ANALYSIS

Is there money in the last mile?

High customer expectations, a raft of economic pressures and increasing competition make delivery a tricky and expensive area to navigate. Becky Waller-Davies investigates

As an ever greater proportion of consumer spending shifts online, cracking the code to making delivery profitable becomes more crucial.

The need to balance high customer expectations with courier costs and maintaining a competitive advantage, while not sacrificing the bottom line, makes achieving this difficult.

Retailers need to get a handle on how to minimise the costs associated with delivery, especially given the current erosion on margins thanks to the weakness of sterling triggered by the Brexit vote.

So, how should you go about making the last mile profitable?

Customer behaviour

It all starts with customer behaviour, suggests Patrick Wall, boss of supply chain software specialist MetaPack.

"Some customers are inherently unprofitable," he asserts, explaining that if customers are serial returners who do not have a high spend, retailers will find it impossible to make money serving them online.

"The important thing here is customer retention. What you don't want is customers who are looking for the cheapest option and have no idea how your delivery proposition works. The smart people are the retailers investing in delivery and returns to make sure customers are satisfied. That means customers are loyal because they can rely on you, they know how everything works and fewer things going wrong."

Ensuring that the delivery process runs smoothly is a key part of keeping costs down. As soon as a parcel is mislaid or a customer is unsatisfied with the speed of delivery or its trackability, costs shoot up.

According to Manhattan Associates managing director Craig Summers, customers not being home is the biggest cost to the last mile. "Even if a parcel is left with a neighbour, it adds a minute or two to the driver's schedule," he says.

77%
of consumers think being free of charge is the most important element of returns

BearingPoint director Emile Naus also highlights customer behaviour as a key part of keeping costs down.

"Retailers often over-deliver on customer expectation," he says. "They need to think about what the customer really wants and needs, and think about the end-to-end process. That will allow them to strip out costs.

"I think lots of retailers have gone for speed because a few have done that and others have just copied them. But I am not sure that you have to follow the market. There seems to be an emotional reticence to pay for delivery. We see this both in business-to-consumer deliveries and also business-to-business.

"It's always been the case – if there is a quick, precise option that costs more, and a standard free option, 60% to 80% of people will choose the free option."

Retail Week Connect research found that the majority of shoppers would choose standard delivery, taking three days or more, over next-day delivery (69% versus 30%). And two thirds said that they valued free delivery most, while just 35% said quick delivery was the most important.

Can you make money?

The cost of delivery to retailers varies greatly, from £1 – the cost of sending a package via Royal Mail's delivery network – to £4, the cost of sending a package in a tight time-frame via a more expensive but trackable courier.

Major retailers' delivery pricing strategies vary considerably.

John Lewis' standard delivery is free of charge for orders over £50 and £3.50 for orders below that value. It offers free click-and-collect for orders over £30 and charges £2 for orders below that value.

Next charges £3.99 for delivery, which comes the next day as standard, while New Look charges the same amount for standard delivery – although a premium next-day service is free of charge on items more than £100 – and Argos has a free delivery option for smaller items.

Meanwhile, Sports Direct charges £4.99 for standard delivery and the same amount for click-and-collect; and Wilko charges £4

