The State of Home Delivery 2014: Issues and Answers

Industry Benchmark

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In Cooperation with:

In Partnership with:

Executive Summary

Consumers are placing new, omni-channel driven demands on the retail ecosystem for faster deliveries, with tighter delivery time windows and value added services. Those same shoppers have many more buying choices than ever before, and will not hesitate to switch if they are dissatisfied in any way with proposed delivery options. To find out what impact this is having, we embarked on this study in conjunction with *DC Velocity*, *Supply Chain Insights*, and Descartes. We surveyed retailers, distributors and manufacturers, and logistics providers to gain their perspectives on the situation.

Selected Findings:

- Home delivery services are ripe for change. But while retailers and logistics providers perceive themselves as 'mature,' manufacturers and distributors have less experience. To find out how that shapes their perceptions of home delivery as a differentiator, a revenue generator, or just plain cost center, see the **Research Overview**.

- Retailers are most focused on consumers: they see consumers' rising expectations when it comes to home delivery demands and are trying to position themselves to meet those expectations. Manufacturers, distributors, and logistics providers aren't as focused on consumers, and as a result aren't quite as aligned to retailers' needs. To learn what tops their list of pain points, see the **Business Challenges** section.

- The ecosystem sees opportunity in providing tighter delivery windows and more add-on delivery services with home delivery, but it is retailers who drive those opportunities. And perceptions differ markedly over the role drop ship can play in the future. To find out who values drop ship the most – and the least – see the **Opportunities** section.

- Internal barriers differ significantly depending on where a company sits in the ecosystem. While logistics providers are understandably the most mature when it comes to home delivery capabilities, even they see challenges ahead as they cope with new home delivery demands. To see which internal challenges top each group's list (retailers, manufacturers and distributors, and logistics providers), see the **Organizational Inhibitors** section.

- Organizational inhibitors play a very strong role in influencing the ecosystem's priorities when it comes to technology investments. Retailers and logistics providers are strongly aligned, focusing on the sophisticated capabilities that will enable a faster and more flexible home delivery operation. Manufacturers and distributors, however, place a very different emphasis. To learn about their technology priorities, see the **Technology Enablers** section.

Finally, we provide a look into recommended actions based on the challenges the home delivery ecosystem sees and where they are placing their investments to overcome those challenges. The industry is ripe for change – as long as all parties remain focused on the most important customer: the consumer.

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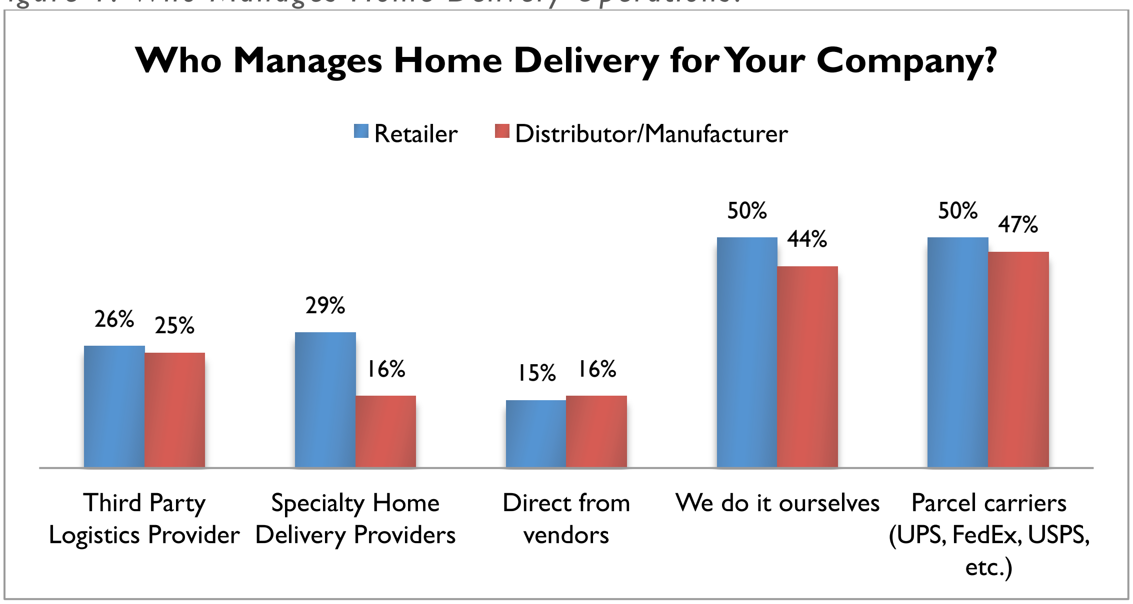
Research Overview

Welcome to RSR's first annual Home Delivery benchmark report. There's no doubt that customers are placing additional demands on the retail ecosystem for faster deliveries, with tighter delivery time windows. Those same shoppers have many more buying choices than ever before, and will not hesitate to switch if they are dissatisfied in any way with proposed delivery options. To find out what impact this is having, we embarked on this study in conjunction with *DC Velocity*, *Supply Chain Insights*, and Descartes. We surveyed retailers, distributors and manufacturers, and logistics providers to gain their perspectives on the situation.

