

# Cost of Last-Mile Delivery For Your Business With Ways to Optimise it.

## Cost of Last-Mile Delivery For Your Business With Ways to Optimize it



**Meta Description:** Are you looking to reduce the **cost of last-mile delivery**? Here is a breakdown of the last-mile delivery costs and ways to optimise them.

Shopping in a brick-and-mortar store during the pandemic may not be a [safe option](#), but an eCommerce online store can help customers through - a **last-mile delivery service**. It is the last phase of the entire delivery process, where the product reaches a customer's doorstep from a distribution hub.

Modern-day customers are getting increasingly sophisticated in their demand from the last-mile delivery services. According to [McKinsey](#), 20 to 25% of consumers will pick same-day delivery over a standard delivery if available at lower prices.

Simultaneously, the actual volume of instant deliveries stands at 1% of total last-mile deliveries due to extra cost. So, it becomes essential for eCommerce businesses to control last-mile delivery costs to ensure lower prices of services like instant deliveries.

So, **how can you optimise the cost of last-mile delivery?**

To optimise expenditure and reduce overhead, we need to understand the **last-mile delivery cost breakdown**.

## What is the Cost of Last-mile Delivery?



The **cost of last-mile delivery** is one of the most significant portions of an organisation's entire shipping cost.

Before we discuss the last-mile delivery breakdown to analyse its' contribution to the whole logistics budget, here are some crucial data:

- Three fourth of consumers will spend more and be loyal to brands that offer the right last-mile experience. ([Capgemini](#))
- Last-mile delivery accounts for 53% of total shipping costs. ([Capgemini](#))
- The last-mile delivery services account for 41% of the entire supply chain costs worldwide. ([Statista](#))
- The average last-mile cost for a small package in high-density delivery can be as low as \$10, and for low-density heavy packages, it is \$50. ([SupplyChainDrive](#))
- The average salary of a delivery driver falls in the range of \$16 to \$24 per hour. ([Salary.com](#))
- Lack of optimisation in last-mile delivery costs and a surge in online sales can lead to a 26% decrease in profits over three years. ([LieghDavid](#)).

When you think of **last-mile delivery cost breakdown**, there are five parts to consider,

1. Delivery Provider/Labour Cost
2. Fuel Cost

3. Delivery Equipment Cost
4. Delivery Management Software Cost
5. Reverse Logistics Costs
6. Miscellaneous Costs

## 1. Labour Costs



Labour costs account for one of the most significant expenditures in last-mile delivery services. It amounts to about 50 to 60% of the total cost of last-mile delivery. Delivery truck drivers are the most expensive ones, as they are a crucial part of the logistics network.

According to the [Bureau of Labor Statistics\(US\)](#), the average wage rate of delivery truck drivers per hour is \$15.12, and it ranges from \$9.43 to \$29.39. Simultaneously, local messenger or local delivery providers charge an average of \$16.74 per hour. If you seek express delivery providers, the charge goes up to \$25.10 per hour.

## 2. Fuel Cost



Though fuel costs account for only 10 to 25% of your entire last-mile delivery expenditure, they can have a massive impact. Take an example of Amazon's change of [prime membership prices](#) in 2018. The eCommerce giant had to increase the prime membership prices from \$99 to \$119 due to an increase in the fuel cost.

Fuel costs increase as you scale and enter new markets. As the span of your delivery network increases, you need to cover more area, which leads to extra fuel. Another factor that makes fuel costs crucial is the fact that it is a volatile entity. When you are planning for different **costs of last-mile delivery**, fuel cost is one expense that you can't predict.

### 3. Delivery Equipment Cost



Delivery equipment costs account for another 10 to 20% of the last-mile delivery expenditures. It deals with the equipment or tools required to deliver a product safely to the consumer's location. For example, a food delivery business will need coolers, pizza sleeves, drink holders, freeze-dried ice, crates, and straps to serve food fresh to consumers.

Apart from the packaging costs, some deliveries need special arrangements like a vaccine that can't sustain when the temperature crosses a specific threshold. Such delivery equipment can incur a huge **cost on last-mile delivery** services.

