

Solving the Last-Mile Problem for Direct Sellers

LOCAL SALES CENTERS HELP DISTRIBUTORS
GET PRODUCTS THEY WANT

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Executive Summary

Direct sales companies are subject to the same industry forces that are up-ending all of retail as we know it. E-commerce is becoming local commerce, and vice versa. The Millennial generation – the largest in U.S. history – is a culturally diverse financial powerhouse expected to spend more than \$200 billion annually, and they don't distinguish between online and physical brands. Consumers shop when they want, where they want, and they expect fast, free delivery and returns, and personalized customer service.

In response, 21st century retailers are focused on delivering a superior “last-touch” experience wherever their customers want to conduct business. For direct sales distributors in “undeliverable” urban markets, local sales centers can deliver the best of both the physical and online worlds.

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Introduction

Retail as we know it is in the midst of a much-needed industry shakeout. Buying habits have changed, and online shopping has raised the bar for convenience. Consumers expect to shop any time they want, and they want fast, free delivery of their purchases.

In response, e-tailing, omnichannel and multi-channel sales models are becoming the norm for even small and medium-sized businesses, as retailers strive to meet customers where they are: at home, at work, or after hours.

Direct selling companies are not immune to these trends. Distributors also want a seamless omnichannel buying experience so they can focus their energies on building a successful consumer business. In some markets, however, especially densely populated cities, cultural and structural factors create unique challenges for direct sales brands and their distributors.

Language and technology barriers, multi-unit and multi-family dwellings, and last-mile delivery hurdles can make it hard for direct sellers to get popular products to distributors in a timely way. They are adapting by becoming more nimble and innovative when it comes to channel selection, fulfillment and customer service, especially in large metropolitan markets.

This paper will cover:

- How e-commerce is changing customer expectations
- How retailers are adapting to new shopping patterns and distribution requirements
- The importance of local presence for direct sales companies serving densely populated urban markets
- Advantages of local pick-up centers for direct sales companies selling fast-moving inventory to multi-cultural distributors
- Innovations in local pick-up centers including multi-vendor locations, custom site builds, Point of Sale (POS) options (kiosks, secure lockers), and more

E-commerce Is Local Commerce, And Vice Versa.

In June 2017, Amazon announced that it would pay \$13.7 billion for Whole Foods, the high-end natural grocer. Also in June, Walmart announced its \$310 million acquisition of Bonobos, the men's fashion brand that started selling clothes on the internet before expanding into stand-alone stores and branded Bonobos boutiques inside Nordstrom, another early investor.

Those are just two examples of how lines are blurring between online giants and traditional retail stores. Retailers are shifting their distribution strategies because their customers want the flexibility of e-commerce with the convenience and personal touch of local stores.

According to Dealbook, “Even as Bonobos has become a more conventional retailer, it has maintained its online ethos, offering generous shipping and return policies.” At the same time, Walmart has begun offering free two-day shipping while dramatically expanding its online inventory in an effort to look more like Amazon.

Additionally, Amazon, through its acquisition of Whole Foods, can now enter the fresh foods category and sell perishable products to people who can walk in and carry their purchases home – items it could never deliver fast enough to prevent spoilage or to satisfy a late-night organic snack attack.

With Whole Foods, “Amazon now has 431 upper-income, prime-location distribution nodes,” according to the *Wall Street Journal*. That’s in addition to its Prime Now same-day delivery service in nearly 25 cities in the U.S.

The combination of online and local presence is giving e-commerce brands a human face in large urban markets, where many of their customers live and work. Because inventory is centralized, the store footprint can be smaller and more economical than a traditional retail shop. Bonobos customers, for example, still have the convenience of ordering or re-ordering products they know and like online, but now they can also go to a physical store to try on or return garments. That makes the e-commerce shopping experience feel a lot like visiting a local neighborhood merchant, and vice-versa.

It Takes More Than a Store to Meet Customer Expectations

21st century retailers of all stripes – online, traditional brick-and-mortar or direct sales – are focused on delivering a superior “last-touch” experience, no matter where their customers choose to shop. “The store has to be an event,” according to Investor Business Daily.

Retailers are going beyond basic transactions to differentiate themselves and create a reason to come to their location. In a world of same-day delivery, free shipping and free returns, an in-store interaction should make shopping more meaningful, more fun, or otherwise more valuable.