The State of the Union

The first question we must ask when looking at the state of home delivery is "Who's running the show?" There is significant reliance of parcel carriers, which leaves the industry vulnerable to rate hikes. This no doubt contributes to retailers and manufacturers deciding to take more control of a larger portion themselves (Figure 1).

Figure 1: Who Manages Home Delivery Operations?



Source: RSR Research, September 2014

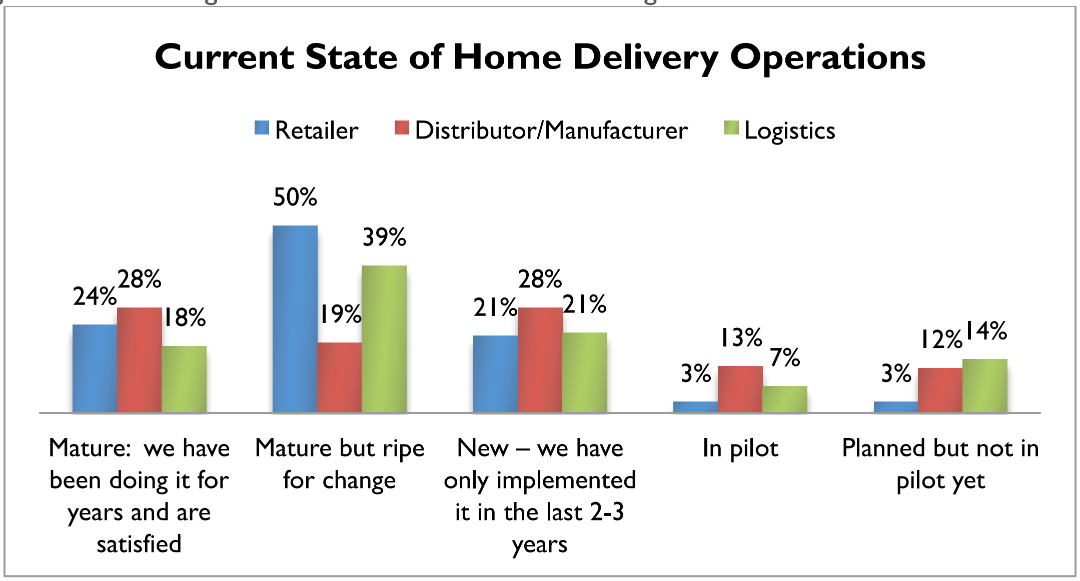
We are reminded of Amazon.com. The company has taken steps to establish its own logistics network, partly in response to rate hikes in ground shipments by parcel carriers and partly to improve delivery density by offering a broader assortment. There are, of course, challenges associated with taking charge of a function that's not part of one's core competency, especially when consumers are demanding more, not less from their providers.

These challenges, manifested both in increased volumes and the need for increased precision, are driving change across the ecosystem.

Mature, But Ripe for Change

The internet age has allowed manufacturers and distributors far more direct access to consumers than ever before. Whether driven by distributed order management requirements from large retailers or because they've set up their own storefronts, they are finding themselves in the home delivery business (also called "direct"), for the first time. Retailers and logistics providers have more mature home delivery practices and both recognize that their staid operations are ripe for change (Figure 2).

Figure 2: A Recognition That It's Time to Change

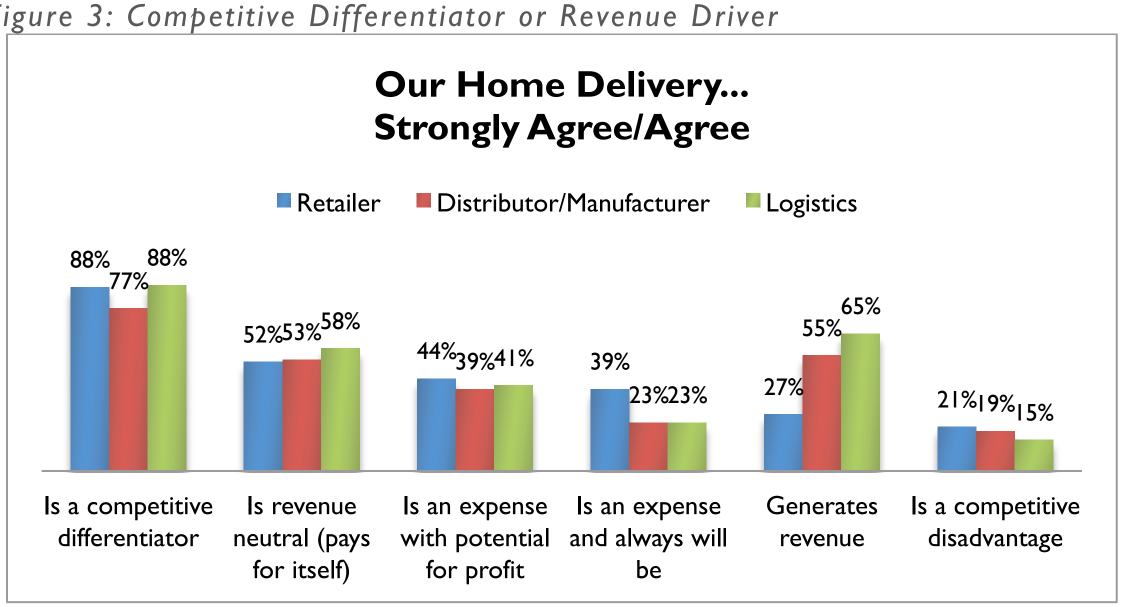


Source: RSR Research, September 2014

Is Home Delivery a Profit Center or a Differentiator? Or Both?

