

## HDW-USA Full Session Transcript

### *Maximum convenience or minimum cost? How to find the best balance for your brand*

Speakers: Antonio Perini, CEO, Milkman – Francesco Montuolo, CEO, MLK Deliveries

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**[Aviram Hinenzon]:** Hi, everyone and welcome to today's session: *Maximum convenience or minimum cost? How to find the best balance for your brand.*

Joining me today are two great speakers that will provide both the retailers' as well as the carriers' perspective on this topic. I will ask the speakers to present themselves.

**[Francesco Montuolo]:** Thank you. Hi to everybody. I am Francesco Montuolo, CEO of MLK Deliveries. MLK is the joint venture between Poste Italiane and Milkman. We are now approaching the last mile delivery in a very different way, thanks to Milkman technologies.

**[Antonio Perini]:** Hello, everybody, my name is Antonio Perini, CEO and founder of Milkman. Milkman was originally built as a home delivery service provider, following a period in my former venture building technology in support of the last mile. When raising Milkman as a service provider, we got to learn a lot about what it takes to be a great home delivery service. We have now passed over this business to Poste Italiane and are now focusing solely on technology, after having accrued so many millions of deliveries and experience on our shoulder, that helped build a better technology in support of the home delivery effort.

**[Aviram Hinenzon]:** Francesco, MLK deliveries, under the Postal Italiane brand, has big plans for growing the last mile service in Italy. What is it that you are trying to bring to the last mile?

**[Francesco Montuolo]:** We have a lot of projects for last mile delivery, and the JV with Milkman is one piece of the strategy. We started, for example, last year with the largest network of pickup points in Italy. And now we want to grow these services and give customers the possibility to choose exactly the date and the hour in which they will receive the package. We want to transform the delivery of packages in a real experience. This means giving the power to the customer. We started with the 12 most important cities in the country, offering scheduled and same day deliveries and we will add more cities before the end of the year. We started with e-commerce businesses and grocery. That is another line of business in which we are investing very much.

**[Aviram Hinenzon]:** Thank you. Antonio: Francesco discussed the different services that are now in play across Italy. What was your technology vision to drive those services?

**[Antonio Perini]:** Well, in my previous venture, I was selling a routing optimization. Routing optimization is a great technology that given the number of vehicles and resources you have and the number of addresses to serve, tells you who to serve, what sequences and assignments. But I was kind of feeling weird because while a lot of transportation companies and field the service companies out there were adopting this technology worldwide, the carriers, especially in the home delivery business, like the carriers for online shopping, were not in the position to adopt it. I mean, they kept saying: "it's not my priority now. I would love to, but it's not the right time". So, I dug into the reasons why they were not capable of adopting this kind of technology that was just building a great sense of efficiency for their operations. It turned out that they were paying their drivers a fee for delivery or for the entire day, and that was just it, so that they wouldn't enjoy any benefit by this kind of technology. The second reason was that they would have to radically change the processes upstream in terms preparing the loads for their vehicles with respect to the more legacy cross-docking activities. So, I told myself and my partner, Tommaso: why don't we simply show the world that the technology can be adopted, in home delivery, and achieve both goals at the same time.

To build a better efficiency, more cost effective processing on one side and on the other enjoy the technology benefits in terms of increasing the level of experience for the final recipient; because while looking at the details we realized that carriers were kind of dictating their constraints and the user was just going through any decision for an efficient supply chain, so the carrier would show up whenever it was more convenient for the driver. But that was not helping the retailer selling more and selling better. Initially we thought it was just a matter of adopting existing technology, to be honest. We started pulling technology together and going to market with this fleet as enabled by the legacy routing optimization. But then I realized why it was so difficult to adopt route optimization. And the reason is that there are humans out there. There are drivers, there's the workers, there are recipients that are challenging and are kind of volatile in their needs and they change their mind and so forth. A fixed static route was not good enough. Moreover, you have to negotiate somehow and manage the expectations of each single recipient, one at a time. You cannot just wait to have all their desires and constraints and then launch the routing over.

