

# Online Delivery: Balancing the Strategic Scales

Insight on how to structure the delivery proposition



*An IMRG report, supported by Global Freight Solutions, looking at how to create the right balance for the online delivery offer.*

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# Introduction

What follows is a short thought-piece from IMRG in conjunction with GFS, introducing some new data and fresh insight on the difficult strategic questions of creating the right balance for the online delivery offer and using it to drive growth:

- Offer too much and it becomes unsustainable on cost and capacity grounds
- Offer and deliver too little and it loses sales opportunity and customers

This paper is motivated by the agenda set by the IMRG Delivery Retailer Advisory Board which includes in its priority themes:

- Customer Experience by 2023 – sustaining the service promise
- Cost to serve – operational excellence in the first and final mile
- Cross-border and Brexit

It is intended to instigate debate around how to structure the delivery proposition.

## **Commentary from Bobbie Ttooulis, GFS**

*“At GFS, as well as providing all the operational integration support, we help retailers manage their carrier and fulfilment contracts, so we get to see the full picture; where the wrong selection of service options, which may seem to be most cost efficient, actually push up customer service costs and reduce the customer experience. The right balance needs to be struck.”*

It is now well understood that a strong and well executed delivery offer can drive growth, attracting and retaining customers and associated sales. The latest data from IMRG<sup>1</sup> confirms:

- 52% of shoppers have abandoned purchases at checkout because the delivery options on offer were not to their liking
  - Research from Baymard Institute indicates that a lack of transparency (hidden costs) at checkout is responsible for as much as 24% of all cart abandonment<sup>2</sup>
- 63% of shoppers have been encouraged to repeat purchase because of a good delivery experience
- An enhanced delivery offer can encourage a higher purchase value:
  - Free delivery above a threshold value – 77% of shoppers
  - Faster delivery – 52% of shoppers
- Even indirect delivery experiences can impact sales with 60% of shoppers confirming they have, or may have, been influenced by customer reviews or social media comments about a delivery service

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<sup>1</sup> IMRG UK Consumer Home Delivery Review – 2018 results to be published in Q1 2019

<sup>2</sup> GFS Interview - [www.postalandparceltechnologyinternational.com/opinion/how-businesses-can-use-brexit-as-an-impetus-for-growth-outside-the-eu.html](http://www.postalandparceltechnologyinternational.com/opinion/how-businesses-can-use-brexit-as-an-impetus-for-growth-outside-the-eu.html)

On the flip side, poorly executed delivery costs retailers dearly. The latest 2018 estimates are that failed deliveries generate **up to £1.2 billion in avoidable costs** each year, for UK retailers delivering to UK shoppers<sup>3</sup>.

All good reasons to keep investing in and evolving the delivery offer. However, doing so in a fast-moving, fiercely competitive, increasingly complex global market, presents a real challenge even for market leading retailers:

- Even dedicated teams may struggle to keep up to speed with the latest developments
- Disruptive competition constantly changes the rules of customer engagement
- In-house logistics management technology must compete for development resource

Is it time to reconsider how to optimise delivery cost, service and customer experience?

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## Customer Experience – Time to Think Again?

Over the past two to three years we have seen a lemming-like rush towards 'next day / no cost' delivery (the so-called 'Amazon effect'), but operational and commercial common sense tells us that there can be no such thing as 'free delivery' and that the online supply chain has a finite capacity for 'everything tomorrow'.

