



Home Delivery for Retailers: More Sales, Less Cost

Retailers have spent decades learning how to optimize the *in-store* experience. Now they will have to optimize the *at-home* experience. Home delivery services and *same-day* are driving retailers to rethink their processes.

But are they looking at the right place to ensure profitability in this new shopping mode? Retailers will need to rethink what consumers are shopping for—service and delivery, not just product and price, are now part of consumers' buying choices. And they will need to rethink *how* their customers shop, *transforming those moments in the ordering process*—not just at the point of sale.

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Consumer Markets Are Not Predictable

Retailers¹ are recognizing the new competitive challenge—the need to provide and improve their [home delivery](#). Retailers know they are not just competing on products, since many offer the same brands. They are competing now on availability, convenience, and service.

The challenge then is *maintaining margins, while continuing to offer more*. And at the same time, delighting the customer—remembering that home delivery becomes the point of experience by which the consumer will remember the retailer forever. A few leading companies have gone beyond just *maintaining*, to *generating*, through their home delivery models, more revenue, increased close rates, and reduced logistics cost per delivery.

However, the 24-hour ecommerce world is unpredictable, as is consumer sales in general, challenging the retailer's ability to determine the right level of resources to respond profitably to their customers. Without a better approach to home delivery, it can spiral into a losing proposition.

There are several core capabilities that are required to succeed at home delivery.² In this article we will focus on one of these capabilities that is the make-or-break on profits and customer choice—*continuous optimization at the point of ordering*.

Changing Point of Sale to Point of Ordering

Most companies who offer home delivery utilize a rigid methodology based on fixed schedules. During final checkout a few of these scheduling choices are offered, generally with long delivery windows, based on a static model. The model is based on a set of assumptions about what demand *might* be for a given territory.

The bottom line?

Consumers are unpredictable.
Home conditions are variable.
Therefore, you need a
continuous and dynamic
approach to scheduling and
managing home delivery.
Otherwise home delivery
becomes a money losing game.

This approach is limited, since for delivery services that require the customer be at home, the customer really wants a precise appointment. In addition, these static models do a poor job of meeting even the longer delivery window, since they rarely take into account the variability of factors such as the actual resources required to meet each customer's need and the time required to provide each customer with service. In addition, as more stops get 'piled on' without the ability to fine tune based on current conditions, schedules slip further.

Furthermore, and precisely to the point for *same day*, if the delivery route is created *after the customer has already purchased*, rather than in concert with the product and service decisions being made during the *point of ordering*, both the customer and retailer are left, ultimately, with inaccurate schedules. With little data of the real economics of the deal, retailers often lose money. With little choice and long delivery windows, customers will be inconvenienced.

The alternative is offering customers more choice *while they are in the buying process*. This is critical, since the retailer's *ability to meet the customer's schedule* often is the key factor in making the sale. Shopping cart abandonment³ frequently occurs during checkout when customers realize they are just not going to get the product when they want it.

¹ We include eetailers and retailers as retailers

² You can read a more in-depth article on home delivery—strategies, capabilities, and technologies in the report [Winning At Home Delivery](#) or my blog post [Same Day or Right Time](#)

³ Statistics vary from 10% to 20%

This solution is a continuous optimization approach rather than one based on static models. Continuous optimization is the ability to *continually update routes as orders flow in*. Think of it this way: delivery options are being analyzed and offered *while the consumer is shopping*, rather than at that last step during checkout. And the retailer is offering services and appointments based on *real-time options*, not static, inaccurate assumptions.

This allows the retailer to do several things:

- Offer more services, thus increasing revenue.
- Incentivize consumers to consider more attractive choices such as price, time, and green contribution, which are also optimal for the retailer.
- Create precision routes and schedules—routes can be created based on current conditions and the actual resources required (vehicle, driver, service personnel that might be specific to the service). This ensures on-time completion of the service as ordered. And it avoids being under capacity, which causes schedules to slip, or over capacity leaving resources underutilized.
- Ultimately, incentivizing can result in increased route density—improving the revenue-to-cost ratio for the day and reducing the number of routes.



Figure 1- Continuous Optimization at the Point of Ordering

To get these kinds of results, retailers need to not just think about the *point of sale*, but rather about what is happening during *point of ordering*.

Continuous Optimization Proficiency—the Prerequisites

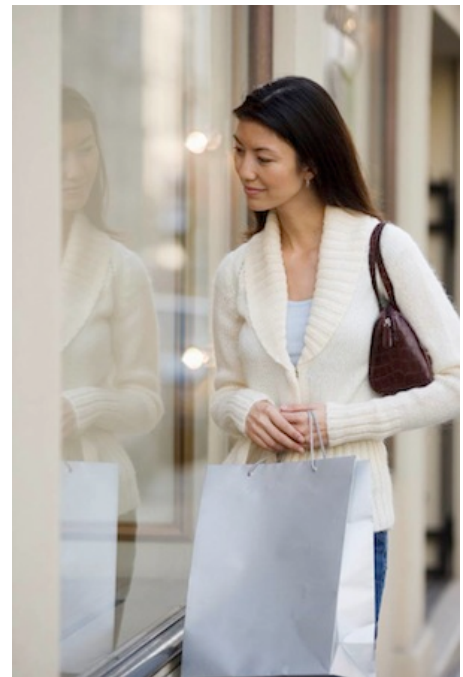
Continuous optimization is a key that makes the difference in success—and success is measured in both profit and customer satisfaction. If you think this can be done with a static model—*think again*.

