

2016 Home Delivery Benchmark Study

Perspectives from Leading Retailers on Strategies & Tactics for Home Delivery Success

Home delivery continues to rapidly evolve as new business models and strategies redefine how retailers are competing and how their financial performance has been impacted. Retailers are challenged to know what strategies in home delivery are working – and those that are not.

They want to know what practices are making a difference and which ones to avoid. There is a lot of hype and opinion in the market, but not a lot of concrete evidence. **This benchmark study was born out of in-depth surveying and conversations with Descartes' home delivery customers** using advanced home delivery solutions, many of whom are global leaders in retail.



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Revealing the Next Big Opportunity for Retailers

Two Critical Questions

Scenarios Where No Retailer Said "Yes"

Descartes Solutions for Home Delivery

Using Technology to Transform Home Delivery Operations

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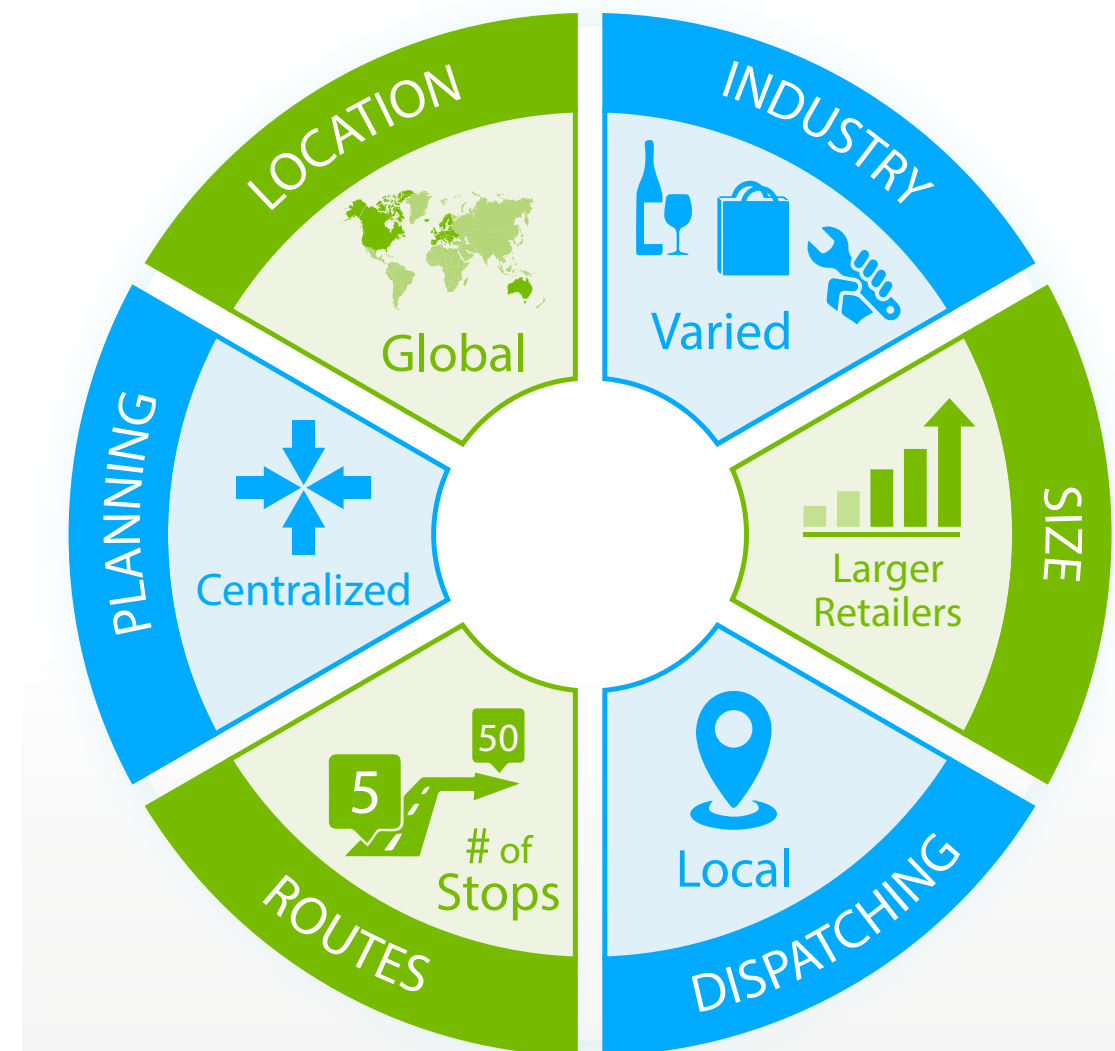
Participants are from a number of continents including North America, Australia and Europe. They were mid-size to large retailers and offered a wide range of products including grocery, wine, home furnishings, DIY, appliances and electronics. The study did not focus on parcel-based home delivery.

