Delivering the Results

MetaPack response to the

Snow Valley eCommerce Retail Delivery Report

January 2010

I've read the report: what do I do now?

Step 1: Convince other people in your organisation that "delivery matters"

A good delivery experience contributes to better browse to sale conversion; fewer abandoned shopping baskets; creates higher customer retention and reduces costs in many areas of the business: carrier costs; customer service costs and re-work costs. The challenge is to convince others in the business that this is the case. If you are lucky, walking through the customer journey might be enough to convince colleagues that delivery matters. If this doesn't bring everyone you want onside, existing key performance indicators (KPIs) may help to win the argument. How many of your customers abandon their shopping basket at checkout? What proportion of inbound customer service calls are delivery related? What proportions of customers are returning to your site? If this is still not enough and the finance department need to be convinced that delivery is more than a cost centre, attempt to build a total cost to serve model (see http://www.metapack.com/delivery-cost-calculator). The headings alone will convince most people that at best delivery drives up revenue and at worst, it drives up cost.

Step 2: Set priorities

Deciding which opportunities to exploit first is always a sensible approach. Start with customer satisfaction and work back to cost (it doesn't work the other way around). Total cost to serve modelling shows us that the costs of delivery failure quickly outweigh the pennies or even £ pounds per parcel that can be saved by using "the cheapest carrier". Think customer satisfaction and you can segment your customer base knowing who will accept inconvenience for the benefit of low cost and who requires convenience and reliability and are willing to pay for it. And remember, even if the demographic of your customer base is quite narrow, customer preferences will change on different shopping occasions, particularly according to the value they place upon their purchase. All of which suggests providing an appropriate set of delivery options has to be high up the agenda, and communicating these accurately comes a close second.

The appropriate set of delivery options is to a large part driven by the product offering. If you are exclusively selling high value items, next day tracked services will suite most peoples' needs. Similarly, if you are selling CDs, Royal Mail and letter box deliverable is more than adequate. However, if you are shipping a range of sizes, weights, values and want a range of service you will need an efficient multi-carrier set up. Your priorities then are to ensure automated data flows, sensible allocation to the right carrier, an efficient despatch process and joined up customer service.

Step 3: Know how to achieve your objectives

Having looked at the customer requirements and established priorities that fit your business it makes sense to look specifically at the trends that are highlighted in the Snow Valley report.

Below we have tried to provide some more information from an execution point of view and related factors to consider.

- Trend: *Standard, premium and super saver delivery.* The trend to super saver makes a lot of sense but be sure to check some of the cost to serve elements. Many customers can't resist a £1 cheaper, for five to eight day delivery, but may get frustrated while they are waiting and call customer care to see if there is any confirmation of the delivery time. Your ability to immediately offer super saver is obviously determined by the carriers you are already engaged with. If you haven't got the right carrier, adding another carrier shouldn't be a problem providing you have the right systems. If you are stuck in the old world of having to negotiate with IT each time you bring in a new carrier, there will be problems. Clearly a multi-carrier system helps you to get around this.

- Trend: *Free delivery according to item value.* 52% of retailers offer free delivery, up from 35% in 2005. Check the small print though. Most free delivery is value related. A typical minimum order value for free delivery is around £50 but this should really be retail sector specific, according to the net contribution generated by the sale. Once the appropriate minimum order value is determined, this value needs to become a variable in the automatic carrier selection process. Since the order value is understood at point of order this can be factored in if carrier selection is made at the web front end or if carrier selection is made pre-pick in the warehouse. It can of course be made at the pack bench when other important details are known (parcels in the consignment, weight and dimensions). In any situation, some form of carrier selection logic is needed (and make sure it is configurable!)

- Trend: *Nominated day.* The Snow Valley report questions whether nominated day or specific day is increasing or declining. Interestingly, there is a greater use amongst larger retailers (to 50%) and a small decrease amongst smaller retailers (to 15%). Perhaps most significant is the gap between the large and small retailers and this probably reflects the relative complexity of managing nominated day. Offering a delivery promise for a specific day requires intervention and control by the retailer: the retailer has to hold the order (the carriers really can't manage this service for the retailer, by holding the stock, as they aim to clear their decks every day). A delivery promise and the associated carrier delivery service must be recorded within the retailer systems and the required despatch date inferred. This can be managed by the order management system or the warehouse management system and if this is not possible, by an intelligent carrier system. The order is then released for pick on the appropriate day, despatched with the right carrier service and delivered on the nominated day.

