

ANALYSIS

A model primed for growth

More than a third of Prime subscribers spend £800 each year, compared to just 8% of regular shoppers. **Caroline Parry** finds out how delivery subscriptions can change retail

Amazon Prime is reported to have 80 million subscribers in the US alone. It's therefore little wonder that retailers such as Next and food delivery firm Deliveroo are following in its footsteps.

According to figures often quoted across the retail industry, but originating from research by consultancy Morgan Stanley in 2016, Amazon Prime members spend 4.6 times more than non-members. Some 40% of Prime users spend more than £800 each year compared to just 8% of standard Amazon customers.

Morgan Stanley also estimates Amazon is making \$5.75bn (£4.45bn) per year in revenue from subscriptions. It follows that other retailers, particularly across grocery and fashion, want a slice of the action.

With Boohoo and New Look also launching schemes in the past year, joining Asos which has offered its Premier service since 2009, these subscription models will undoubtedly play a role in the future of delivery.

Customer need

"[Fee-based delivery schemes] are born out of customer need and behaviour," says Eve Henrikson online director at Tesco, which launched its Delivery Saver scheme in 2012.

Henrikson adds: "At Tesco, it was borne out of a natural demand because our customers shop with us regularly. You see less of this in occasion-driven businesses. Paying for delivery upfront is a fantastic solution as it is win for us and for the customer."

While there is some variation between the delivery-pass schemes available from the grocers and unlimited next-day packages typical in fashion, the fundamental purpose of them remains the same.

Anita Balchandani, partner at OC&C Strategy Consultants and sector head of its UK retail team, says: "What we are seeing is the emergence of a delivery, loyalty and broader proposition that is about those retailers becoming the first port of call for every and any purchase a consumer makes.

"If a customer has made the investment in a membership, it becomes a case of making the most of it."

According to a recent OC&C report called *Reinventing the Last Mile*, 84% of Prime subscribers use the retailer's site as "first port of call" for all shopping online, and 82% use Amazon more frequently after subscribing.

Delivery battleground

It is no surprise that the logistics industry views subscription models as a loyalty play where delivery is just one factor among others, says Duncan Lincence, vice president of global solutions at delivery software provider Metapack.

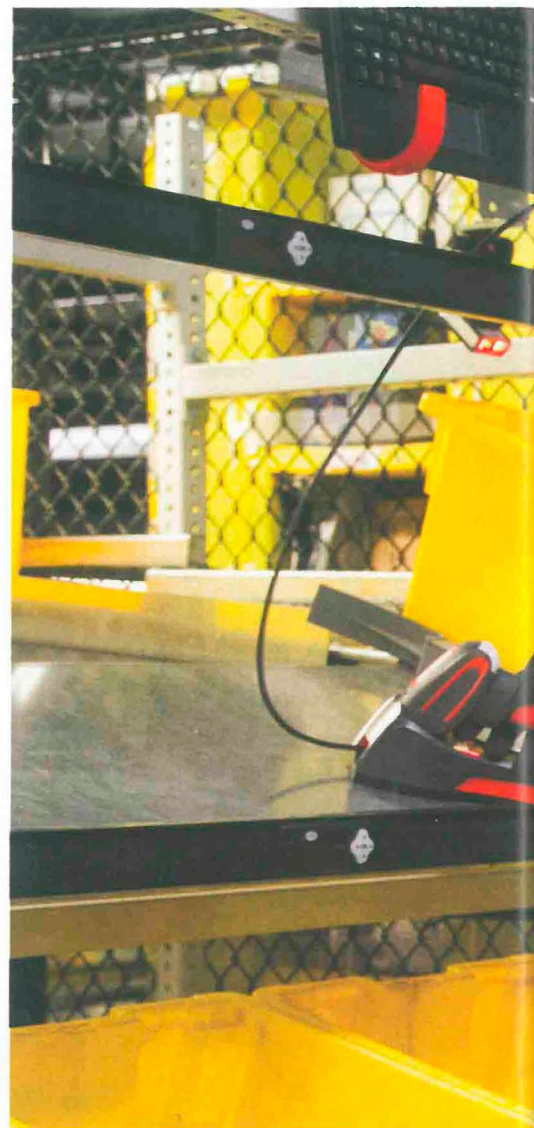
"Delivery is the battleground now but retailers are looking at how to drive increased revenues, improve their net promoter score, get more referrals and improve the lifespan of customers.

"Loyalty schemes have always been about those things," Lincence adds. "Delivery is a key differentiator,

but Amazon is adding new services all of the time."