Most respondents ran national operations. A few of the respondents were large regional retailers. The retailers with national operations all had diverse geographies to serve from dense cities to sparse country sides. In many respects, service challenges were universal and had little to do with global location. In addition, there was a blend of delivery strategies using private and dedicated fleets with dedicated representing the most used delivery method.

The majority of home deliveries were sourced from distribution centers. However, a number of retailers sourced deliveries from stores or a combination of store and distribution center. Drop shipping from the supplier was also cited and is definitely a growing approach as retailers expand their assortment. However, drop shipping also presents its own set of delivery visibility and service quality challenges.

Centralized planning (70%) was the most chosen approach in regard to the initial home delivery appointment booking. However, if the retailer used dedicated fleets, some degree of final planning was conducted on a regional/local basis through the common system. All dispatching was conducted regionally/locally.

One interesting discovery was that the most productive home delivery operations had as few as one planner per 100 vehicles or routes. These logistics operations had considerable experience using advanced planning and execution technology. What was also interesting was that these same retailers offered either same or next day delivery services.



PARTICIPANT SNAPSHOT AT-A-GLANCE

In general, survey respondents were located in a number of global locations, included larger retailers (\$1Bs to \$10Bs) from a range of industries. Home delivery planning was centralized via local dispatching, and managed as little as 100 vehicles or routes to 1 planner with 5 to 50 stops per route.

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Probably one of the more compelling benchmark questions revolved around the business reason for using advanced home delivery technology. The most cited objectives were as follows:

- 1 Improved customer service
- 2 Service differentiation/revenue growth
- 3 Visibility
- 4 Operational efficiency/productivity

It is clear that customer value creation was "top of mind" as opposed to costs.

Costs are important as home delivery can be expensive and respondents did seek and achieve productivity improvements. However, the retail leaders that participated in the survey had much broader goals in mind. They were looking for ways to significantly and positively impact their customers and ultimately drive revenue.

Not surprisingly, these retailers also had significant buy-in from the parts of the organization that "owned the customer" like store operations or merchants. Project steering committees and implementation teams, in many cases, reflected this cross-functional representation.

An equally important strategy was to have the advanced home delivery solution act as part of the process to harmonize delivery across all of the sales channels, which in this case included the web, store, mobile, call center and email. No respondents said that they were implementing different home delivery strategies, tactics or technology per sales channel. For many retailers, gaining consensus across the online and store business lines is the single biggest challenge they faced in getting to a common home delivery platform.

THE IMPORTANCE OF OMNI-CHANNEL



Supporting of the gamut of sales channels was of key importance to respondents. Home delivery technology has also become a critical component of the omni-channel strategy.