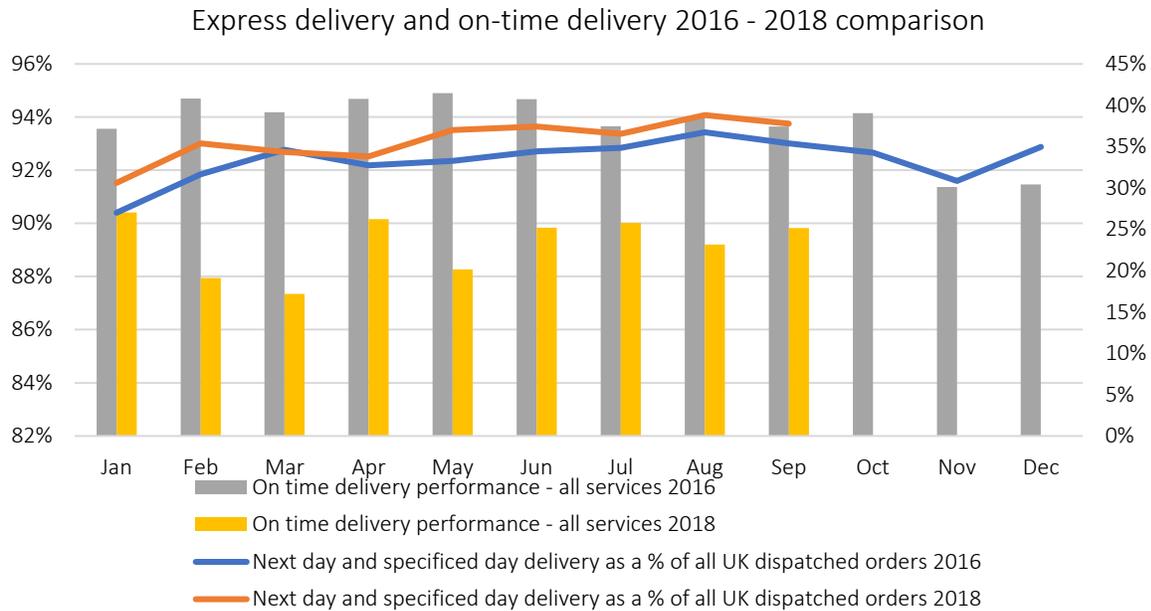
Can we possibly sustain this approach under pressure of:

- Tighter retail margins?
- The need to reduce urban congestion with calls for consolidated delivery?
- Continued year-on-year double digit growth in the volume of online deliveries?
- The need for operational agility to meet dynamic customer demand and competitive response?

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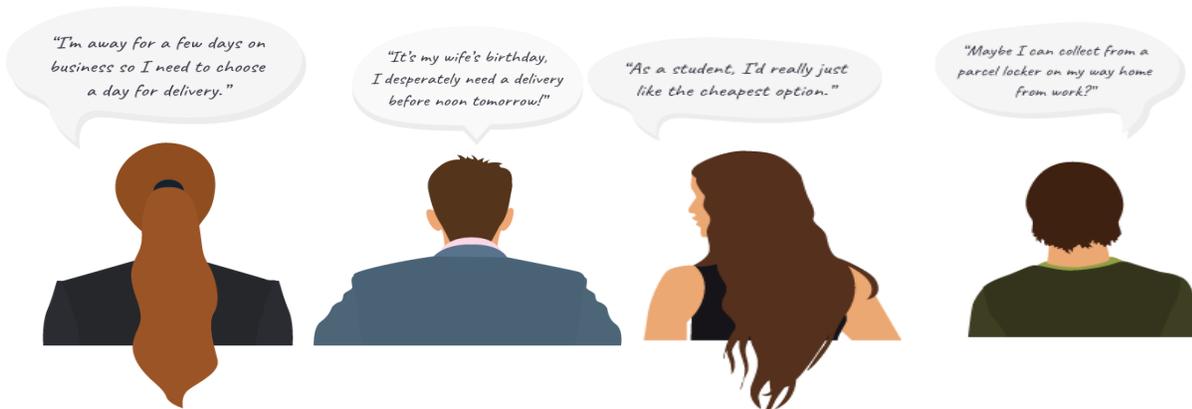
<sup>3</sup> IMRG Valuing Home Delivery Review 2018 - <https://www.imrg.org/data-and-reports/imrg-reports/valuing-home-delivery-review-2018/>

The evidence is clear to see. As next day delivery has been increasingly used as the default service, so on-time delivery performance has fallen away as supply chains struggle to maintain the delivery promise<sup>4</sup>.