Our retail respondents are less interested in turning home delivery into a profit center than their suppliers. Rather they seek to create a differentiated competitive experience. Of course, manufacturers and logistics providers also see *themselves* differentiating through their home delivery processes, but more of them have already found a way to make money at it (Figure 3).

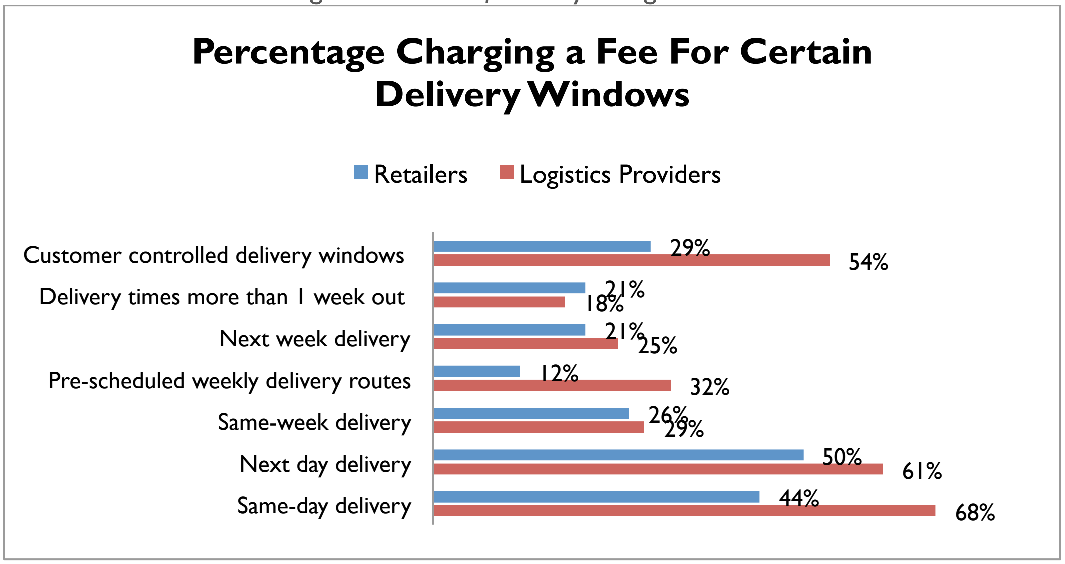
Figure 3: Competitive Differentiator or Revenue Driver



Source: RSR Research, September 2014

Not surprisingly, logistics providers are most likely to report their home delivery business generates revenue. They are more likely than their retail clients to charge a fee for any delivery windows beyond the most basic services. Retailers are clearly footing the bill (Figure 4).

Figure 4: Retailers Eating the Costs for Anything Other Than Basic Windows



Source: RSR Research, September 2014

Later in this report, we'll explore opportunities retailers (and manufacturers in the delivery business) might have to recoup some of their costs, which we can infer are currently being paid to the Logistics providers serving them.

Survey Participants

RSR launched this survey in August 2014 in partnership with DC Velocity. We received responses from more than 300 qualified companies, but selected only the 96 who self-identified as engaging in home delivery operations. All responses were anonymous.

- 36% identified themselves as retailers
- 34% self-identified as manufacturers or distributors
- 30% self-identified as logistics providers (LSP's)

Job Functions

Executive Management	27%
Marketing	3%
Information Technology	2%
Store Operations	1%
Procurement	5%
Supply Chain, Logistics, Transportation & Warehouse	51%
Finance	1%
Other	10%

Annual Revenue (in US$)

Less than $50 million	29%
$50 million - $500 million	32%
$500 million - $2 billion	7%

$2 billion - $5 billion	4%
Over $5 billion	29%

Methodology

For the core of this benchmark report, we'll use RSR's model, called the BOOT Methodology© to frame the forces shaping industry trends. A detailed explanation of this methodology can be found in Appendix A. Put simply, we'll look at:

- Business Challenges: External forces exerting pressure on the industry
- Opportunities: Ways our respondents believe they can overcome those pressures
- Organizational Inhibitors: Internal forces and challenges that might prevent the ecosystem from taking advantage of the opportunities they have identified
- Technology Enablers: In the 21st century, technology is often integral to taking advantage of opportunities. In this section, we'll look at budgets and planned investments