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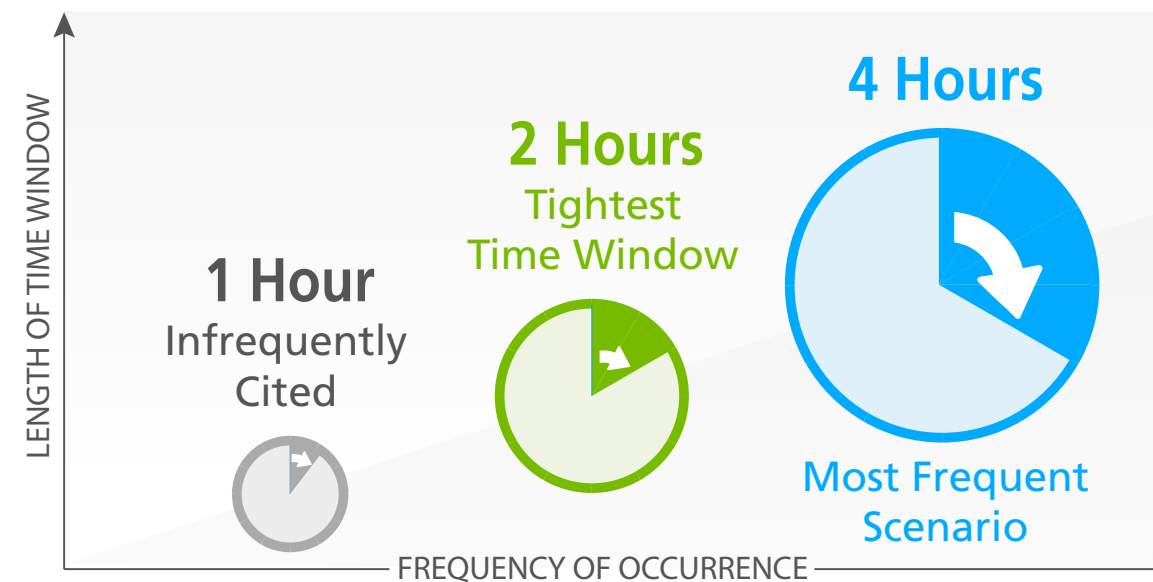
The tightest time window the respondents gave was 2 hour, and 4 hour/half-day delivery windows were the most common (a number of Descartes customers who didn't participate in the research successfully offer 1 hour time windows). For many retailers, this is their first "toe in the water" with something other than all day windows, and they were being conservative in their ability to consistently make their delivery promise. There were two interesting approaches to time windows:

- The first was to offer a multi-hour window (2 or 3 hour during the purchasing process) but, after final planning was completed, publish a 30 minute time window to the customer to provide greater delivery certainty.
- The second was to offer multiple windows (2 hour, 4 hour and all day) and give the customer choice. This approach was also tied to premium delivery pricing strategy.

Delivery density was also a great driver of window size as it gets much harder and more expensive to make tighter windows in highly dispersed geographies. Delivery speed is one of the most hyped discussions in retail. The majority of respondents were evenly split between same and next day as their fastest service. Business model, strategy and competition as opposed to products sold were cited as the greatest drivers of delivery speed. Simply put, large goods could move as fast as groceries if that is what the retailer thought it took to be successful in the market with home delivery.

Speed wasn't the only factor cited as many of the retailers focused on choice. They offered delivery horizons that spanned from 1 day (the only choice) to many months. Not all products need to show up immediately. For example, if your dishwasher breaks, then you want a replacement today/tomorrow. If the dishwasher is part of a kitchen remodel, then you want the dishwasher and rest of the kitchen when the contractor is ready to install which could be weeks from the purchase date.

