

Online Delivery: Balancing the Books

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 operational questions for online retailers, of creating the right balance for the online delivery offer and using it to scale the business:

- 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 IMRG¹ 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 abandonment²
- 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 experience 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

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

² GFS Interview - 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 shoppers³.

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:

- To keep up to speed with the latest developments
- Dealing with disruptive competition, constantly changing the rules of customer engagement
- In-house logistics management technology keeping pace with operational demand

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

Customer Experience – Time to Think Again?

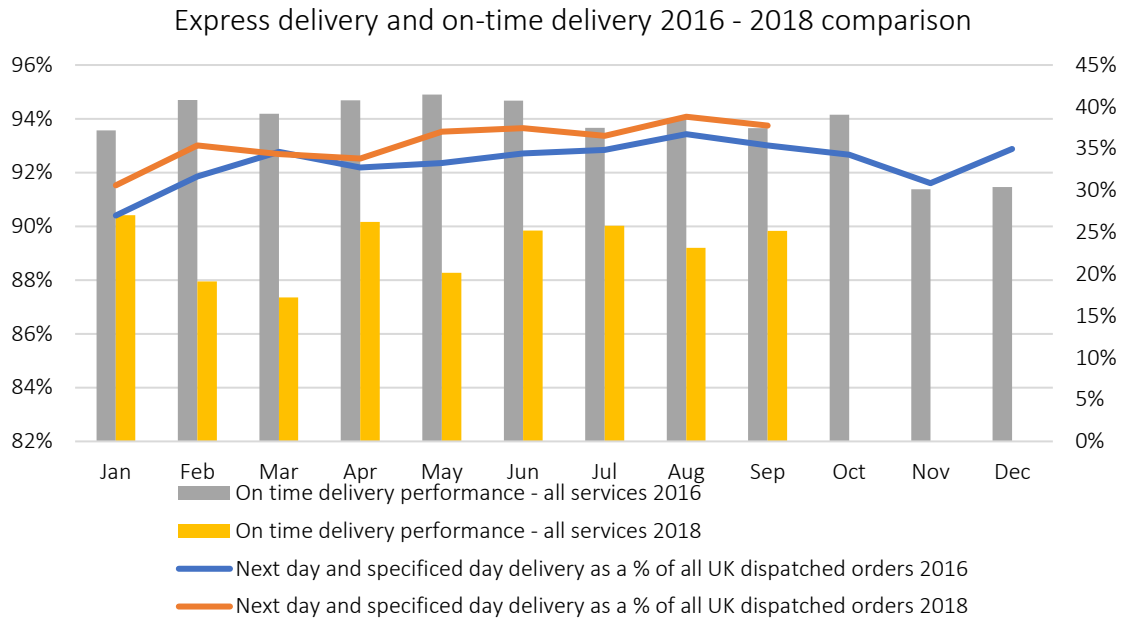
Over the past two to three years we have seen a lemming-like rush towards 'next day / no cost' delivery (the so-called 'Amazon effect') but operational and commercial common sense tells us that there can be no such thing as 'free delivery' and that the online supply chain has a finite capacity for 'everything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

Can we possibly sustain this approach under pressure of:

- Tighter retail margins?
- 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?

³ 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 promise⁴.



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 delivery⁵

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

⁴ IMRG MetaPack UK Delivery Index

⁵ <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 it⁶. No hidden extras please⁷*
- 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 help⁸*
- 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 can be selected to be 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, retailers need to look at a multi-carrier approach, but this should be supported by wider multi-service solutions aligned with the retailer's strategic aims while recognising its operational capability. These aims will include growth, and that may mean moving into cross-border markets where the different 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.

⁶ 70% of shoppers value clear delivery information prior to confirming their order

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

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

The Cross-Border Conundrum

In their recent e-book on global e-commerce growth⁹, 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.