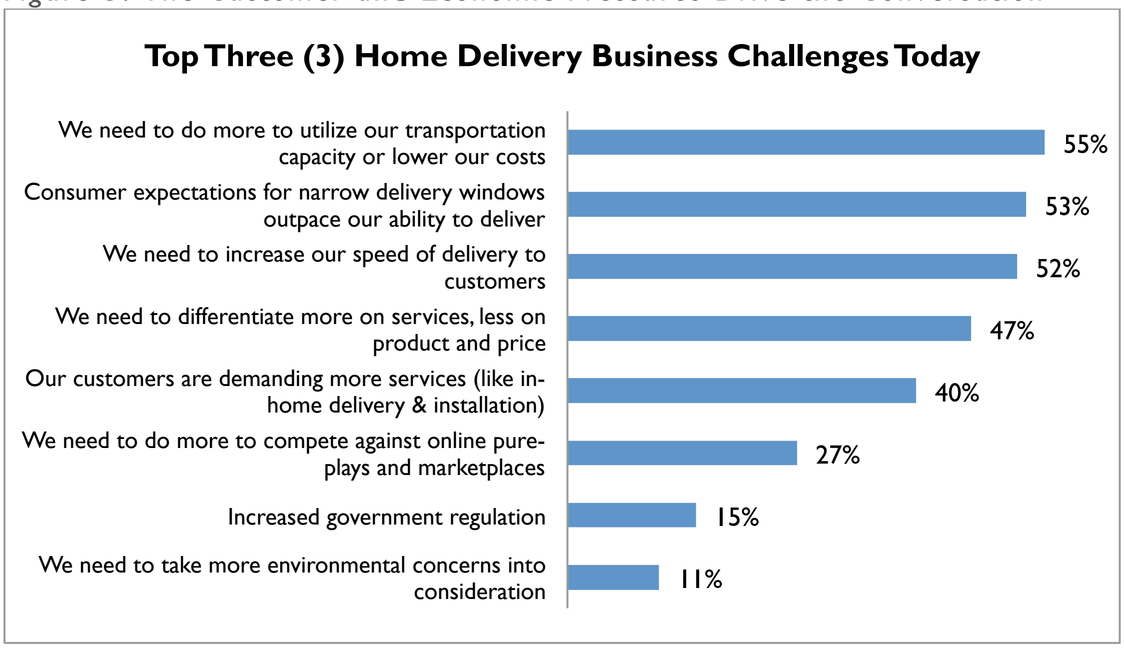
At the end of this document, we'll include some recommendations designed to help those involved with home delivery use technology to support taking advantage of the opportunities they see, and mitigate the risks they perceive.

Business Challenges

The Customer Is King, Cost Reduction is Prince

The entire ecosystem is truly focused on the consumer. Two of the top-three most frequently cited business challenges are directly related to consumer pressures (Figure 5). There's no surprise there.

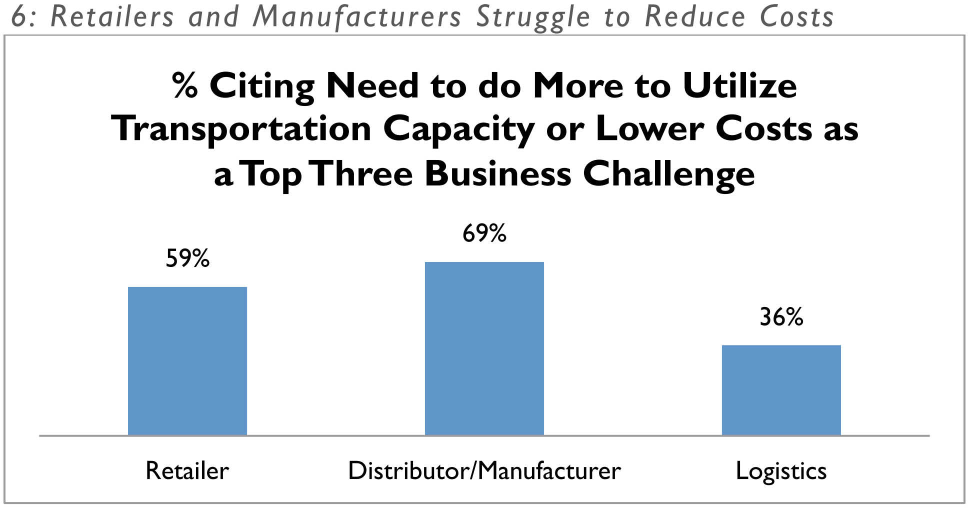
Figure 5: The Customer and Economic Pressures Drive the Conversation



Source: RSR Research, September 2014

Where surprises do come in, however, is in the other most frequently cited challenge, the need to utilize transportation capacity to lower costs. Logic would tell us that the Logistics Providers would be most concerned about this issue, but just the opposite is true (Figure 6).