The problem was that adopting route optimization a lot has to deal with humans. It needs to be understood that the drivers, for example, could not understand why would we drive them up north and south and then east and west. So, we managed to build a significantly larger system that offers appointments in a smart way. And it's smart in that it offers something that's convenient for the recipient and at the same time, kind of magic, it also builds something that's efficient for the supply chain.

Let me just give you an example. On my way to serve Francesco, who's going to be home after two p.m. today. I might stop by at your house. So why not to let you know that there is an option that's a low-cost option at that time that is integrating the sales and the supply chain processes. It's not merely mathematics, it's even easier than that. It's just exchanging the right information at the right time. The same is for depots, the same is for drivers who get to know that you have changed your mind and they will serve you on their way back, for example. In short, after a few million deliveries, we realized that what it took to build a technology for home delivery was a simple routing optimization engine behind the scenes, but a live environment, something that adapts itself to the behaviour of a single city.

Francesco mentioned that they opened 12 cities in a matter of a few months and that they will be opening more in the upcoming months. Each city and each set of consumers in each city behaves differently, especially in grocery. There are some cities that love the morning better, some the afternoon or late afternoon after work. When you deploy a transportation capacity, you want to make sure that you end up the day or the wave, in case of same-day, in a smart way. So that they saturate at the end. If you keep not filling it up, you're ending being very expensive. The magic between balancing convenience and the price is really unveiling opportunities that recipients like. And they are the ones that make us very profitable in terms of offering carrier services behind the scenes. That's why I keep saying there is a win-win in offering a superior consumer experience. Once we used to have either a premium service or an efficient service. Now you can have both just because technology lets everybody know what their opportunities are.

**[Aviram Hinenzon]:** Francesco has the carrier who is in the midst of this friction between the retailer and the consumer: how do you see those those concepts influencing both the consumer behaviour as well as your own staff day to day processes?

**[Francesco Montuolo]:** Yeah, it's something that has changed the way retailers and carriers work. We are offering retailers a tool that they can integrate in their e-shop so they can offer these kinds of options directly to their customers. And the technology also allows us to modulate these offerings, as Antonio said.

**[Aviram Hinenzon]:** We talk a lot in this session about this balance between cost and convenience and how we bring together retailers, carriers and consumers to find together the best balance point. Do you see any differences between different industries and how they approach this this dilemma?

**[Antonio Perini]:** Yes, that's a good point, because obviously Poste Italiane is a very large carrier and it can enjoy a lot of density patterns throughout the Nation. We obviously get a lot of attention from carriers, but also from retailers with direct to consumer operations. If you are a grocer or a white glove delivery company like installations and repair and maintenance, you offer these two men serviced with room of choice, offering a wide set of options is even more important than in parcel. First of all,

because people are not going to take off from their work to stay home and wait for your delivery. If you have to enter their house, for example, that's becomes even more apparent. And I think that in those circumstances, you do not only have to offer flexibility or reactivity or the same day that we enable: you want to keep an eye on feasibility.

So what Francesco was pointing out is that Milkman's system just takes into consideration any deploy capacity that has been set for a given day in a given city and it goes back to looking at the demand that it is generating and the set of expectations from the market, to figure out how to keep extending the range of options for any customer out there, while ensuring that each of the options offered is feasible and the costs of service control.

And it does that from two different perspectives. This is the kind of residual capacity analysis throughout the delivery day. You see there are peaks of demand later in the afternoon and there's a little bit of a peephole in the morning. But you want to make sure that you enjoy this wiggle room as offered by some of the customers that just say come whenever you want after 10:00 a.m., I'm going to be home. I don't need to be charged a huge amount of money just because they want you to write that out. I'm home all day long except in the morning. Someone else may say I'm back from the office at six thirty every day, but hey, do not arrive too late because I put the kids to bed. So let's do, for example, up until nine or nine thirty or ten. Even so, residual capacity has to deal with the orders that are coming through. But there are obviously additional constraints that we want to look at, like historical density patterns. If you are a grocer or a white goods installator, you cannot rely upon a very uniform density throughout the territory.