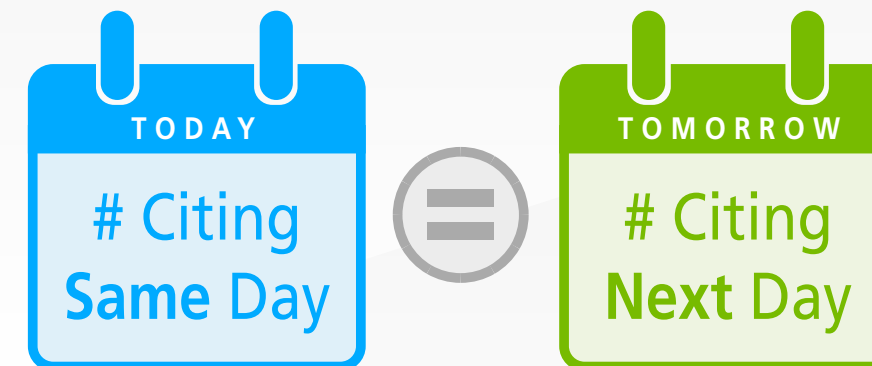
THE RESULTS: ANALYSIS OF TIME WINDOWS



Several respondents also offered multiple window options. A multiple window approach is critical to a premium delivery strategy.

DELIVERY SPEED & CALENDAR CHOICE

The majority of respondents were evenly split between same day and next day



Many of the retailers surveyed focused on choice as opposed to immediacy. Also, speed was driven more by business model, strategy and competition as opposed to product sold.

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Metrics are a critical part of any supply chain strategy. However, since home delivery touches consumers, supply chain metrics alone do not paint a complete picture of consumer needs.

Basic delivery success was defined by arriving within the promised window, although many retailers took it further to include completion within the delivery window. While this approach drives performance up, it reduces delivery capacity.

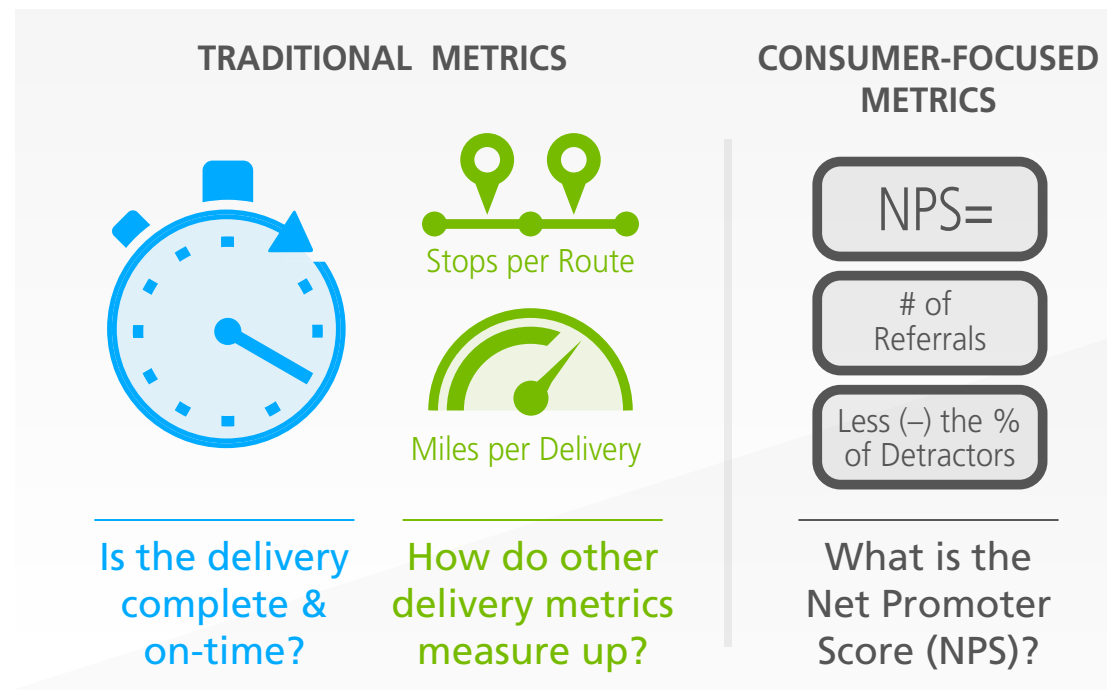
There was a good combination of delivery metrics (e.g., complete and on-time, miles per delivery and deliveries per route) with some form of consumer-focused metrics such as Net Promoter Score.

It's important to understand that consumers think differently and the very high on-time score retailers get for making an all day delivery means less to a consumer than a delivery with a tighter time window with a slightly lower on-time score. Why? No consumers want to sit around all day waiting for their purchases to show up so their expectations are already low.

