



HOME DELIVERY STUDY

THE SUPPLY SIDE

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Introduction

The Logistics Research Centre (LRC) of Heriot-Watt University conducted a B2C e-commerce and home delivery service quality study in spring 2006 following a consumer questionnaire survey in 2005. The study involved interviewing retailers, logistics service providers (LSPs), carriers and industry experts. Fifteen companies were interviewed in total and this report discusses the interview result. The current home delivery market is analysed, problems and constraints of companies discussed, and recommendations as how to improve home delivery service proposed. LRC appreciates all the participants' contribution and guarantees the strictest confidentiality in the data analysis.

Content

HOME DELIVERY INTERVIEW REPORT	1
1. The Current Home Delivery Market.....	3
2. The Home Delivery Performance	4
Suggestions on Availability	4
Suggestions on Timeliness.....	5
Suggestions on Condition	6
Suggestions on Return	7
Suggestions Related to Costs	7
3. SUGGESTIONS FOR MULTI-CHANNEL RETAILERS.....	8
4. COLLABORATION.....	9

1. The Current Home Delivery Market

All the interviewees unanimously agreed that the market would consolidate and merge. The current market structure is very fragmented with about 20 national carriers, each of who has a relatively small share of the market. The market is not sustainable and is undertaking quite heavy rationalization recently with some companies running under financial difficulty or gone bankrupt. But as e-commerce is growing rapidly, there may be more players coming into the market in short-term. In the long term however, the market will consolidate and there are likely to be fewer players in the future. Table 1 shows the main players in the home delivery market.

Many B2B carriers and traditional LSPs start to operate in B2C market and the competition has intensified. Most carriers who are profitable at B2C market now are highly specialised ones. *Thus it is recommended that LSPs and carriers specialise in a few niche areas to maximise the profitability. Differentiation is crucial in securing good market shares in the market.*

Service providers	Main responsibilities	Current market condition
Traditional third party logistics companies	Warehousing, distribution, carrier management, return etc.	Some do not necessarily specialise in home delivery; some others are.
E-fulfilment specialists	Warehousing, distribution, carrier management, system design, return etc.	A few niche players, 'one-stop' service, comprehensive infrastructure
Express parcel carriers (premium market)	Express parcel delivery and collection with limited value-adding services such as packaging etc.	Speedy delivery and good order tracking system; many players come from B2B market and expand quickly into B2C
Standard parcel carriers (non-premium market)	Standard parcel delivery and collection	Standard delivery, may not require signature; some players are from catalogue companies, handling huge volumes
Specialised carriers	Two-man fleet specialising in heavy and big products; special flower distributors etc.	Competition may be less fierce than parcel delivery, but some companies struggle to get sufficient volumes
Local couriers	Self-employed people who deliver in their cars or vans and deliver in local area	Basic service, but cheaper than fleet; used by many companies, one person can work for a few carriers in the same time
Software companies	Software providers in carrier management, WHM, route planning and addresses management etc.	A handful of multi-carrier management software companies. Reaction from carriers varies.
Media and industry organisations	Publishing the latest development, best practices, regulations, accreditation and organising events	

Table 1: The Main Players in the Home Delivery Market

2. The Home Delivery Performance

Comparing the consumer survey and company interviews, it is not difficult to tell that most issues consumers felt unhappy with were addressed and emphasized by retailers, LSPs and carriers. The following sections discuss the four dimensions of home delivery quality in availability, timeliness, condition and return from the perspective of what consumers want, what retailers and LSPs offer and what can be improved.

Suggestions on Availability

Our consumer survey shows that respondents had low satisfaction in order checking, i.e. the ability to track and trace orders online. But pure Internet players performed better than multi-channel retailers significantly in this variable. The interview confirmed that most multi-channel companies do not have such a system yet. Thus there is a big gap between what consumers want and what they are offered.

Suggestion 1: Retailers, especially multi-channel retailers develop an online order tracking systems or provide a link to the carriers' websites for consumers to track orders.

For retailers who have difficulty in developing such a system, they can resort to software applications that operate alongside the existing ordering systems of retailers. These software systems enable timely contact with the customer by email or text message during the fulfillment process, ensuring that the customer is informed about their order status at relevant times and most importantly informing them when the goods are ready to despatch, offering choices and confirmation of the delivery date and time. They can save retailers from spending resources to develop their own, but close collaboration with carriers is needed to offer a named delivery date and time that consumers prefer.

Suggestion 2: Retailers use order confirmation software developed by third parties to contact consumers and arrange delivery time.

The company interview showed that most companies had good availability except apparel products. Retailers should promise a fulfilment performance that follows

closely their high level of actually performance, thus to narrow the gap between promised and delivered service.

Suggestion 3: Retailers do not over promise a quick delivery without a good availability.

Suggestions on Timeliness

In the consumer survey, consumers' satisfaction was very low in specifying time slot and delivery in time slot. Specifying delivery date, delivery on the day arranged and quick delivery had higher satisfaction. The company interviews showed that the most common service is standard 3 to 5 days delivery. Timed delivery is rare except for two-man products.

Clearly, consumers are denied the options they want. Although most consumers buy on price and prefer free delivery, there are people there who are happy to pay for convenience. The consumer survey showed that over 10% of respondents were happy to pay £3 to £6 for weekend and evening delivery and 2% were willing to pay £7 to £10. Early morning delivery is getting more popular, a trend indicated by respondents and confirmed by retailers.

Retailers and carriers are concerned of the costs of providing premium delivery. However, once they start to offer more options, they may find there are good demands for these options, and eventually there may be enough volumes to support the operation.

Suggestion 4: Retailers provide more delivery options and consumers who are happy to pay will choose delivery options with more specified date and time. The surcharge they pay will compensate for the high cost of delivery.

