



Delivering on the promise

Multichannel retailers have a distinct advantage when it comes to logistics – their shops. Chloe Rigby finds out how convenience is being redefined.

DELIVERING THE GOODS may not be glamorous, but it is a cornerstone of the good service that retailers must give if they are to compete effectively.

Don't expect praise for getting it right, for that is simply expected. Get it wrong and customers will think twice before shopping with you again. After all, most people buy online because it's easier – and convenience is also proving the key to a successful logistics chain.

To put it in context, according to a Tesco survey of 2008, failed deliveries are the UK's third-greatest irritant. There is no room for failure. But it's a problem that too often multichannel retailers are failing to solve.

THE MULTICHANNEL CHALLENGE

E-commerce is often an add on to existing retailing models. Delivering to millions of individuals works very differently from the traditional store replenishment model, where deliveries are to the shop and there isn't a problem if the wrong number of clothes, in the wrong sizes, arrive. But experts say many bricks and mortar retailers are failing to grasp the importance of getting it spot on first time when they deliver direct to customers. Among the critics is Patrick Wall, chief

executive of delivery management software company MetaPack. Wall says retailers may have overly rigid and separate logistics systems for their different channels. When a customer orders online, one logistics network responds. But if the same customer orders the same item instore, another network responds. "When the retailer wants to move on and provide a joined up experience to their customers there are huge barriers," he says, "separate warehouses, different technical systems and separate organization structures. Retailers are therefore moving into the multichannel world with inefficient and costly work arounds which limit the customer's experience." When it's working, he says, multichannel retailers have flexible access to their stock and less stock duplication, costs are lower and service is better. But to get it right, he says, they need to find out what the customer's ideal shopping experience is, and plan the logistics framework from there.

PERFECT SERVICE

When it comes to pleasing customers, there's only one option – that's to get it right. It's also the option that is best for the business, keeping satisfaction levels high and

Cost of delivery – Waitrose Deliver

Just as retail competition is hottest in the supermarket sector, so their online logistical operations have vied to be the most convenient. Supermarkets have been in the vanguard of delivering in two-hour time slots. Until recently the assumption has been that consumers were willing to pay for that convenience.

But now that's starting to change, with the decision by Waitrose to abolish its delivery charges for online shopping, with the avowed intention of becoming more accessible through all its channels.

The decision won't make a huge difference to shoppers' bills – the cost was previously £3 or £4 to have a shop that must now be worth at least £50 to qualify for delivery. But it seems the principle of free delivery appeals to UK consumers. Waitrose quoted its own research showing that customers believe free should be standard.

The news comes hard on the heels of Amazon's decision to reduce its delivery charge to zero for purchases of only £5, and against predictions that the online grocery market will grow to £13 billion. Waitrose said its own online grocery sales grew by about 80 per cent in 2008 and so far this year is growing by 60 per cent.

However the store will still charge those customers who opt to have their in-store shop delivered to their home.



reducing inefficiencies and therefore cost. Tesco is often quoted as a good example of a retailer offering a seamless logistics service, whose innovations are becoming standard. So what do the experts say Tesco is doing right? They cite precise two-hour delivery windows for its home delivery grocery service, the option for customers to reduce packaging, and the ability for customers to return web-ordered goods through the in-store customer service desk.

Not only is this good customer service, but it represents a real cost saving. "One of the biggest costs in home shopping is the cost of returns," says Neil Weightman, sales director at iForce, the company behind Tesco's non-food returns process. Weightman points out that the system is both cost effective and convenient, effectively saving the retailer in the order of £5 in delivery costs on every return. Returned goods are quickly returned from supermarket to the iForce warehouse, with the process tracked through 'licence plate' technology, and from there to the supplier, freeing up cash flow. To draw a lesson, Tesco is delivering on the promise it makes the customer, and on the consumer's expectations.

That last is key to successful multichannel retail logistics. A customer may have no cause for complaint if they were out when the delivery arrived, but they're unlikely to be wholly satisfied with the experience if it involves a time-consuming trip to a depot to collect the goods they needed in a hurry.

COLLECTION – HOME OR AWAY

Received wisdom says that home delivery is the most convenient option for customers. But it seems that the goalposts are shifting, as logistics companies report a faster-than-expected growth in the number of consumers ordering on the web and collecting from the store. It turns out that for many people who spend most of the day at work, it's more convenient to drop in at a shop on their way home to collect relatively lightweight goods than to wait in all day for the item to arrive – with the risk of finding the failed delivery card if they pop out for five minutes. That gives multichannel retailers an enormous logistical advantage, for now at least, in the form of what Paul Brooks, sales director, Unipart Logistics, describes as a



What the experts say

The multichannel challenge



"Achieving things right first time not only keeps the customer satisfied, it also provides the lowest cost to serve. Perfect service reduces customer complaints, perfect services reduces returns. It also keeps the customer coming back for more."