While 18% of respondents surveyed by OC&C say video streaming is the top reason why they subscribe to Prime, 62% cite one-day delivery as their priority. Meanwhile, more than half – 57% – would continue to subscribe if Prime only offered delivery benefits.

"Amazon Prime is certainly worth the investment that Amazon has put into it," says



David Jinks, head of consumer research at courier firm ParcelHero. "But don't forget the work it has put into it including launching Amazon Logistics. The cost of it is enormous."

The costs, however, are more than covered by the increase in shopping, says Lincence.

This is despite home delivery being more expensive to service – according to OC&C research, service costs are between 5 and 23 times higher than for an in-store purchase – and more frequent spending by shoppers resulting in higher returns.

Lincence continues: "If you consider it is usually around £3 for next-day delivery and the fashion retailers are offering unlimited deliveries for £9.95 per year. If a customer only orders four times the retailer still isn't out of pocket.

"Subscription shoppers buy more, more often, so revenues and margins increase. While costs are up too, the net effect is that the retailer has sold more. It stacks up because of repeat custom, increased lifetime value of that customer and lower customer acquisitions costs."

An annual fee is also a way of locking in more value, adds Balchandani, as most

40%
of Prime members
spend more than
£800 per year

Read about Amazon's five
greatest innovations
Retail-Week.com/Amazon-5



Tesco drives loyalty by offering convenience

Convenience and offering the right time slots are the key to Tesco's Delivery Saver proposition, says Tesco online director, Eve Henrikson.

The scheme, which was launched in 2012 in response to customer demand, offers shoppers the option to pay monthly, every three months or annually to receive unlimited any-day delivery or, for less, unlimited midweek delivery.

"It's all about convenience," she explains. "If you can't offer the options or slots that customers want then your delivery programme won't be a success."

While Tesco declined to reveal how many subscribers it has, Henrikson says it has been in "constant growth" since its launch. Users increased by 25% in 2016, which she described as a "healthy uplift".

Since its launch, Delivery Saver has been expanded and now includes the grocer's Wine by the Case business, Tesco Direct (in 2013), and F&F Clothing (2014).

Meanwhile, members get priority on slots over key seasonal periods, such as Christmas. It also introduced its Delivery Saver Guarantee in 2014, which means if customers spend less on slots than their membership allows, they receive the difference in the form of an ecoupon.

Henrikson disagrees that delivery passes are more about loyalty than delivery: "If your product range and service isn't right then offering this model of delivery won't drive loyalty."

The delivery needs to be as integrated into the retailer's proposition... they can't just hand over the item and that's that

**Anita Balchandani,
OC&C**

customers would otherwise opt for the free standard offer. "There are probably savings to be made in reduced digital marketing as well, as you need to spend less on acquiring the custom," she adds.

At the very core any delivery offer is actually fulfilling the promise to the customer.

Patrick Gallagher, chief executive of On The Dot, a one-hour delivery service that allows customers to select a time slot, says retailers need to do more than just promise convenience.

"Retailers have to have the networks and infrastructure in place to follow through. Over promising and, quite literally, failing to deliver will see customers switch allegiance," he adds.

For those retailers offering subscription delivery without their own networks, flexibility and close relationships with their third-party providers are essential.

Licence adds: "If it takes off for Next, it will need a decent infrastructure as it doesn't own its own network. They will have to work very closely with its partners to ensure it has the capacity as it is not in its hands."

Even Amazon is now faced with the challenge of ensuring the quality of its Prime service as it expands it to include products from its marketplace sellers, which ship direct to customers from their own warehouses.

For that reason, collaboration and co-operation are described as the future for the industry rather than any particular model over another. "The delivery needs to be as integrated into the retailer's proposition as possible," says Balchandani. "The retailer can't just hand over the item and that's that. It is important they take ownership of the experience.

"That means ensuring good relationships with their third-party providers, as well as having quality data on their services and understanding what it means."

For Licence, greater co-operation in the final mile, particularly between providers, will drive down costs, while sharing data could help to develop highly personalised delivery options based on factors such as the time of day, product purchased and the customer's previous behaviour.

Meanwhile, Shoprunner, a US-based platform, offers a membership-style delivery service across a number of different retailers – showing an appetite for these services beyond Prime.

With growing loyalty and driving repeat purchasing a big priority for most retailers, others are expected to follow Amazon's lead and embrace delivery subscriptions.

With innovations such as automation, including driverless cars, and 3D-printing edging ever closer to becoming day-to-day realities, and Amazon already piloting drone delivery, the delivery battleground is ever-changing and set to remain as competitive as ever. **RW**