Figure 6: Retailers and Manufacturers Struggle to Reduce Costs



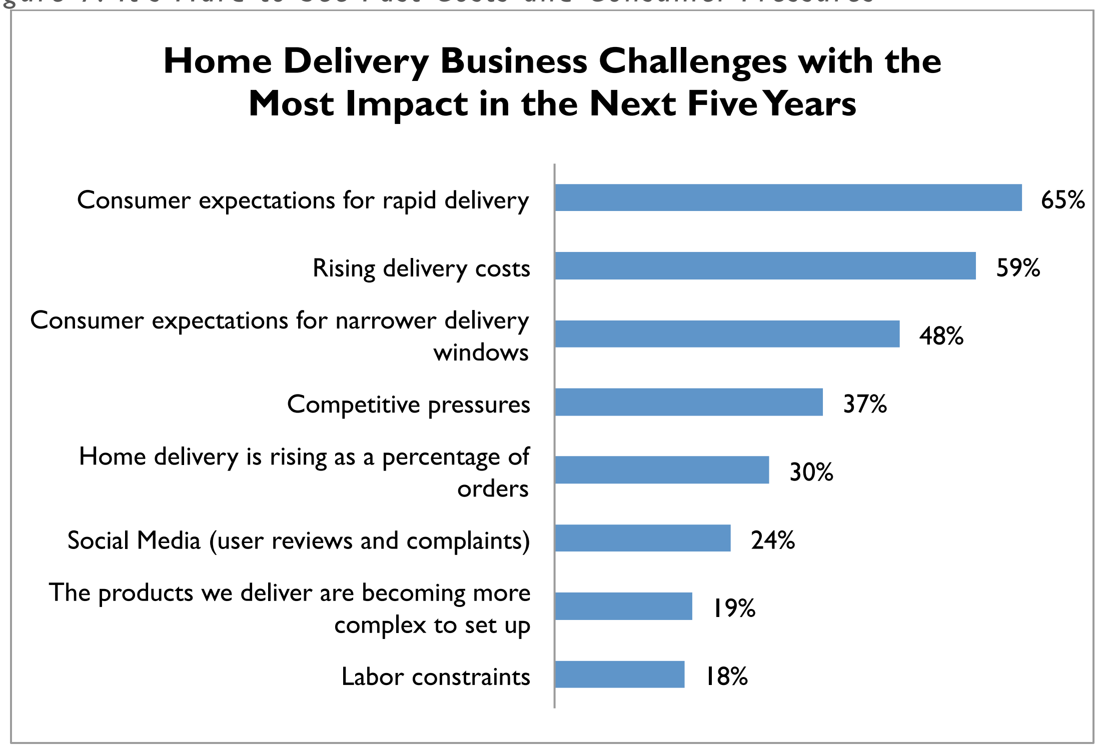
Source: RSR Research, September 2014

At the beginning of this report we observed that retailers and manufacturers were absorbing the costs of home delivery. Logistics providers are often the source of those costs. Only 27% of retailers and just over half of manufacturers report home delivery actually generates revenue. We wonder if in fact, this leads to unusually high pressure to find ways to cut costs. This concern about capacity utilization also might be one force behind retailer perceptions that while their delivery operations are mature, they are also ripe for change.

Consumer Expectations and Cost Concerns Will Continue Unabated

We also asked survey respondents to look ahead five years, at the challenges they will likely face. Concerns about labor, social media and competition continue to be trumped by consumer pressures and continued rising costs (Figure 7).

Figure 7: It's Hard to See Past Costs and Consumer Pressures



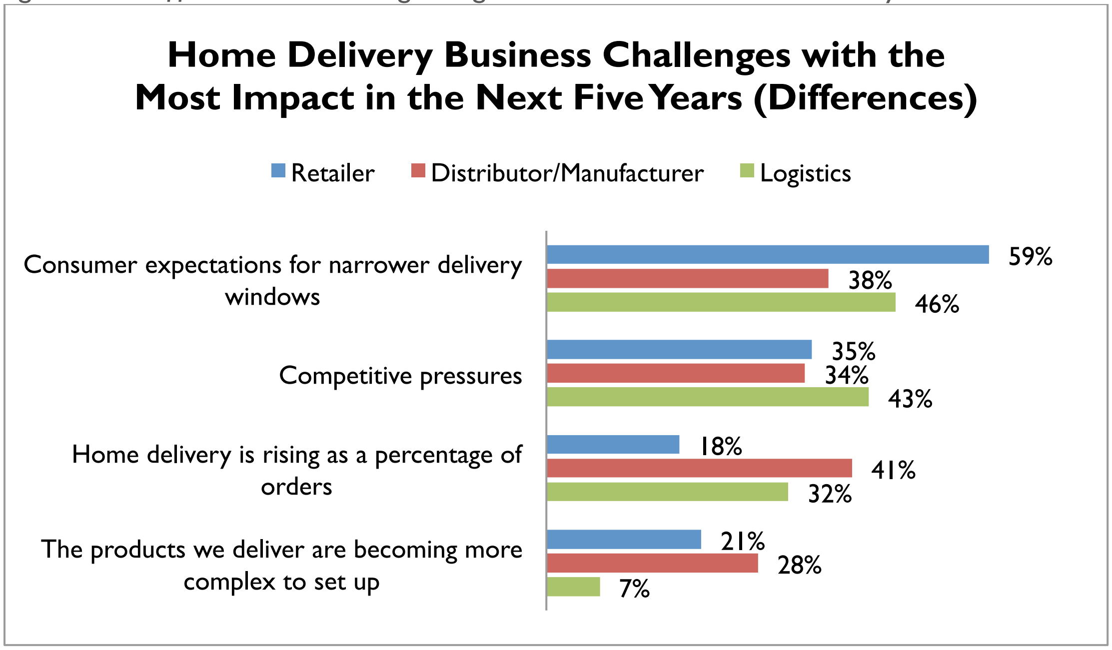
Source: RSR Research, September 2014

In aggregate, this data is somewhat unremarkable, but grows more interesting when we look at differences across the ecosystem (Figure 8, below).