Patrick Wall, CEO, Metapack

Perfect service

"If you are delivering a home shopping solution, there can be no failures because you are letting someone down. Delivery options and courier performance have to meet the customer's expectations."

Neil Weightman, sales director, iForce



Collection - home or away

"Rail stations are good (collection points) because they have lots of under utilized space. Staff can be trained and there's better security. That is a development I see happening quite quickly."

Paul Brooks, sales director, Unipart Logistics



Stockholdings

"We all know what consumers expect when they order something online – and they don't expect delays."

Anthony Payne, VP of marketing, Wesupply

"robust customer-facing collection point". But it's an advantage that's likely to be eroded with the growth of more alternative delivery points. Brooks predicts we'll have more high street drop boxes, accessible to customers via a key, while he also believes collections from railway stations will soon be the norm. He points out that a store network of 150 stores gets traders close to their customers. But 500 locations gets even closer, to within a few miles of 90-95 per cent or more of the UK population. The model depends on delivering to conurbations, and Brooks believes that's where delivery will continue to be fastest. People living in rural areas will also get the deliveries, but with a somewhat longer lead time.

There's a lot of potential for blending different retail channels in future. Future developments, according to Brooks of Unipart, are likely to include 24-hour shops with kiosks for customers to browse and order their goods for home or store delivery. He says such developments will come from innovators such as Argos, who already have a varied array of mechanisms for ordering from a number of points and collecting or taking delivery in store or at home. "If you have a multichannel platform, you will be looking to add to that platform for the convenience of your customers," he says.

DELIVERY CHARGES

Until recently the home delivery maths has assumed that customers were willing to pay for the added convenience of having goods delivered to their homes. Time saved had an intrinsic financial value to them – and they accepted that would cost them money.

But in recessionary times many have been redoing their sums. Online sellers such as Amazon have reduced the minimum

spend to £5 to qualify for free standard delivery, while others such as Play.com have always offered free delivery.

Now more and more are adding in free delivery as an incentive to sales that doesn't mean product prices have to be cut. But post-recession, will companies be able to return to charging for this service, or is this an assumption that is changing in the long-term? Neil Weightman of iForce, points to the trend to encourage shoppers to qualify for free delivery by taking their online basket of goods to above £40 or £50.

"The greater number of items in the parcel, the lower the costs," he says. "If retailers get a bigger order value, that lowers operating costs, and they are able to absorb free delivery to customers in their margins. I think the trend will continue."

STOCKHOLDINGS

One area that many retailers are looking to address as they cut costs in these straightened economic times is high levels of stock. Stock has a cost both in terms of the money tied up in paying for it before it's been sold, and the space and staff required to house and look after it. But serving a number of retail channels means holding higher levels of stock, doesn't it? Not so, say logistics specialists. Metapack's Patrick Wall says that ultimately there is no reason why orders to store and orders to the web cannot be picked from the same holdings. "If you do it properly you should be able to manage with less stock," he says. "You can have the lowest cost and the best service if you design it properly."

IT provider Wesupply specializes in the real-time integration of IT logistics systems to allow retailers to supply direct from the supplier through drop shipping – where retailers can sell products without having to stock them physically. Anthony Payne, says that while retailers, carriers and suppliers all have good delivery IT systems of their own, the interface between them can leave much to be desired. In some cases, he says, faxes are used to relay orders. Integrated systems, he says, update orders automatically, whatever channel they arrived through.

THE GREEN QUESTION

As yet packaging is not at the centre of consumers' consciousness when they order – but the fact is that a great deal of waste is produced by the online shopping experience in the form of packaging. Paul Brooks of Unipart believes that this area will become one that sets retailers apart in the future as customers start to make it environmentally-friendly delivery options a priority. It will start, he believes with those who make sustainability a priority, pushing others into moving quickly on it. Already Tesco offers green loyalty card points in exchange for reducing carrier bag use on its home delivery service. But we can expect to see similar schemes become more popular in e-commerce sales. Brooks says he expects retailers such as M&S to make this an issue, and that uptake will widen from there.

It's notable when it comes to logistics that more efficient customer service is often the key to delivering cost-efficiencies as well. Not only that, but in the case of packaging there's an environmental benefit as well. There's a virtuous circle there that we can expect to transform the logistics of multichannel retailing during the course of this current downturn. Pleasing customers while saving cash and becoming sustainable – it has to be an effective argument towards justifying long-term strategic change. ■