Is what we are now doing simply over-promising and under-delivering when the average shopper doesn't necessarily need a premium delivery every time?

The reality is that every shopper is different, and every delivery may have different requirements depending what it contains, why it has been ordered and when it has been ordered.



Source: GFS – How to boost customer experience and grow online sales with delivery<sup>5</sup>

Some consumer demographics will always want 'fast and free', but perhaps what most shoppers really want is for a clearly communicated delivery offer where the promise, once made, is met:

<sup>4</sup> IMRG MetaPack UK Delivery Index

<sup>5</sup> <https://gfsdeliver.com/boost-customer-experience-and-grow-online-sales-with-delivery/>

- Next day as standard? - *Not necessarily but I need the option*
- Free? - *Nice to have of course but it depends on the cost of the product – it's the combined cost I am interested in*
- Different cost for different service levels? – *Not necessarily a problem, if it's reasonable and clearly explained up front and confirmed at check out, so that I know the total order cost and what I am getting for it<sup>6</sup>. No hidden extras please<sup>7</sup>*
- Options and choice? – *Certainly, as I can't predict when and how I will need each delivery. Give me a range of delivery speeds and include the option to click & collect*
- The chance to specify / give delivery advice? – *Yes please, if it helps me to get my delivery on-time, first-time I would want to help<sup>8</sup>*
- Keep me informed? – *Of course. I might not need next day delivery, but I do need to know when the delivery will arrive, and if it's not convenient, give me the option to change the place or day. It will save time and cost for everyone. If I have changed the delivery day that's my decision and I won't hold it against you*
- Anticipate any problem – *Of course, If you see a problem with my delivery don't wait for me to tell you about it*

So, what we really need is to offer a choice of services, with clear cost differentiation, that are appropriate to each order, each customer and specific circumstances, coupled with clear information and proactive communication from pre-click to delivery.

To give this choice will certainly call upon a multi-carrier approach, but to always stay at the leading edge may now require deeper multi-service solutions built around the retailer's strategic aims. These aims will include growth and that will mean moving into cross-border markets where the expectations of shoppers add another level of complexity.

#### *Pulling business levers*

Changing elements of the delivery proposition to put more focus on free, fast or convenient can have a profound impact on shopper behaviour and, therefore, associated business metrics. For example – offering free shipping can have a knock-on effect on return rates. While on the one hand it can help drive conversion (more money in), since it's free, the decision made on the part of the customer can be a bit more 'might as well' rather than 'I really need this thing' – so more items are returned (all entailing cost).

The same applies to click and collect. IMRG data shows that the average online spend for C&C orders tends to be lower; so, offering for free and incentivising people to use that channel may be good for keeping operational costs down, but bad for shopper spend.

This knock-on effect needs to be considered whenever business levers are pulled in relation to delivery proposition.

<sup>6</sup> 70% of shoppers value clear delivery information prior to confirming their order

<sup>7</sup> IMRG research suggests that a £2 premium limit is what most shoppers would consider reasonable

<sup>8</sup> Between 60% and 70% of shoppers value the opportunity to add delivery instructions, specify a safe-place, neighbour or delivery day

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## The Cross-Border Conundrum

In their recent e-book on global e-commerce growth<sup>9</sup>, GFS provide some insight into the additional thinking that must be applied when shaping the delivery offer for another geographic market.

*“In the USA, next day delivery is not as commonly offered as in the UK due to the size of the country, which means that US consumers are used to longer shipping times.*

*German consumers are known for their high return rates and this returns culture also means many Germans prefer to pay by invoice, only making payment once items have been received and they have decided to keep them.*

*Offering a delivery service that is familiar and comfortable gives international consumers the confidence to place an order, helping to build a reputable presence in target markets.”*

