service Integrator could transform the industry

Fragmented home delivery



- Fragmented delivery-truck density, limited scheduling flexibility
- Numerous IT systems
- Limited end-to-end visibility
- Inconsistent delivery and service training

Home delivery service integrator



- Maximum delivery-truck density, flexibility to schedule deliveries
- Integrated IT systems
- End-to-end visibility
- Uniform delivery and service training

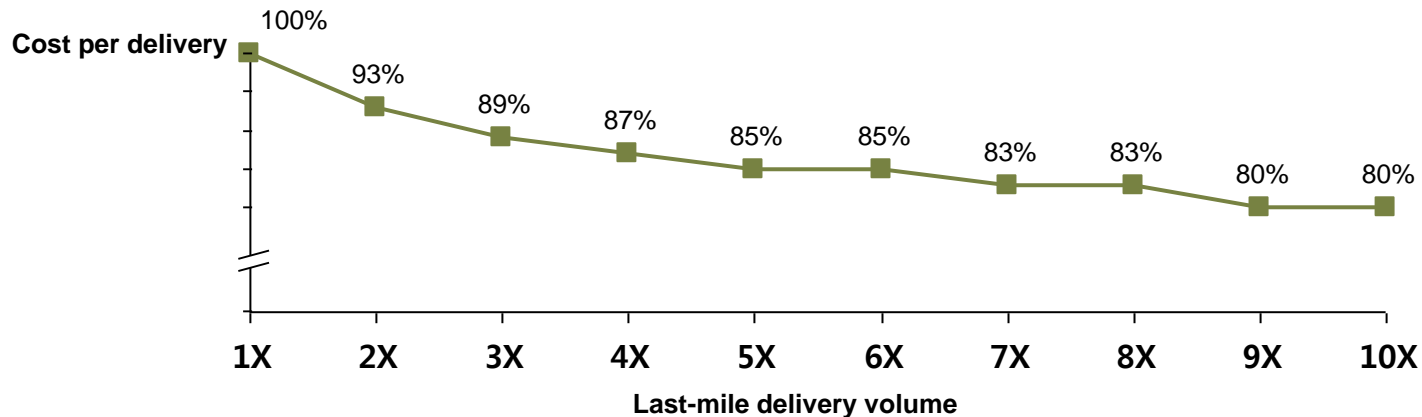
Strategic benefits to retailers and integrator

1

For retailers, an integrated HDS network provides **strategic flexibility** for large-format home deliveries, allowing them to meet their evolving business needs. Opting into the network will be smart for those seeking to capitalize on the breakthrough value of cross-firm scale and density, such as boutique online retailers or regional dealers; those that opt out, deciding not to pursue their own in-house home delivery, are likely to be large retailers seeking the lowest cost and best service. This provides an ideal outsourcing option with a small commitment of internal capital.

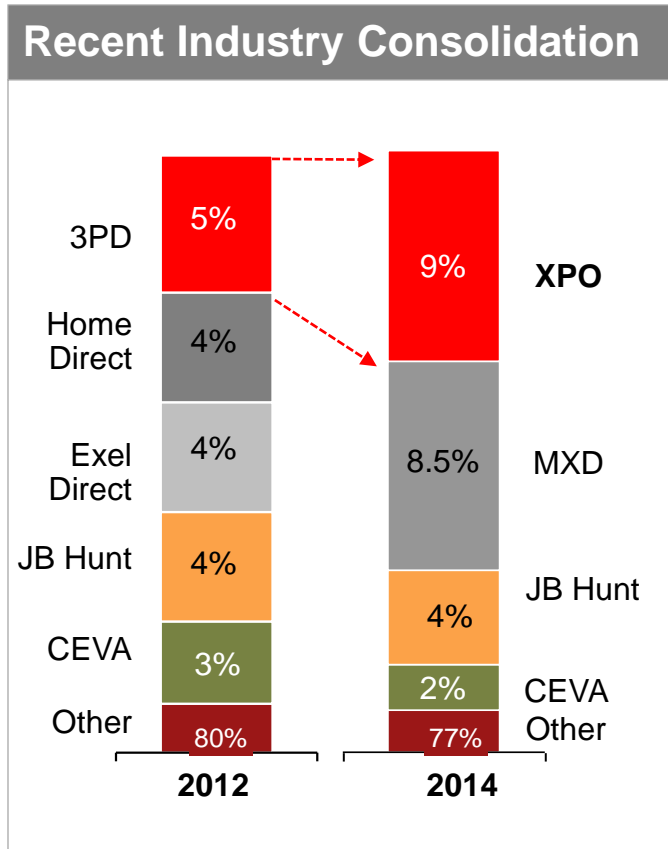
Win-win cost savings from cross-retailer and cross-category volume

2



XPO is making big acquisitions – could they catalyze formation of an asset-less national integrator model?

Home Delivery Provider Market



XPO Logistics

- 06/'13**  Acquires **3PD**, largest asset-less LM provider
- 11/'13**  Acquires **OPTIMA**, small asset-less LM provider (technology/capability play)
- 04/'14**  Acquires **Pacer International**, a major US intermodal / line-haul 3PL
- 07/'14**  Acquire **New Breed**, an omnichannel 3PL (.com fulfillment for large and small format)
- 08/'14** Acquires **Atlantic Central Logistics** – an asset-less East Coast last mile provider
- 06/'15** **\$700MM funding** from 3 investment companies (22% equity stake)
- 06/'15** Additional **\$1.3B equity fund raising**

For discussion


- **What are the key challenges preventing the formation of a Nationwide HDS Integrator?**
 - What new capabilities and assets are required to build and establish an asset-less National Integrator?
- **Can continued merger from XPO or MXD catalyze formation of a nationwide integrator?**
 - What is the minimum critical scale market share required ?
- **What can retailers do to accelerate and enable formation of a nationwide integrator?**
 - Allow Furniture co-mingling with other retailers?
 - Divest Furniture network assets and volume to provider?
- **Which retailers are in the best position today to tip the industry to enable formation of a nationwide integrator?**

Check out the companion article – thank you

ATKearney

Heavy Lifting Required: A Large-Format Home Delivery Breakthrough

Amazon raised the bar for fast, economical, and reliable home delivery. Yet home delivery of large-format products—appliances, furniture, and electronics—has not kept up. Isn't it time to deliver all the goods?



[Read full article here](#)


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