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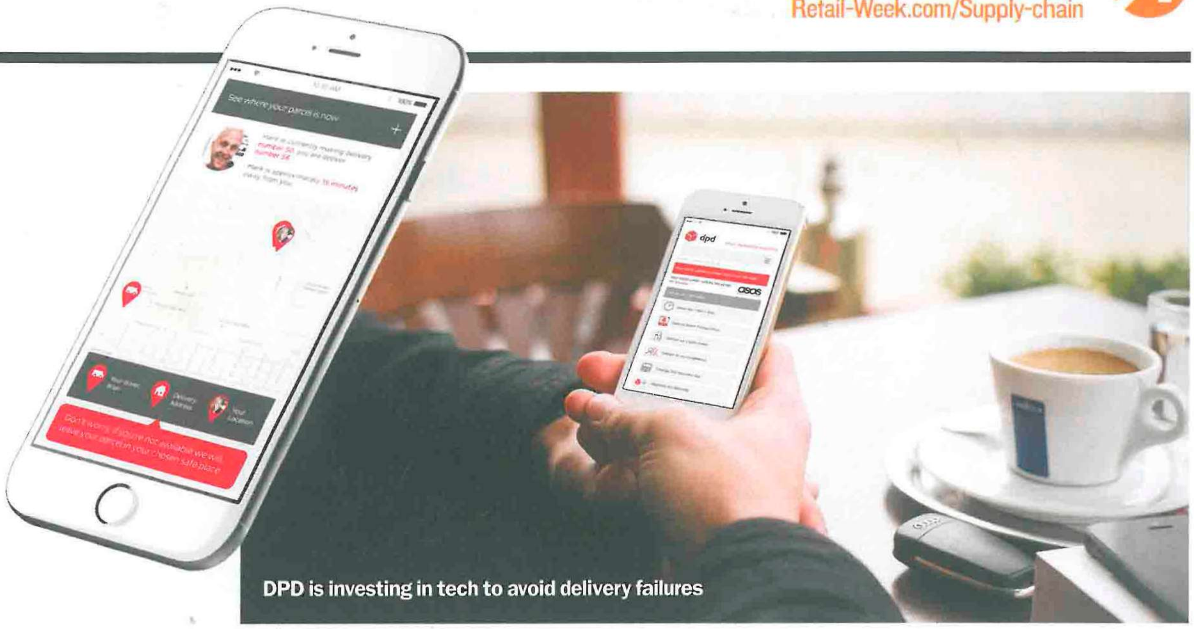

DPD is investing in tech to avoid delivery failures

Doddle at Debenhams allows customers to pick up parcels from different retailers

for standard delivery, upping that to £8 for heavy items. Its click-and-collect proposition is free, however.

Etailers Asos and Boohoo charge £3 and £3.99 for standard delivery on orders under £20 and £25 respectively. However, as users are unable to try on the clothing sold by those etailers, most orders exceed those low minimums.

Almost every retailer offers free returns despite the cost involved, because paying for returns dissuades customers from ordering in the first place. Research by Retail Week Connect found that for 77% of consumers, offering free returns was the most important element of a retailer's returns service.

Looking at the prices retailers charge for delivery and taking into account the fact that they offer free returns, it's clear that most simply try to cover their costs and avoid eroding margin as much as they can.

"I think on a general note it is quite challenging to make the last mile profitable," says Quiz chief commercial officer Sheraz Ramzan.

Naus goes further. "Retailers are almost certainly not making back all their costs," he says. "By the time you take into account packaging, picking and packing, they are still losing money on standard delivery."

He believes that more premium delivery options, which include next- and same-day options and features such as tracking, could go some way to mitigating costs, although it doesn't actively make retailers more money.

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Emile Naus, BearingPoint

River Island, for example, charges £5.99 for next-day, nominated-day and precise deliveries that offer hour-long time slots, while House of Fraser gives customers the choice between nominated-day and next-day delivery for £6 and next-evening and same-evening for £8.

Naus explains that, even with delivery options such as these, he doubts retailers "are making any money" but that they are more likely to be covering their total cost.

The sharing economy

The last-mile process is still very fragmented, with retailers and couriers partnering with each other, but rarely with their counterparts within the industry. Doddle boss Tim Robinson believes that this mindset needs to change.

"The way retailers approach last mile is a little way behind the rest of the supply chain," he says. "That is because it is a relatively new challenge – home delivery is 10 years old.

"But when you look further back in the supply chain, about how we get product from the Far East to Europe, for example, there is a huge amount of sharing. You don't see a container ship with just Tesco products on it.

"Ten years ago, shipping companies would not have shared. But they had to learn the hard way through the recession. They woke up and now they vessel-share on pretty much every route, despite being competitors."

By contrast, there is very little sharing on the last mile. Parcel carriers have their own fleets and tech, and retailers approach delivery as a war rather than an opportunity for collaboration.

Each time a retailer innovates – by offering a speedier or more accurate delivery service, for instance – it raises the bar for the rest of the industry, but is also laden with further costs.

One example of a retailer looking to share the burden is John Lewis. The department store retailer is partnering with Clipper on Click Link, a joint venture which sees the retailers share a delivery fleet. Mint Velvet and Matchesfashion are two of the retailers currently on board.