Looking at actual best delivery performance there were a few surprises. Not surprisingly, all day windows topped out at 99% on time; however, the best performance for 2 hour and 4 hour windows was 97% and 98% respectively. There was an expectation that there would be a much greater performance drop off when the windows were dramatically shortened.

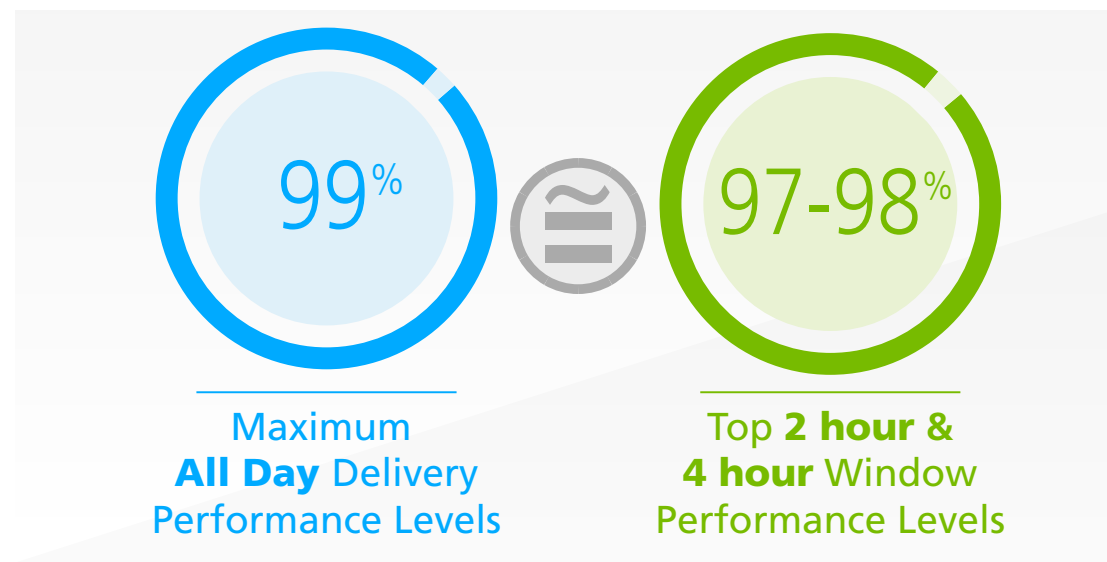
Further analysis shows the best performance for tighter time windows was associated with retailers that used a combination of windows (2 hour, 4 hour and all day), with the all day windows providing greater flexibility to successfully deliver the tighter ones.

INCORPORATING THE RIGHT BLEND OF METRICS



Market leaders display the correct mix of customer-focused and traditional metrics to better meet customers' delivery requirements.

HIGHEST DELIVERY PERFORMANCE LEVELS



When analyzing all day vs. 2 hour and 4 hour performance levels, there was not a substantial delivery reliability drop off when tighter windows were deployed along with an all day option.

