

Delivery is the Key to Home Shopping.

The growth in internet access for householders, coupled with the massive investments being made in marketing by on-line businesses, has seen a phenomenal growth in home shopping. Initially, it was the early adopters, people comfortable with the workings of computer communication and the web who found on-line shopping preferable to visiting the outlet centre or high street. Now, as access becomes more straightforward and is widely accepted, those of us connected to the internet can purchase anything from pizzas to holidays, cars to books; simply by surfing the web.

Recent reports however, suggest that all is not well with many of the e-retailers and delivery companies that now service this burgeoning market. Although some businesses have massive market capitalisation, their profitability is usually either poor or non-existent, while some of the large retailers who entered the home shopping market early are already retreating. Meanwhile, e-delivery firms; BagsOfTime, Kozmo and Urbanfetch have all shed staff or pulled out of the UK and many others are urgently seeking additional funds.

Making money from home shopping is not easy. Indeed, the predictions for the future of this type of retailing could be greatly exaggerated. Whatever happens in this sector of the market though, there is every likelihood that customer choice is going to increase.

Simon Tomlinson, a director of Birmingham based supply chain consultants The Logistics Business has hope for e-shopping, but feels that the delivery methods adopted by companies will be the making or breaking of their businesses.

“There are three major issues confronting companies who are currently involved in e-shopping; stock availability, fulfilment and method of delivery.” he explains. “Firstly, there is the question of stock. Buying off the web is very different from going to a local store.” Tomlinson cites the example of going to a store and selecting a product from the shelf. In the main, the customer is selecting from what is available and makes a choice on that basis. When shopping online, the assumption is that everything is available and the customers feel that they are being made a promise. Some e-retailers have been able to get around this by showing on screen whether the stock is available, but this information can be unreliable and is yet a further promise, that if broken, will result in an unhappy customer. Grocery e-retailers try to get around this by offering alternatives, but this causes complication and the customer is usually given the option to reject the alternative on delivery, further adding to the costs. Stock availability is therefore critical to the success of home shopping.

It is interesting to note as well that customer loyalty reduces significantly on-line. “We all have our favourite supermarket, chosen because of the location, ease of parking, product range or friendliness of staff” says Simon Tomlinson. “Unless the service declines dramatically or a new hyperstore opens locally, we are unlikely to switch allegiance.

With e-shopping, an alternative supplier is not a mile away, or even next door. They are a few mouse clicks away and research suggests that once a consumer is comfortable with this method of shopping they are highly likely to visit several sites offering similar merchandise.” It is here that stock availability and service become critical issues if customer loyalty is to be maintained.

Sweating Assets.

Work undertaken by The Logistics Business for e-retailers suggests that fulfilment tends to be addressed in two ways. Some retailers utilise their existing stores as warehouses and the aisles as pick faces. This approach is known as sweating the assets, or utilising the company's existing retail infrastructure to the full. "This method has the advantage of using existing infrastructure, but the picking is very inefficient and expensive." says Tomlinson. The alternative is to use a dedicated fulfilment centre. "The advantages here are that running costs are lower than for a store, and the stock profile is independent of the buying habits of shop visitors. However, the disadvantages are fairly obvious." he concludes. These include the high cost of building and setting up a distribution centre; amplified by the increased costs of transportation – and all this in what is still a risky and volatile market sector. The decision as to whether a new distribution centre is preferable to utilising the existing store is just one of the dilemmas facing retailers wishing to succeed in on-line activities. Ultimately it comes down to how much the retailer wants to invest and how rapidly it wishes to grow. It is not surprising therefore, that different retailers have chosen different solutions.

One factor that Simon Tomlinson and his team do feel is crucial is the proximity of the distribution point to the customers. The more distribution centres that can be provided, the better served are the customers. The costs associated with building this type of infrastructure from scratch would be exorbitant; but the alternatives – using only a few distribution centres - rely on an overloaded and expensive road transport system to fulfil the deliveries. An organisation that already has shops located in or near major areas of population could, in theory, use these from which to distribute goods.

This brings us to the third real issue facing e-retailers: how are orders delivered? Delivery is undoubtedly the crux of e-retailing, as far as The Logistics Business is concerned and they suggest that three delivery methods are viable.

- Delivery to home
- Delivery to collection points; and
- Delivery to office

Most suppliers selling from the web favour the first option. However, the typical cash rich, time poor customers that most companies are trying to attract are often not at home during the week. In the USA various models have been tried for unattended delivery and some are being trialed in this country, but there is still considerable customer resistance. An option finding more popularity in the US is to deliver groceries and other goods to a person's place of work, especially where perishable goods are concerned. However, if this method increases dramatically, offices could soon be forced to install freezers, have a dedicated goods inward system and give staff time away from their desks to check the accuracy of a delivery. It is also less appropriate for customers who use public transport. "This approach is unlikely to succeed in the future, unless it becomes part of an employer's philosophy." says Tomlinson.

Of the three models, it is difficult to predict with any certainty, which is most likely to succeed. However, a recent report in the USA has argued that home delivery of groceries in particular, is unsustainable in the long term as customers are unwilling to pay the true delivery cost. It may be that collection point delivery will be the most likely to develop over the next few years.

A further important consideration for suppliers is the timing of a delivery. Simon Tomlinson explains: "This aspect of fulfilment also includes a number of different options. With some products, fulfilment of a customer's desire relies more on a local delivery within minutes than the quality of the product itself. Fast food and party drinks are obvious examples."

Same day delivery for products is not necessarily as important as some would think. In fact, having confidence that a delivery can be made at a specific time on a particular day is more important to most people than the actual speed. In instances where same day delivery is a key factor, companies are finding that they have to partner with regional suppliers and delivery firms in order to meet a customer's expectations. This is actually leading to the emergence of a new type of e-business; those who operate with virtual stock and distribution system. These companies act as brokers between customer and supplier, identifying the best source of stock and the most efficient means of transportation.

"An effective delivery system really becomes the cornerstone of a business that's serious about selling on-line." feels Tomlinson.

"We have already seen supermarkets choose between using an existing retailing structure and setting up new distribution networks. The rule for success seems to be; think big, start small and scale fast." This has led to three retail models:

- Pure play operators (those companies that rely exclusively on home shopping (e.g. Amazon.com))
- Existing retailers who have moved into home shopping (e.g. Tesco); and
- Retailers who continue to sell exclusively through high street outlets

These models provide a great deal of scope for both retailers and consumers. Tomlinson feels that all three versions will survive, but fancies the chances of the retailers who have embraced e-shopping. He feels that the pure play companies are likely to remain niche players while existing retailers will either extend their existing infrastructure, to embrace e-shopping, or run their home shopping division completely separately. Retailers who take this last route will miss out on the big opportunities that can be realised by offering customers the greatest choice concerning how a product is ordered, delivered and – where necessary – returned because it is the wrong item or is faulty. In fact, existing pure play operators may well begin buying retail outlets to provide themselves with a shop window from which consumers can select goods in the high street.

What does the future hold? The work undertaken in retailing and e-retailing by The Logistics Business provides some interesting possibilities. “In the not too distant future, high street stores may not hold any stock.” says Tomlinson. “They will quite literally be shop windows where you can look at the goods and arrange for a specific delivery time to your home. Similarly, stores may become reception points for returned goods. Consumer confidence in an e-retailer’s ability and willingness to accept returns is not very high at present.”

Whatever the developments in home shopping, it is apparent that the method, timing and efficiency of delivery will play a key role in the success, or failure, of companies in this sector.

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