The consumer survey showed that order lead time had strong positive association with overall consumer satisfaction. Even if retailers promise a standard delivery, if the order can be quickly dispatched and delivered, it will exceed consumers' expectation and enhance customer satisfaction.

Suggestion 5: Given the availability is guaranteed, quick dispatch and delivery can win consumers' enhance customer satisfaction.

First delivery success rate is on retailers' and carriers' top agenda. To improve the first delivery success rate, the following suggestions are given:

Suggestion 6: Use email, phone calls or texts to inform consumers the delivery date and time; send a few reminders.

Suggestion 7: Before the delivery, ask consumers alternative options if nobody is at home; give them more choices about how and when they receive orders.

Suggestion 8: Small items such as books, beauty products or gifts can be packaged in a way that they can be delivered through the letterbox if possible.

Suggestion 9: Retailers involve carriers to communicate with consumers as much as possible or develop a link to carriers' websites.

Suggestions on Condition

The consumer survey showed a high consumer satisfaction on order accuracy, order condition and order completeness. However, damage is a problem for furniture or houseware products.

Suggestion 10: Retailers and carriers use packaging materials which can stand for two delivery trips at least, tighten packaging requirement and improve picking and packing quality.

Suggestion 11: Use specialised service for bulky and fragile products and train drivers to be considerate and polite.

Suggestions on Return

The consumer survey showed that consumers were not happy with the speed that returned products were collected and replaced, although they were happier with the ease of returning methods. Other research shows that once a customer has decided to return an item, they want it out of the house as quickly as possible.

Product damages and wrong labelling or addresses are two main reasons causing return. Therefore, apart from the above suggestion to reduce damage, the following can be suggested:

Suggestion 12: Retailers and carriers use accurate packing, sorting and labelling, as well as correct routing and address checking software.

Suggestion 13: Retailers give detailed and accurate product information online so to make sure that consumers get what they think they will.

Suggestion 14: Returned products are dealt with properly so they can be repaired, repackaged and resold.

Suggestion 15: Once retailers get the return request from consumers, they should arrange goods be promptly returned or replaced. Clear instructions should be given to consumers if they want to return goods themselves.

Suggestions Related to Costs

Although logistical issues can be powerful differentiators, the above sections described a few gaps between what consumers want and what could be done commercially. Retailers and carriers are pressured to improve service offerings with reduced costs. A high operational cost and touch retail environment make retailers very cost sensitive; technological advancement needs investment; and retailers have to balance between the home delivery cost and charging. E-commerce is a scale business with costs that are largely fixed, e.g. warehouses and fleet. Goods are sold at discounted prices online so volume is crucial. Carriers need to be flexible in the operations and concentrate on resource planning.

Suggestion 16: Retailers become more open and provide transparent delivery information online so consumers have a more realistic expectation.

Suggestion 17: Retailers and carriers engage in proper vehicle maintenance and driver training scheme to minimize fuel use.

Suggestion 18: Retailers create mass and volume to amortize the fixed costs of distribution centres, fleets and headquarters and make up for the low margin.

Suggestion 19: Retailers' marketing capital can be best spent creating a good customer experience, which spreads quickly on the Internet to attract more customers. Thus it is worthwhile to invest in good delivery offerings. Bad customer experience is spread just as quickly.

Suggestion 20: Flexibility of resources for LSPs and carriers is key so that dedicated, shared and subcontracted services are mixed to optimize warehousing and fleet resources.

Suggestion 21: Quick resolving of consumer complaints not only brings cost down, but also increases customer satisfaction and retention rate.

3. SUGGESTIONS FOR MULTI-CHANNEL RETAILERS

The consumer survey suggested that pure Internet players were perceived to provide better home delivery service than multi-channel retailers. Most of the interviewees showed understanding of this result and they explained that pure players are much more focused on online channel, as it is all that they do. Multi-channel retailers tend to treat online channel as secondary compared with stores. The lack of commitment and attention, the complicated integration requirement between different channels and the less advanced technological systems make multi-channel retailers lag behind pure players for now. However, most interviewees still considered multi-channel to be the future of retailing as multi-channel retailers have much more exposure to consumers and are more flexible in trading format, which serve needs of different people.

The multi-channel opportunity brings new pressures to retailers due to the culture and consistency issues faced by traditional retailers in their transformation to embrace the Internet era. Multi-channel retailers have to make an effort to integrate their systems as the elements of the marketing mix need to be managed consistently across all distribution channels if brand value is to be maintained.

Consumers normally have very high expectations in the online environment which may result in a gap between the expectations and the actual service that is delivered. For established retailers, meeting consumers' expectations are even more demanding. Providing customer support for an online service is very labour intensive since customer expectations are very high – especially for well known brand names. Multi-channel brand value is all about consistency, fulfilling consumers' expectations for seamless purchase and delivery options across all channels. ***Thus how to differentiate and achieve internal understanding and collaboration is a challenge.***

In response to the above challenges, ***retailers should change the organizational structure and compensation incentives to be brand rather than channel specific. Deploying multi-channel data management strategies and bringing outside expertise to drive internal business process change can help. Delivery service, an extension of the brand should be part of the integration.***

4. COLLABORATION

Retailers, carriers and consumers are the three main stakeholders in online shopping and home delivery market. They need to communicate more and look for mutual understanding and solutions. Inefficiency of home delivery mainly roots from the interfaces of concerned parties and thus the solution focus was to define responsibility and improve communication.

Retailers need to have an exact understanding of what carriers offer from end to end. It is beneficial for retailers to make time and meet their carriers regularly so to identify problems, solve problems quickly and agree on important issues. Retailers should also meet their consumers and listen to their needs and check whether carriers

do their jobs properly. Creating the right values for all the parties, maintaining longer relationship and committing to ideas together are very important.