Retailers are far more concerned about the consumer than manufacturers, distributors and logistics providers, while logistics providers worry about competition within their industry (likely from retailers and manufacturers disintermediating them), and manufacturers and logistics providers alike worry about the continued rise in direct-to-consumer deliveries.

Retailers and their manufacturing partners recognize that set-up requirements for the products they make and sell are becoming more complex. We are concerned that logistics providers, who are likely to be involved in that set-up, don't see that challenge coming. Absent that recognition, and training to mitigate that challenge, they may well create a self-fulfilling prophecy driving retailers and manufacturers elsewhere.

Figure 8: Differences in Long-range Concerns Across the Ecosystem



Source: RSR Research, September 2014

Of course, if we look back five years, in the midst of the Great Recession the entire ecosystem would likely have cited top-line concerns far more frequently than they do today. To some extent, any five-year projections must be taken with a grain of salt. Still, it's instructive to see thought processes across the ecosystem.

With that as a backdrop, it's time to take a look at the opportunities to overcome current and future business challenges. Some of these opportunities are yet unrecognized by our respondents, but the data is clear, as we'll see in the following section.

Opportunities

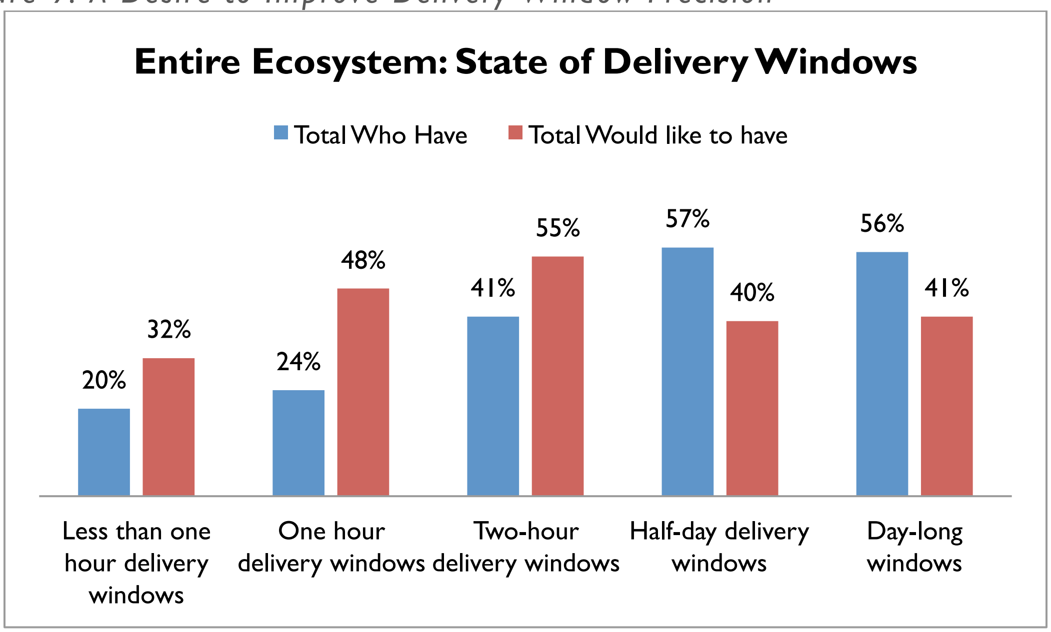
Given the Business Challenges the home delivery ecosystem faces from ever-more demanding consumers, rising costs, and continued increases in the percent of products delivered direct to consumers, the opportunities are pretty clear: increase services and become more efficient.

We'll talk more about ways to become more efficient in the next two sections of this report, while here, we'll focus on service opportunities.

Tightening Delivery Windows

Our respondents definitely want to improve the precision of their delivery windows (Figure 9). They may have differing points of view on whether they're going to foot the bill for it themselves, but the trend is clear.

Figure 9: A Desire to Improve Delivery Window Precision

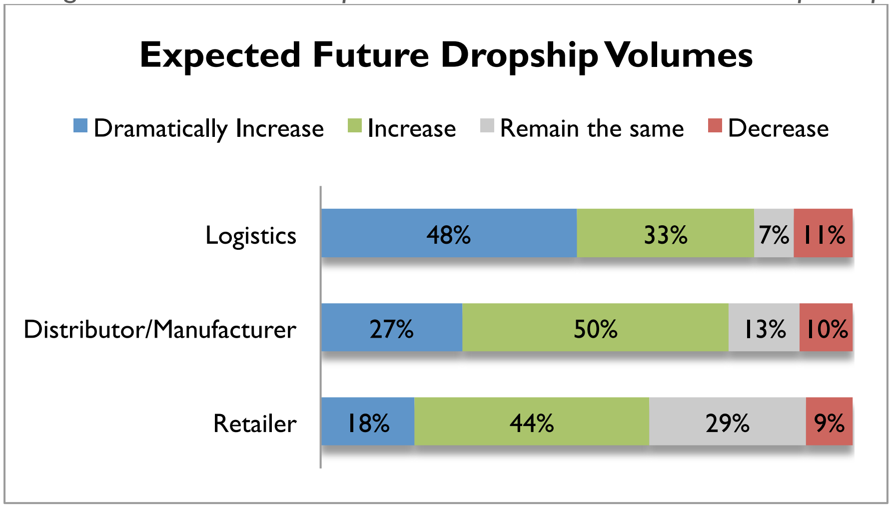


Source: RSR Research, September 2014

Logistics providers are most interested in tightening up those windows, with 61% believing one- or two-hour windows are ideal, vs. 47% of retailers and 38% of manufacturers for one-hour delivery windows, and 53% of each for two hour windows.