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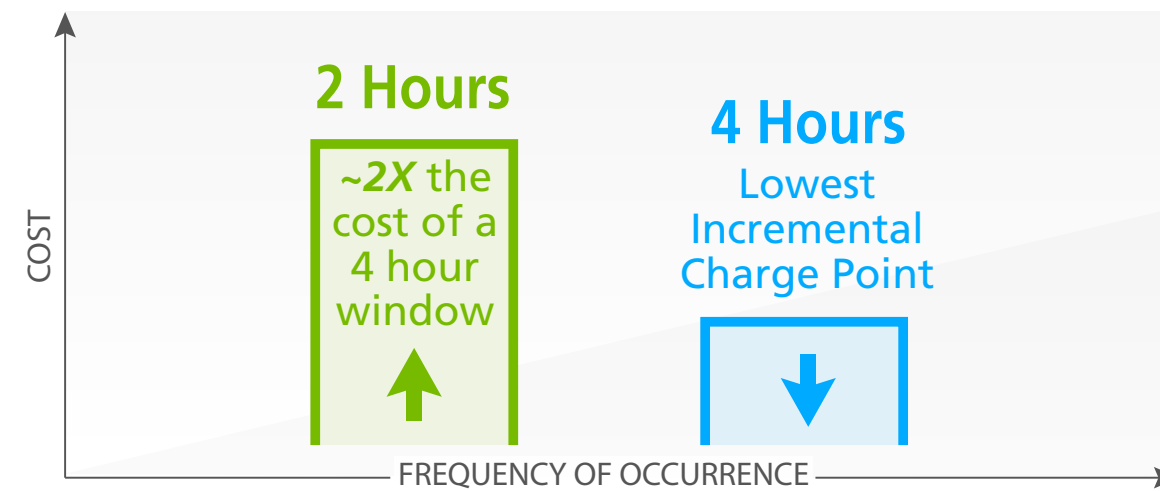
Another hot topic in home delivery is the discussion of free versus paid delivery. The “versus” is part of the confusion because free and paid are not mutually exclusive. The majority of respondents (85%) charged something for home delivery—remember, this study is NOT about parcel deliveries. For those that did offer free delivery, the all day window was the only option; a number of the respondents (40%) offered free deliveries as part of promotional activity and, in highly competitive situations, there was discretion to make free deliveries.

Some of the respondents (25%) offered premium pricing above their free or standard delivery fee for tighter time windows. A 4 hour time window was the lowest incremental charge point and the prices typically varied between 8-10 of the local currency (e.g., \$8 or £8). For a 2 hour time window, the charge was 2X the cost of a 4 hour window (e.g., 16-20). There is definitely a class of consumers that value their time as ~20% of them select premium windows when offered the choice. Given the volume of home deliveries that these retailers were running it was not surprising that they were bringing in \$10Ms of incremental revenue for premium delivery time windows.

Value-added services also represented a tremendous opportunity to drive revenue growth and product sell-through. The most cited services were installation, removal and return. For an “over the doorstep” delivery there was no incremental charge. However, if there were installations such as plumbing, electrical connections and configurations, there were retailers charging incrementally for those services. Again, given the volumes of retail respondents, value-added services were proven to also drive additional \$10Ms in revenue.

Also being tracked was product sell-through. With the right approach during the sales process, simplification of the cost and timing of installations help consumers make the decision to purchase products. One last and very important point, premium and value-added services are not mutually exclusive either, and there were retailers executing them together to achieve significant revenue additions.

THE POSSIBILITY OF PREMIUM SERVICES



There is a point where consumers will pay for convenience, which presents a potential revenue opportunity in the millions. Value-added services represent an opportunity to drive revenue growth and product sell-through.

TRANSITIONING FREE TO PAID DELIVERIES



Free is highly overrated and not universally prevalent. Here, too, there are potential profit possibilities to transition free services to paid deliveries.

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Big Confusion on the Power of Dynamic Booking

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A number of the retailers struggled to understand dynamic (versus static) booking strategies and technology and how it fundamentally changes the home delivery process. Dynamic and static booking approaches are described below:

Dynamic Booking



In a **dynamic booking** approach, the consumer is given unique delivery choices based upon their delivery address, products and services being bought, delivery network capacity, the orders already in the booking system and retailer's preferences and business constraints.

Static Booking



In a **static booking** approach, the consumer is given delivery choices based upon a fixed number of deliveries in an area (e.g., postal code) or standard lead time (e.g., buy today, deliver tomorrow, all day window) that does not take into account existing deliveries or actual network capacity.

Because dynamic booking understands the delivery network capability and existing order book, it does not rely on averages or estimates to make delivery appointments or plan delivery services during the buying process. Dynamic booking also allows the retailer to manage the delivery options offered to each customer to minimize delivery costs during the purchase, rather than taking orders and then determining how to meet the delivery commitments.