Today’s merchants should also be looking for ways to optimize expensive retail property. “What may work, after retailers shrink their real-estate footprint, is a hybrid approach to stores that accommodates online orders *and* has more attractive floor space. ... Vacant stores could be used as warehouses and pickup spots for online orders. Or, in existing stores, a smaller floor

space might be used to display merchandise, while a larger back area serves the e-commerce end." - Investors Business Daily

Direct selling companies, in particular, are working hard to meet the omnichannel expectations of their distributors. Distributors are entrepreneurs; they are demanding (rightfully so) because they are working hard to build their own businesses. But they are also consumers with expectations of flexibility and on-demand service consistent with today's buyer.

The direct selling industry is built on personal relationships. Distributors don't want to think about inventory management or branding – those are corporate problems. They want to spend time with customers and colleagues talking about their products and enjoying shared experiences. A fully equipped local pick-up center with easy access to inventory, sales support and customer service meets many distributor needs.

For a better customer experience:

- Be more helpful by providing personalized service and new product information
- Create an integrated, branded shopping experience across all channels
- Build a loyal community around in-store events and special programs

Local Pick-Up Centers Reinforce the Human Side Of Direct Selling.

Why the sudden urge to merge in the retail world? Because demographics favor online shopping. Millennials have grown up with e-commerce and don't distinguish between digital and physical brands. Almost half of Millennials are multi-cultural, representing local markets that drive 47% of the total U.S. gross domestic product.

The Millennial generation is the biggest in U.S. history. This massive cohort of young people aged 17 - 34 will spend more than \$200 billion annually starting in 2017.

A recent Nielsen report describes key characteristics of Millennial consumers including:

- Multi-cultural Millennials spend more than \$65 billion each year and influence upward of \$1 trillion in total consumer spending.
- 21 of 25 of the most populated U.S. counties are a multicultural majority, with 44% of multicultural Millennials choosing to live in the Top 10 Nielsen DMAs, including New York, Los Angeles, San Francisco and Houston.
- Millennials' affinity for technology is reshaping the retail space. With product information, reviews and price comparisons at their fingertips, Millennials are turning to brands that can offer maximum convenience at the lowest cost.

Almost 20% of individuals who utilize direct sales identify as Hispanic, according to the Direct Sellers Association. To succeed in diverse, densely populated urban areas, direct sales

companies must overcome language barriers, porch piracy, multi-family and multi-unit housing situations, and other last-mile distribution challenges.

Some innovative direct selling brands are establishing local pick-up centers as part of a seamless, omni-point channel strategy for major metropolitan markets. Like Amazon, they're creating physical locations that extend their online order process and offer more efficient access to best-selling inventory. These fully branded local sales centers help build a vibrant distributor community while offering exceptional customer support.

Millennials don't distinguish between online and physical brands

- “76% of consumers interact with brands or products before arriving at the store.” - Deloitte Digital
- “57% of Millennials compare prices while in the store.” - AIMIA Inc.

The Proverbial “Win-Win” Solution.

Local pick-up centers centrally located in high-volume, high-value urban markets solve a lot of problems for a direct sales company *and* its distributors.

Making top-selling items available for same-day pickup helps distributors manage cash flow and obtain inventory on an as-needed basis. Multi-lingual customer service representatives can answer questions about products, provide in-store training and a human contact for those who can't – or prefer not to – do business using a computer. They can also handle cash transactions that can't be completed online.

Distributors can gather at the local sales center for training, events and promotions. They can meet other agents, share success stories, and find valuable sales collateral and product information.

For the direct sales retailer, a local pick-up center puts the fastest moving products directly in the local market. These items, a small but highly profitable percentage of the retailer's total inventory, are the ones to have on hand for same-day pickups.

A branded, flagship presence with conference rooms, product information and attentive customer support makes a business credible and legitimate in the eyes of its distributors. They feel confident knowing they are backed by a stable company selling quality products.

Finally, having a physical presence in a crowded city can help customers avoid porch piracy, last-mile traffic delays, and other delivery obstacles because customers come to the seller, rather than the other way around.