In fact, logistics providers would be happy to simply drop ship directly from vendors, and in fact are far more bullish on a future where drop ships dramatically increase (Figure 10). It's worth noting we've found this to be the case in multiple RSR surveys. Logistics providers are ready while retailers are not particularly willing. They worry more about disintermediation and trust in their ability to make good on retailer promises.

Figure 10: Logistics Providers Expect Dramatic Increases in Drop Ship



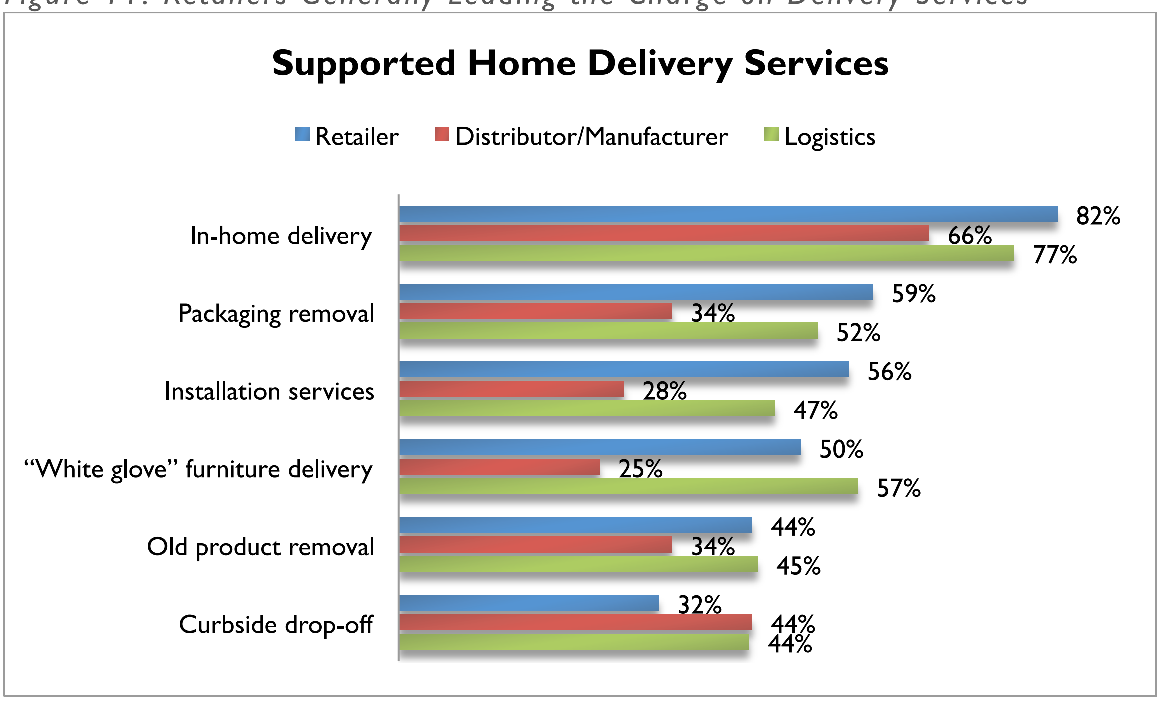
Source: RSR Research, September 2014

Of course, given that logistics providers are far more likely to charge a fee for tighter delivery windows, they clearly see this as a revenue enhancing opportunity. Retailers likely see it as a further disintermediator between their customers and themselves, while manufacturers are a bit more open to it.

Offering Premium Services

Retailers offer a pretty broad range of delivery services. As we can see in Figure 11, they are far more likely to offer these services than manufacturers and distributors, and generally about as likely to offer them as logistics providers.