The benchmark survey revealed that the retailers with the tightest time windows, premium windows and delivery services use dynamic booking.

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Home delivery complexity remains one of the biggest obstacles for respondents. Many of the retailers cited having multiple channels for home delivery including private and dedicated fleets, LTL, regional couriers, supplier, etc. These same retailers also offered a wide array of goods: large and small format.

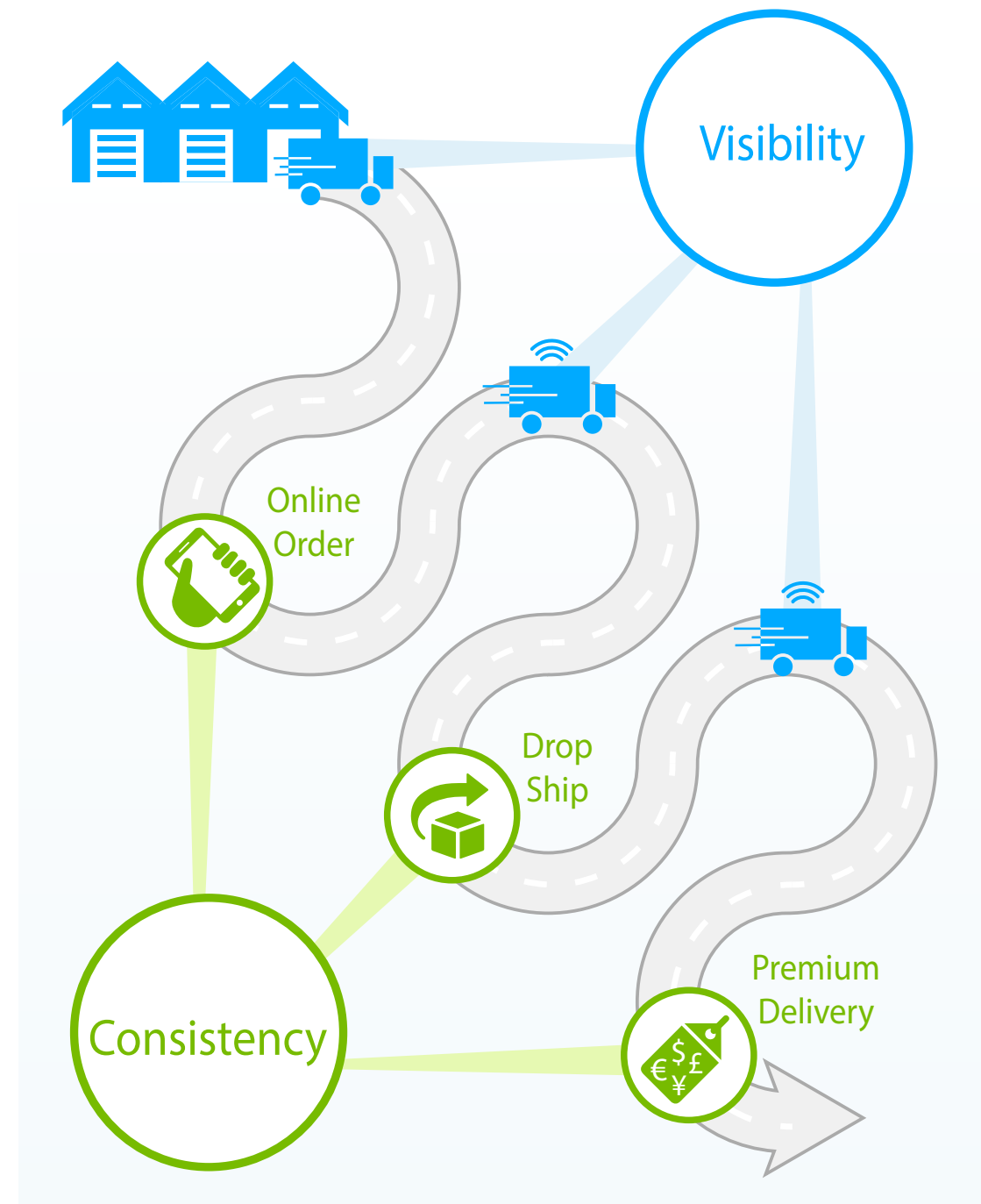
Respondents mentioned that visibility and delivery consistency were top issues. Omni-channel customers were getting an inconsistent delivery experience and it was being reflected in their consumer metrics like Net Promoter Score. In addition, as retailers expand their drop ship operations, delivery visibility gets worse as they lose control and sight of the order once it gets to the supplier.