- Trend: *Premium deliveries and one to two hour time-slots.* A quarter of all retailers surveyed and a third of larger retailers were providing premium deliveries. Less than five per cent are offering one or two hour time slots but this rises to 10% for larger retailers. There is a trend here, but if grocery providers are taken out the levels are still low. Perhaps the new services that offer one to three hour delivery confirmation on the day will prove more popular. One important consideration which applies to most premium services: they are not nationally available and it is best to provide dynamic delivery options, i.e. at point of order only offer them to customers if their post-code can receive such a service. This is achieved by calling a local or third party database to check which services are available where. You can provide look up tables for the customer but that's falling behind competitive norms and frequently leads to customer frustration if the customer has failed to note or understand the details.

- Trend*: Same day delivery.* Like other premium deliveries, same-day is certainly one to watch but do not expect particularly high volumes. It's an excellent way to provide certain customers with exactly what they want but there are three restrictions. First, it's only possible to cover certain areas of the UK on a same day service, simply because of the distances involved. Second, order cut-off times need to be managed carefully so that the order can be despatched for a same day delivery. Third, the cost is inevitably high as the carrier will typically be making fewer deliveries in a given area. With those qualifications in mind it can still create an exciting proposition.

- Trend: *Delivery to an alternative location.* Approximately 10% of deliveries are not delivered to the customer, on time, first time. Again this is product/sector dependent. Letter box delivery success should be higher. When a signature is required by the recipient there can be understandable issues. The failure rate continues to fuel interest in alternative delivery locations. The alternatives on offer broadly split into three groups. First are the unattended boxes that are located outside of the recipient's house (e.g. Hippo Box). Arrangements for these deliveries are locally made i.e. the customer must link with the carrier to permit the carrier to enter and/or secure the box. Second are third party box banks where the customer can select usage as required (e.g. ByBox). These require a real time technical link between point of order and the box bank system. Finally there are alternative collection locations such as the Post Office or shops (e.g. Collect+). Typically these operate with a technical link from point-of-order to the shop but there may be a manual process (e.g. for the Post Office). Again, a third party carrier and delivery system can provide all of these links.

- Trend: *Delivery charges by weight/value.* It is advisable to set price by weight and/or value in order to reflect the underlying cost and offer the best prices to the customer. Royal Mail prices are completely driven by weight and their insurance for first class services is a multiple of the first class stamp price. Hence many retailers switch out of Royal Mail services at a certain price. Many parcel carriers offer specially priced pouches with weight restrictions e.g. 1kg and some have key weight breaks at 5kg and 10kg. Some price on an additional kilo basis once a certain weight is exceeded. There are two requirements to take full advantage of these different price points. First, parcel weight must be known (or consignment weight: all of the parcels to one address). Parcel weight is rarely known at point of order and not usually available before the pack bench. Many retailers therefore make assumptions at the point of order e.g. providing an item delivery cost, using the heaviest item to cover the parcel cost or making a rough calculation of parcel cost. Second, you must have an effective multi-carrier allocation engine that chooses the best value option for each parcel/consignment. Again, third party systems can provide this.

- Trend: *Avoiding complicated delivery options.* According to the Snow Valley survey, the range of delivery options with one retailer peaked at 14 options and has fallen back to 12. Either number seems high but perhaps the more important consideration is how to present these options in a way that is most helpful to the customer. Static delivery options do not change, regardless of the size and weight of what is in the shopping basket or regardless of where the product is being delivered. Clearly this causes many exceptions and the customer is invited to work these out through look up tables. Dynamic delivery options only offer the customer services which can be provided for that particular shopping basket going to a particular address. Dynamic delivery options provide better first time delivery success, lower cost to service and better customer satisfaction but they do require a real time call at the point of order, in order to look up service availability.

There are some other trends arising from the report that are worth noting. Again we have provided a little background and some considerations around execution.