Most methods and technology that retailers and logistics providers use are batch processing. The customer has already ordered before you schedule.⁴ That means that on any given day, retailers don't really know if they can satisfy the customer when they take the order. Nor do they know what profit they can expect from their sales. In fact, they don't know where their customers are going to be or how much time and what resources will be needed to serve them. *Dealing with changing conditions without the ability to update the parameters is surrendering to a loss-leader approach.*

Static models don't work in a dynamic market. You are either under or over capacity. The result is either poor service or higher costs. In fact, the pressure to offer high levels of service creates a spirally loss leader and eroding margins, without a better approach.

Proficiency and precision, therefore, are vital in home delivery. To achieve them, think about leveraging continuous optimization in three modes:

- Foundation—establishing a foundation of the right parameters and data⁵ and designing this into ecommerce, order management, and point-of-sale's systems and processes. Each service factor becomes a decision point for the consumer and a source of potential gain or loss for the retailer.⁶ Over time, price and service models can be reassessed to improve proficiency and performance results.
- During point of ordering and sales—while the customer is shopping, the continuous optimization engine is churning in real time to offer various choices with *dynamic appointment options*.
- Often, delivery fees can be dynamic based on current routes, which can provide additional incentives for the consumer to pick the optimal choice. Again, incenting the customer to pick certain choices can favorably impact your route density.
- During the route execution—here we are talking about current, real-time data on how the day is going. Is the driver behind or ahead of schedule? This is often not even considered⁷ by many retailers. For same day, this is crucial data and affords an opportunity: Can I increase my route density and increase revenue for basically the same cost?



⁴ With fixed routes, drivers have longer or shorter days—i.e. too much or too little capacity, but again the *customer's appointment* suffers, as well as the retailer's profit.

⁵ Business costs associated with the delivery services—such as costs for fuel, vehicle, labor, and parking—are part of the foundation model; many of these costs are dynamic as conditions change.

⁶ What are the services and associated fees for installation, removal, variations in premium versus free delivery, etc.?

⁷ Companies who use third-party parcel may not even know there are delivery delays or issues

Conclusions—More Sales/Less Cost

Of course, there are other notable attributes that are required for a complete Home Delivery Solution. But the key is continuous or real-time capabilities—for systems *and people* who need to be in constant communication—such as mobile in-route communication between drivers, dispatch, and, if needed, the customer. These and many other capabilities have to be constantly and continuously refined to improve the day's events.

Retail is a *24-hour, always-on* market requiring *on demand* technology. And today, on demand technology can be accessed even by smaller companies. Innovation by some logistics solutions⁸ providers is making the on demand option available for them. Larger firms, of course, will probably have customized integration to their ecommerce suites. Others may have a third party providing order fulfillment who can utilize the on demand option to support their retail customer's requirements and provide continuous visibility to the last mile.

Ultimately, understanding the customers' needs and making those precious minutes—during the buying process, through the home delivery service—a positive, memorable experience is the foundation to more sales over time. And less cost? That requires the ability to understand *and manage* the economics of the home delivery, providing a win/win for the retailer and customer on price, services and schedules. These are the keys to success now!



⁸ Descartes provides an on demand logistics management solution that is offered on a pay-as-you go basis. This not only reduces your IT and implementation costs, but is a great way to 'test out' or pilot your new optimized approach to consumer delivery.



About Descartes

Descartes (TSX:DSG) (Nasdaq:DSGX) is the global leader in providing on-demand, software-as-a-service solutions focused on improving the productivity, performance and security of logistics-intensive businesses. Descartes has over 172,000 parties using its cloud based services. Customers use our modular, software-as-a-service solutions to route, schedule, track and measure delivery resources; plan, allocate and execute shipments; rate, audit and pay transportation invoices; file customs and security documents for imports and exports; and complete numerous other logistics processes by participating in the world's largest, collaborative multi-modal logistics community. Our headquarters are in Waterloo, Ontario, Canada and we have offices and partners around the world.

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About ChainLink Research

ChainLink Research, Inc. is a Supply Chain research organization dedicated to helping executives improve business performance and competitiveness through an understanding of real-world implications, obstacles and results for supply-chain policies, practices, processes, and technologies. The ChainLink 3Pe Model is the basis for our research; a unique, multidimensional framework for managing and improving the links between supply chain partners.

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