Cost and supply chain leverage/flexibility were also mentioned as key areas of improvement. However, home delivery strategies and approaches were sub-optimized by product size and execution channel. Orders were preassigned without respect to existing orders that might already be going to a customer or nearby.

Some of the more thought leading retailers were looking to bring their disparate delivery modes under a single transportation platform that would provide a common visibility environment for all deliveries, which would allow retailers to make delivery choices based not only on new orders, but also by understanding what orders were already headed to that same area.

Descartes calls this approach Omni-Channel Home Delivery 2.0, and it provides the customer and retailer with consistent visibility and logically groups orders (regardless of size and available transportation modes) to decrease costs while reducing delivery lead times.

For example, a large format good (e.g., TV) that is being delivered by a 2-person dedicated carrier might also include a smaller format good (e.g., iPad) that was purchased separately going to the same home, which eliminates parcel shipping costs and possibly reduces the days to deliver.



VISIBILITY & CONSISTENCY ARE TOP CONCERNS

Leveraging a solution that can help enable visibility throughout the delivery process as well as provide an overall quality experience is critical to achieving success in the competitive home delivery market.

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All of the respondents stated that they treated each home delivery uniformly. The best and worst customers got the same level of delivery options.

Clearly, this is inconsistent with many of the retailers' loyalty programs and a great opportunity to improve customer loyalty and potentially reduce delivery costs.

Retailers have the opportunity with concepts like dynamic booking to "lavish" their high spending customers with more options and equally steer the casual "c" customer to the delivery options that are the lowest cost to the retailer. Historical spend, loyalty status and basket size can all be included as drivers of the options that are given to customers.

Delivery pricing was also static by service type according to respondents. Again, this is a missed opportunity as there are examples like Uber and the airlines that dynamically price their capacity.

This approach is not for all customers, but providing customers with choice based upon time of day or day of the week will drive incremental revenue and help load-level delivery capacity demand. Those that are cash rich and time poor represent the best opportunity for this type of service.

We asked the following questions, and no retailer said "yes":

- 1 Is customer stratification considered in the delivery appointment booking process?
- 2 Is delivery pricing dynamically calculated while the customer is booking the delivery appointment?

Additional thoughts and questions to consider include:

- ? Not all customers are equal, so why should they get all of the same delivery options?
- ? In regard to dynamic pricing, Uber is already doing it, why not retailers?

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Descartes has worked with retailers of all sizes to help turn what has traditionally been a cost-focused activity into one that is a customer-facing competitive advantage. Our home delivery solutions enable retailers to profitably offer customers significantly more delivery and value-added service options during the order process while providing greater control over delivery execution.

We work closely with retailers and their suppliers and logistics partners to implement technology and best practices that support home delivery strategies and tactics resulting in positive delivery experiences for end consumers, which translates into greater customer loyalty.

Descartes' cloud-based or on-premise solutions enable retailers to offer customers flexible and tighter time-window choices that can maximize delivery convenience for customers, increase revenue through premium delivery services, reduce logistics costs and capture critical delivery information.

Comprehensive capabilities address the entire delivery lifecycle from delivery appointment scheduling, delivery route planning and execution, real-time GPS-based mobile solutions for route management and proof of delivery, to automated pre- and post-delivery notification services. Built on an enterprise class, web-based architecture, the solutions also connect and synchronize internal and/or third parties involved in the delivery process.

DESCARTES™

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