- Trend: *Smaller retailers are falling behind larger players.* Throughout the Snow Valley report there is evidence that smaller retailers are falling behind their larger competitors. This is worrying because on-line retail relies on smaller etailers to cover many specialist areas, and because there is no need for this gap to appear. Smaller retailers are offering fewer delivery options, their delivery charges are higher, they are providing less joined up customer care and their return offering is not as advantageous as the larger retailers. From the Managing Director's perspective this shouldn't make sense. Certainly some of these initiatives require investment but the fact that larger retailers are investing in all aspects of delivery provides clear evidence that the payback is there. Total cost to serve is an important consideration. First time delivery success provides the lowest cost delivery. In this sense there is a happy coincidence between best service and lowest cost. Further, the investment costs need not require upfront capital. The improved order management, warehouse or carrier management systems are all available as software-as-a-service. They can be purchased on a pay-as-you-go basis. The payback is therefore immediate. No excuses!

- Trend: *Joined up customer service.* The Snow Valley report highlights that more customers now receive a despatch email and that tracking data can increasingly be accessed through this despatch email or through the retailer website. This is great progress and is increasing shopper confidence and satisfaction in on-line purchasing. There are however additional steps that are deployed by best practice retailers. These include email or SMS to the customer updating them on the delivery journey ("on schedule", "delivery today" etc.), notification that a delivery is delayed or information on how to rearrange a delivery or arrange an alternative drop-off. It is possible to use the carriers to provide some of these services but a customer will end up with huge differences in their experience. They are better provided by accessing the carrier's delivery updates and using these to trigger communication to the customer.

- Trend: *Better returns.* Retailers are now providing improved returns services. From "sort it out yourself" to "we provide a Royal Mail returns label", return functionality can now offer customers a choice of carriers, convenience and cost. This can be run from the web front end or the customer care team. These return services can be tailored to the product value and economies can be generated by running improved returns options alongside return authorisation and by charging customers for premium return options (collect from home). Systems wise it's possible to gain many of these benefits by integrating with a single, suitable carrier. Alternatively a third party delivery management system will manage all of these processes.

Step 4: Reality check, are we serving the customers?

Stepping back again, and revisiting the big picture, it's worth taking a reality check and ensuring that you really are tackling the best objectives first. The Snow Valley survey does not claim to be the first and last word in delivery strategy. It provides important benchmarking for the user experience but there are other things going on "underneath the bonnet" that should be checked as part of your delivery assessment. Here are some examples:

- *Address accuracy.* Ensure that address accuracy is managed at point of order. It is too late if it is tackled later. A post-code look up is essential and considerably increases the likelihood that the carrier can deliver.

- *Customers can add delivery instructions.* The Snow Valley Survey notes that less than 20% of retailers allow customers to write special delivery instructions (e.g. "if not in please leave at number 54"). This is probably the most effective single initiative that will improve first time delivery success. Some carriers systems will allow you to print this information on their label and reproduce the instruction on the drivers PDA. Third party multi-carrier systems certainly make it possible.

- *Cut-off times.* As more next day and premium services are added the management of the order cut off time and the carrier cut off time (when the last parcel can get in the carrier trailer) becomes more important. Ideally this would be provided through an end to end process that links order take with carrier allocation in the warehouse, but even if you do not have all the sophisticated systems, try to apply simple rules at the front end so that you can use the appropriate carriers right up to their last minute of availability.

- *Re-delivery.* Approximately 10% of deliveries fail first time and many then go through the dreaded carding process. Publish the different responses that each different carrier provides in a carding situation so your customer knows what to do and ideally send them an email on carding so they can take the appropriate action. Analyse your inbound calls and work out what percentage are related to delivery and what proportion are to do with carding. This should quickly persuade you to take action!

Step 5: Get the most out of your carriers

The differences between carrier capabilities are surprising. These differences are determined by the carrier's level of automation (conveyors, sortation equipment, tracking technology);

how they ship product between depots (cages versus loose); how drivers are remunerated and what vehicles drivers use (if any). Their performance is also determined by which services they see as core, their culture and their ownership structure. Any one carrier would therefore find it difficult to be all things to all people. Our advice is to find out what you want to offer your customers and then talk to carriers about what they can do best. Don't fall for the argument that you must give them all of your best volume to get the best price. This works for the sales person and no one else. The more senior your contact in the carrier business the more likely they are to admit that they would like some of your business but not all of it. So find out where the carrier is best in class and use them for this service/product category/geographic area.

Step 6: Talk to MetaPack?

MetaPack has been providing multi-carrier delivery management systems to the eCommerce world for more than ten years. We provide a lot of free advice as part of the sales process and our product can be viewed as part of a website demo. Please have a look at our website and if there is something there that interests you please contact us.

www.metapack.com