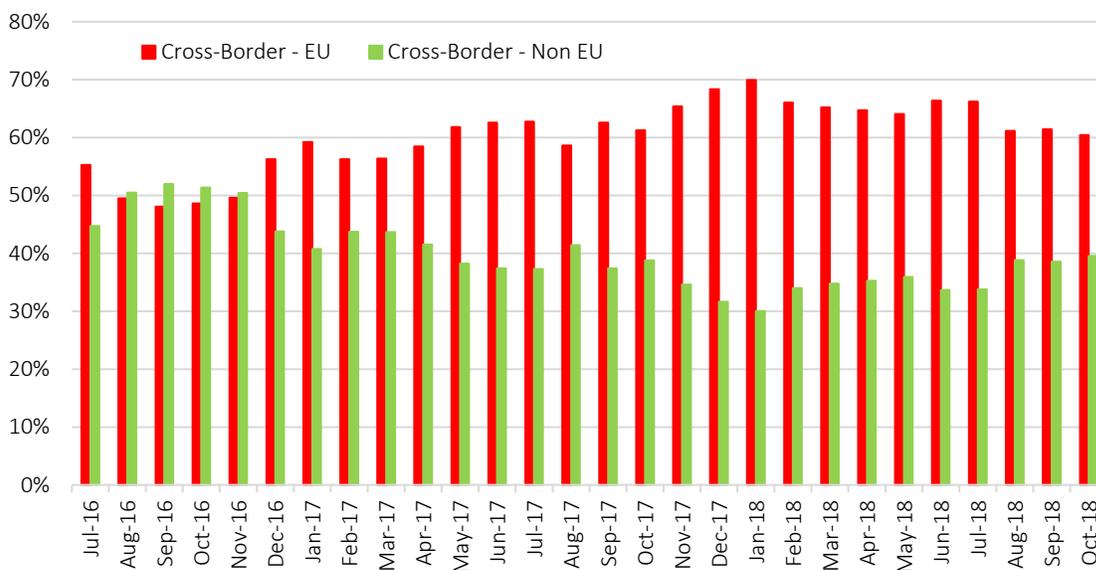
The popular phrase for this is ‘localisation’ and if we need to move towards more tailored services for UK shoppers, we need to adapt this again for cross-border consumers.

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## The Brexit Effect

As we get closer to March 2019 the Brexit Effect comes more into play.

So far it has provided opportunities for online selling into Europe with a weaker £ making UK retailers attractive to EU shoppers. Since the referendum decision at the end of June 2016, we have seen the proportion of UK cross-border volume going to € destinations increase.



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<sup>9</sup> <https://gfsdeliver.com/ebook-how-to-grow-global-e-commerce-sales-with-delivery/>

However, this may be about to change.

Even with the draft Brexit deal out in the open there will still be a lot to understand about dealing with the EU in the coming months and years, so prudence suggests contingency plans must be made, to include:

- Expecting longer cross-border delivery lead times especially on road-based routes
- Planning for changes in customer messaging in order to manage expectations
- Reviewing all HS code classification to ensure products attract the correct duties and taxes
- Enabling transparent delivery and duty cost information at point of checkout to protect / grow conversion
- Implementing growth strategies in non-EU markets
- Implement PLT services for non-UK destinations

Even the most optimistic of us is now anticipating longer and more complex duty and tax processes, and higher delivery costs with longer delivery lead times into EU markets.

A recent GFS-Tamebay survey suggests that delivery service considerations come second only to those about taxes and duties as the biggest challenges to cross-border growth for its surveyed retailers<sup>10</sup> - specifically:

- Managing delivery costs – 29%
- A lack of expertise on the best services to access – 19%

However, the cross-border opportunity is too strategically important to back away and, of course, Brexit does not herald the end of cross-border ecommerce, just perhaps a change in how and where to trade.

Brexit may be a catalyst for growth and diversification, opening new, high growth / high volume markets. In fact, the GFS–Tamebay survey showed that three-quarters of its survey group expect international sales to grow significantly over the next two years.

The survey identifies the top two targets for its respondents as the USA (64%) and Australia (17%) and IMRG data backs this up, recording that these English-speaking destinations have been responsible for 18% and 9% of all UK cross-border volume over the past six months.