Traditional Distribution Center*

Local Presence in Top Metro Areas

At least 1 Day to Pick		Pick-Up		Same Day Pickup
3 Day Average to Deliver		Delivery		Skip Zone Next Day Delivery
Long Returns Process		Returns		Same Day Returns and Dispositions (Main DC/Manufacturer or Return to Stock)
No Cash Accepted		Payment		Cash Accepted
Virtual Customer Service		Customer Service		In Person Customer Service (Spanish- and English-Speaking)
No Local Branding		Local Branding		Local Branding and Presence
Bad Addresses and Undeliverable		Deliverability		Less Chance of Problems
Stolen Packages and Charge Backs		Losses		Small Chance of Chargebacks

* Example based on traditional distribution network without local walk-in pick-up centers.

No Need to Go It Alone.

The economics of local sales centers make sense because a local presence can improve productivity and minimize last-mile costs. A delivery person can only deliver one package to one person at a time. With local pick-up centers, many customers are making the last-mile trip, not the seller.

Many direct sales companies, however, don't have the real estate expertise or resources to go it alone, especially in complex urban environments. In those instances, it helps to work with a reputable logistics partner who can provide turn-key local presence from site selection, to retail build-out, to staffing, management and customer service.

An experienced supply chain firm can move quickly, get things done, break down silos and work around bureaucracy to open new locations in as little as three to six months. They will work with a business to plan, provision and operate a successful multi-lingual sales center. They can also offer expert advice on new innovations in retail and POS technologies like the in-store jukebox, interactive product kiosks and secure lockers for 24/7 pickups.

Once a pick-up center is up and running, the firm will hire and train knowledgeable customer service representatives to work with distributors to help them place and receive orders in an exciting, professional environment. A staff that is familiar with the local area is advantageous, and labor and overhead costs are generally lower.

"We still own the inventory, but our logistics partner is in the business of fulfillment."
- VP Finance & Member Operations at Herbalife

Herbalife, a \$4.5 billion global nutrition company opened three urban sales centers in New York, Chicago and Northern California almost a decade ago – and new locations have opened almost every year since.

“We still own the inventory, but our logistics partner is in the business of fulfillment. They can be nimble and build out locations much quicker than we can. We add the new location to our inventory models and manage the inventory flow accordingly. It can take as little as three to six months from start to finish to get a center up and running.” VP - Finance & Member Operations at Herbalife

Conclusion

Large companies like Amazon, Google and Wal-Mart are buying physical stores, rolling out same-day delivery, and generally raising the bar for *all* retailers. They are setting expectations with consumers who don't want to wait for products they buy online or in local stores.

The same is true for direct sales distributors and their customers. That is pushing innovative direct sales marketers to find new ways to make transactions easier and inventory more accessible, especially in densely populated urban markets.

Local sales centers are becoming an essential part of the multi-channel experience in hard-to-serve urban locations:

- More efficient and convenient for distributors who want same-day pick-up
- Ability to serve many customers at the same time
- Cash management and payment options benefit distributors and retailers
- Overcome cultural and structural obstacles (language, multi-unit dwellings) and other last-mile delivery challenges including porch piracy
- Professional branded presence in communities where distributors live and work
- Potential for custom options including multi-vendor or co-branded pick-up locations.

For direct sales brands that do not want to be in the local real estate business, an experienced logistics partner can help with:

- Economical turn-key expansion options
- Access to the local work force and local market intelligence
- Deep knowledge of operational and customer service requirements
- Strategic insights based on years of experience opening new markets and establishing businesses and distribution processes

In the future, all retail sales will happen in “connected stores,” a seamless customer environment across online and brick-and-mortar locations. Customers will expect free shipping, immediate delivery and free returns, personalized service, and a cohesive brand experience.

Direct sales companies can win if they are willing to extend traditional distribution models with local pick-up centers, especially in major metropolitan markets. Successful direct sales retailers will partner with experienced logistics companies to build, staff and operate sales centers that meet and exceed the expectations of their hard-working, multi-cultural, entrepreneurial distributor base.

About Cura Resource Group

Cura Resource Group is a full-service supply chain firm with expertise in building and managing local sales centers. Our firm facilitates expansion into physical locations without the traditional investment in real estate and location development. By providing a local pick-up option for customers, we enable our clients to address costly delivery problems and capitalize on missed opportunities in major urban markets.



www.curagroup.com

37308 Schoenherr Road

Sterling Heights, MI 48312

Phone: 586-630-3043

Email: info@curagroup.com