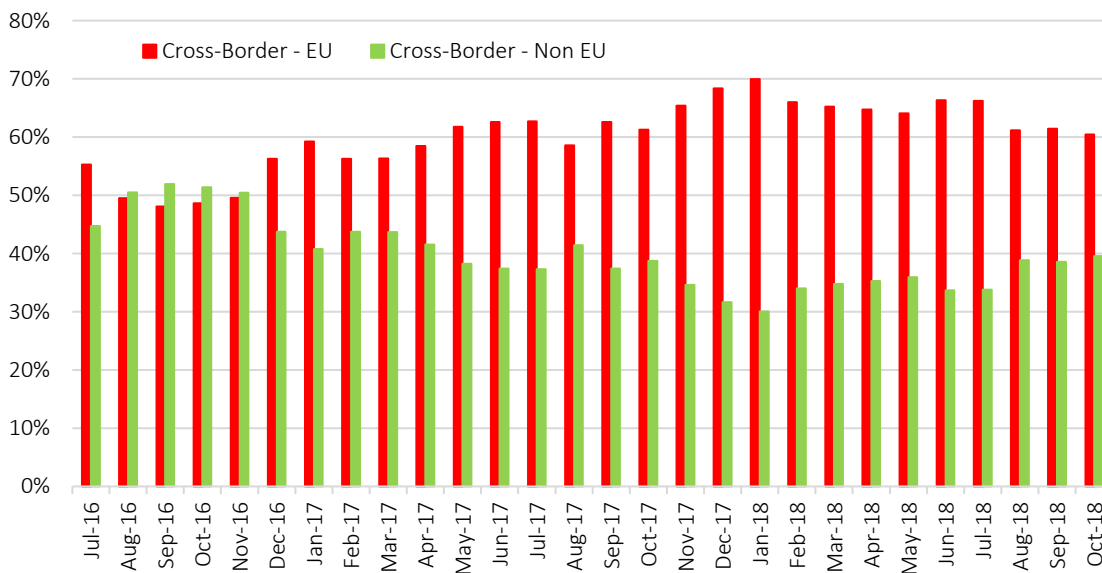
Offering a delivery service that is familiar and comfortable gives international consumers the confidence to place an order, helping to build a reputable presence in target markets.”

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.

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.



⁹ <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 paperless trading (PLT) services for non-UK destinations to speed customs clearance and reduce transit times

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 retailers¹⁰ - specifically:

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

However, the cross-border growth opportunity is too 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 actually 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

¹⁰ 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.

The Dilemma

So, the challenge for emerging retailers is how to provide a delivery offer that gives a more specific and more sustainable customer experience with better control of costs in both the UK and cross-border environments.

As suggested earlier, this requires a multi-carrier approach enabling access to a range of delivery services, using order characteristics and specific customer requirement to offer the right delivery solution from a sensible set of options relevant to the destination country.

Most large retailers use service optimisation solutions that do this and integrate with their chosen carrier partners, producing the necessary labels, electronic manifests, and providing tracking and status information. Aspiring retailers that don't do this need to be looking this way towards:

- Streamlining the fulfilment operation (labelling, manifest production, consolidated and coordinated dispatch)
- Customer experience support – customer service, proactive tracking
- Optimal cost management – consolidated buying of carrier services
- Consultancy support

As a minimum, the delivery offer should cover:

- Delivery to a designated address
 - A standard option – perhaps 'free' or at low cost, perhaps threshold related
 - An express option – at a small premium
 - A timed / specified day option (if available) which may include weekend and / or evening – at a higher premium
- At least one click & collect option (if available):
 - In-store (from the retailer's own store network if applicable) – free
 - Third-party (pick-up point / locker depending on local customer preference) – at a lower cost than the standard designated address delivery

This must be supported with clear communication of the delivery offer in advance of browsing (home page, product page and FAQs), proactive customer services and ongoing cost management:

- Accurate cross-border duty, tax and delivery cost calculations to be shown at checkout
- Pre-delivery alerts to tell the customer when to expect delivery, providing the option to make changes

- Full tracking, tracking management, intervention and communication in case of delay
- Dynamic cost management to ensure the best rates by route / service at any time
 - Consolidation with other retailer volumes is one way to punch above your weight

All these solutions exist: it is often just a question of pulling them together, but when you are busy running the business it's hard to stop and look around sometimes.

In Conclusion

We have argued it is possible to compete with the blanket approach of 'next day / no cost', which is not sustainable and 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 should not necessarily try to follow the herd. 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 help emerging retailers scale their business cost-effectively.

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.

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.