### 4. Delivery Management Software



Delivery management software can be costly if not planned and optimised. It accounts for 10% to 15% of the total cost of last-mile delivery. There are many features in delivery management software that may be complex to develop and incur higher costs. Take an example of an Artificial Intelligence(AI)-based feature of an eCommerce app that automatically allocates orders to respective delivery providers nearest to the location. Integration of such technology can lead to an increase in the cost.

Here, a delivery management software solution with optimised cost can help you with great features. Tookan is one such software that offers features like auto-allocation and automatic order management at your budget.

## 5. Reverse Logistics Costs



Reverse logistics costs deal with the expenditure of product returns. Most of the eCommerce businesses offer free returns within a specific time. A consumer may offer the returned product in packaging intact or not, but the eCommerce firm has to facilitate a return along with packaging to ensure safe delivery back to the warehouse. The entire return process cost can be quite high, as you will have to bear double expenses.

## 6. Miscellaneous Costs



Apart from fuel, labour, returns, software, and equipment, many unexpected costs account for the rest of the last-mile delivery costs. These expenses can include replacement costs, idling costs, rescheduling costs, maintenance costs, storage costs, and many more. They may be directly associated with the last-mile delivery phase or are external factors with indirect impact.

Now that you have some idea about the last-mile delivery cost breakdown, let's explore why it is so expensive?

## Why is Last-mile Delivery So Expensive?



Several internal and external factors make the **cost of last-mile delivery** to be overwhelming. While internal factors can be controlled, external ones depend on the geopolitical scenarios and market situations. For example, fuel prices are not something an eCommerce firm can control, and at the same time controlling delivery equipment cost is feasible.

Some of the reasons why last-mile delivery is so expensive are,

### **Consumer Expectations:**

With the development of technologies like the Internet of Things(IoT) and 5G networks, consumers demand features like real-time tracking of deliveries. For eCommerce businesses to create such features, they need tech-stack and infrastructure investments, leading to higher costs.

### **Free Shipping:**

With the rapid change in consumer behaviours, the surge in demand for free shipping puts more pressure on the eCommerce platforms. As these businesses bear the entire shipping costs without charging consumers, it becomes difficult to manage the entire last-mile delivery budget.

## Issues Related to Deliveries:

Due to the lack of route optimisations and tech-stack, it leads to failed deliveries or errors, which incurs more costs. With the additional expenses of product replacements, returns, and failure of delivery attempts, the cost of last-mile delivery increases.

Apart from different costs, and reasons for the rise in the expenses, there is one factor in last-mile delivery that has a massive impact - Time. So, let's explore how much time a last-mile delivery takes?

## How Long Does Last-mile Delivery Take?



There is no specific answer to how long last-mile delivery takes because of multiple variables. Standard delivery may take two days in urban areas and around a week in rural areas. Expedited delivery can take a day or two in urban areas and three to four days in rural locations. At the same time, many eCommerce companies offer same-day delivery.

The best way to optimise delivery times and reduce errors is by analysing real-time data. With a delivery management software like Tookan, you can get real-time analytics on,

- Number of completed tasks

- Distance covered
- Time per task
- Idle time
- Number of failed deliveries
- Return orders
- Delayed deliveries
- Driver's performance
- Peak Time Performance

Such data can help you optimise the last-mile delivery process and reduce costs. It also helps with effective scheduling and route optimisation to save on fuel costs.

## Key Takeaways

Understanding the **last-mile delivery cost breakdown** and analysing real-time data can help you optimise the system. You can improve the efficacy of deliveries, monitor driver performance, and optimise routes to reduce operational costs. The best way to reduce the **cost of last-mile delivery** is by leveraging a delivery management software that offers intelligent features.

If you are looking to enhance your eCommerce business's last-mile delivery, Tookan is the best option. It helps in reducing the cost of last-mile delivery through real-time data analytics and effective order management.

### Content for Infographic.

- 3/4th of consumers will spend more on brands that offer the right last-mile experience. ([Capgemini](#))
- Last-mile delivery accounts for 53% of total shipping costs. ([Capgemini](#))
- The last-mile delivery services account for 41% of the entire supply chain costs. ([Statista](#))
- The average last-mile cost for a small package \$10, and for heavy packages, it is \$50. ([SupplyChainDrive](#))
- The average salary of a delivery driver falls in the range of \$16 to \$24. ([Salary.com](#))
- Lack of optimisation in last-mile delivery costs can lead to a 26% decrease in profits. ([LieghDavid](#)).