Within Europe, France (15% of UK volume) and Germany (7% of UK volume) lead the way and this is not surprising as they are the largest e-commerce markets in Europe (behind the UK). However, the other largest markets identified by GFS are all non-EU:

- China: \$499bn
- USA: \$409bn
- Japan: \$111bn
- Germany: \$63.9bn
- France: \$44bn
- South Korea: \$41bn

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<sup>10</sup> A survey of 100 retailers with an annual turnover in excess of £1 million

- Russia: \$27bn
- Canada: \$22bn
- Brazil: \$18bn

Apart from the USA, all the other non-EU markets are yet to take any significant share of UK cross-border online volume. An opportunity in the making.

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## The Challenge

So, the challenge we identify is how to better shape the delivery offer to give a more specific and more sustainable customer experience with better control of costs, in both the UK and (fast changing) cross-border environments.

Many large retailers already use service optimisation and integration solutions that produce the necessary labels, electronic manifests, and provide tracking and status information. Those that don't need to be looking this way.

But it may now be necessary to go beyond a multi-carrier approach to a multi-service management strategy, accessing resource, expertise and technology focussed on:

- Optimising rates and services for all markets and considering:
  - Is it sensible to offer 'fast and free' as standard when this clearly costs more?
  - Pricing click & collect below home delivery will create demand, drive consolidation and give the customer complete control of when and where they receive their orders. Is it time to challenge the delivery carriers to give consolidated delivery pricing for click & collect?
  - Is there an opportunity to consolidate dispatch volumes to achieve better rates?
- Proactively anticipating and managing the customer experience:
  - Asking the customer exactly when and where they want delivery, especially if there is a chance they won't be home to receive it – default click & collect location, specified safe-place, the right neighbour to take the parcel in
  - Telling the customer when (day and time slot) they will get their parcel, with the opportunity to make changes, rather than simply 'dispatch today, deliver tomorrow' when tomorrow might not be convenient at all
  - Spotting the exceptions – the problem in the making – intervening with the customer in advance to turn a potential negative into a retention and re-sell opportunity

Some delivery carriers provide some of these solutions, but until all do this, the customer experience is inconsistent. In the meantime, retailers need to take responsibility for this, in-house or with a service partner equipped to provide this support.

- Monitoring operational opportunities to enhance service and minimise barriers – such as tax and duty management

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## In Conclusion

We have argued that the blanket approach of 'next day / no cost' is becoming less sustainable and is not necessary for most customers, as long as a well communicated, well executed service offer is provided.

By the same token, not every retailer has the same volume and resources, so each should think about their specific delivery offer in the context of their capability, capacity, customer demographic and commercial strategy.

But they should not be restrained by what can only be done in-house – there is help available through managed service experts who can work alongside even the largest retailers to put in place a delivery strategy which balances customer experience with the need for operational efficiency and agility.

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## About IMRG

For over 20 years, IMRG (Interactive Media in Retail Group) has been the voice of online retail in the UK. We are a membership community comprising businesses of all sizes – multichannel and pure-play, SME and multinational, and solution providers to industry.



We support our members through a range of activities – including market tracking and insight, benchmarking and best practice sharing.

Our indexes provide in-depth intelligence on online sales, mobile sales, delivery trends and over 40 additional KPIs. Our goal is to ensure our members have the information and resources they need to succeed in rapidly-evolving markets – both domestically and internationally.

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## About GFS

GFS is the trusted delivery partner behind some of the UK's fastest growing ecommerce brands like Molton Brown, Dune, Superdrug and Mamas and Papas. Established in 2001, GFS is one of the largest providers of flexible and affordable multi-carrier, managed parcel services with GFS Technology and proactive support included.



Simply put, we take care of eCommerce delivery and returns from checkout to doorstep – anywhere in the world. We help retailers grow by taking the complexity and cost out of delivery so they can concentrate their efforts on selling more. Our core capability in multi-carrier, managed parcel services combined with GFS Technology and proactive support is what makes us different, but also unique in the industry.