In this his example [Slide ] you see, there's a lot of orders in the city, but then as you go in the suburbs, you have higher costs to server. In that case the system scales down automatically the range of options to make sure that it meets the carrier's expectations in terms of costs. And these can be added on top of existing experiences, like a typical day of choice, as well as offering very narrow time-windows, as narrow as half an hour. What we are doing here is to intertwine the sales process with the operations process. That's the real secret, to unveil new opportunities for better efficiency. At the same time, enhance the quality of service that the recipient receives. In this case, for example, you see up north of here, we're not going next day. There's no way we can go there next-day with a white goods retailer because the area is too wide and the sales numbers are

too low. What we do is to influence the demand, offering either discounted or dynamically priced options, to steer the willingness for better convenience and at the same time meet expectations, their inclination to pay a surcharge. Some people, especially for grocery, are simply not inclined to pay a surcharge. They want to stay home all day long, if that implies better discount. Some others are coming back from the office and want to take a shower and go out for dinner: you have to intercept that kind of half an hour availability if it's there. But they're OK to pay for a surcharge because they are simply valuing their time more than they value their money. That's where the technology needs to prove its adaptability in real time. The point is that logistics has constraints. White goods installations, grocery, they have a limited, low capacity. You cannot build an unlimited truck, so you have to go back and forth. And while offering windows, you have to be smart because if the hub is far away it's better if they're in the middle of the day so you have time to serve customers going in coming back. Service times are longer and you cannot simply leave the track with the blinking lights in front of the house, have to take care of parking. What you need is really a technology that learns. The territorial knowledge that historically was the real asset in the arbitrary process of drivers figuring out where to go has to be transformed into a digital asset for your company to keep improving the level of service.

**[Aviram Hinenzon]:** Francesco, Antonio talked at length about this amazing concept of dynamically finding the balance point between convenience and cost. You're now trying to take that concept and scale it at the National level. What does it take to scale such technology nationwide?

**[Francesco Montuolo]:** Yeah, we are doing a lot of effort in our operations to find this kind of balance, and so we are learning now to use the technology to be cost effective in in these new services for scheduled delivery. As Antonio said, the technology learns more and more from the info that the customers give us. For us, it's important to be successful in the first delivery attempt, because that reduces our costs. We are much more successful now on the first attempts So now the next step for us is to scale this technology in all of Italy. We have a very aggressive expansion program.

**[Aviram Hinenzon]:** How do you see the future of last mile technologies changing in light of what we discussed in today's session?

**[Antonio Perini]:** Home deliveries are the future of retail, and they need to rely upon continuous improvements in the technology. The name Milkman comes from the idea that we need to serve the family and the family sometimes doesn't need to be served as everything is urgent. Please come when I need it and do not bother me otherwise. Consolidating multiple purchases into one single last-mile effort that needs to be reactive for sure. When I need it, I need it now, but do not come until needed. And I need just to press the button on my app to let you come. We need to build something certainly reactive, but even more importantly, predictable. I think that people are demanding for prediction because that makes their life easier. You don't want to be surprised by a super-reactive service. You want to build your life and the services you buy needs to cope with whatever you decide to do for your life. So I think there's a lot to build in the future of home delivery.

**[Aviram Hinenzon]:** Francesco, any last thoughts from your side?

**[Francesco Montuolo]:** Customers want to choose everything. They want to choose the goods they buy, where to buy and when to receive. And they want to have information about the delivery, because they want also the possibility to change at the last minute. With Milkman's technology we gave them this possibility. This is the future.