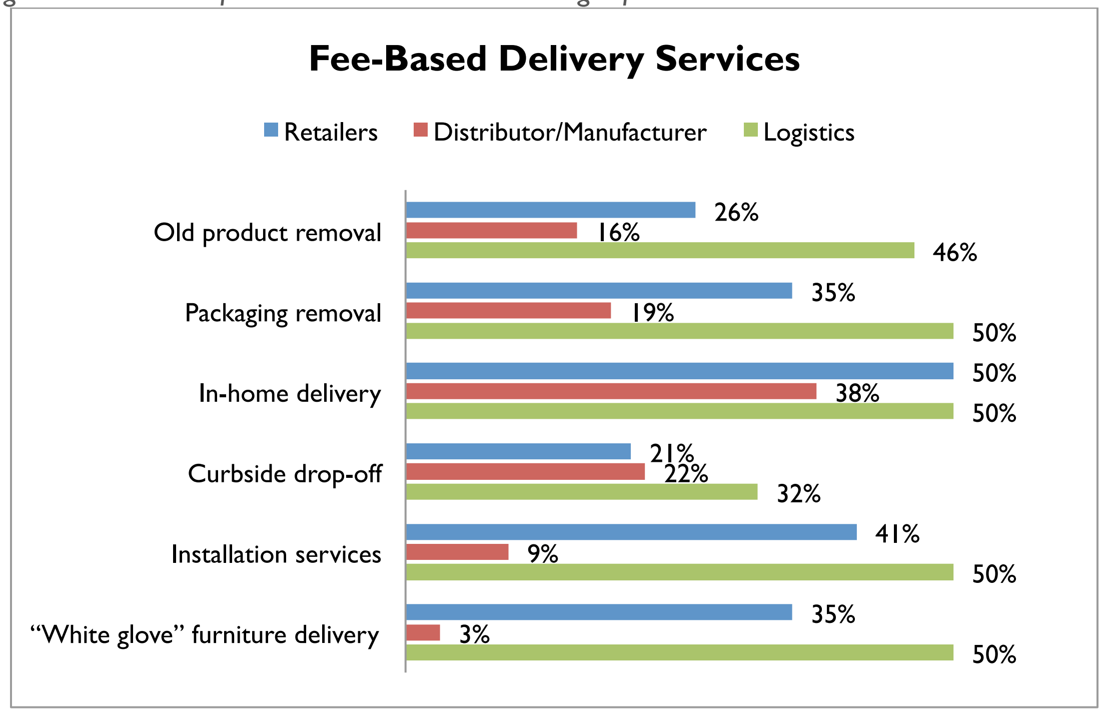
Figure 11: Retailers Generally Leading the Charge on Delivery Services



Source: RSR Research, September 2014

Again, however, we find logistics providers far more likely to pass along costs to their customers than retailers or manufacturers / distributors. Retailers and manufacturers have made their choice. Manufacturers in particular, show almost no interest in passing these costs along to customers (Figure 12).

Figure 12: Manufacturers Loathe to Charge for Services



Source: RSR Research, September 2014

Our view on services is generally "in for a penny, in for a pound," which is to say, if you're going to be in the direct-to-consumer business, you might as well do it right. Manufacturers still need to sort that out.

In the meanwhile, the industry is careening forward. This leaves us with our next questions: what's getting in the way of the ecosystem providing the services that they believe consumers want, and how can they find a way to reduce the costs of providing these services?

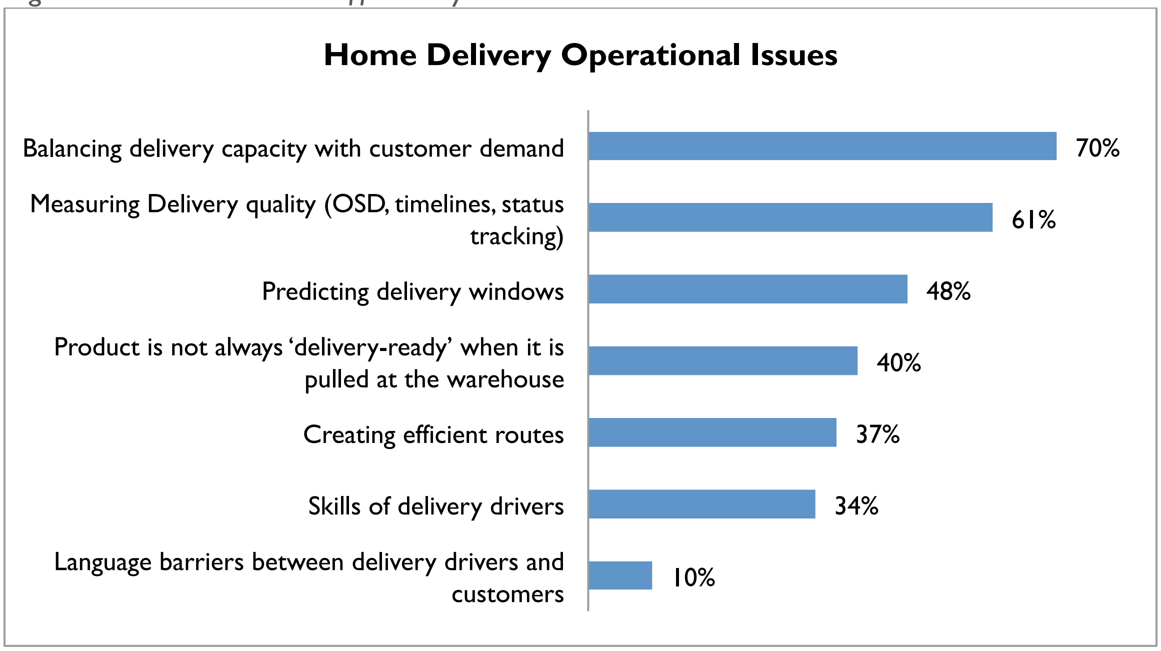
Organizational Inhibitors

A Balancing Act

If companies across the consumer products ecosystem are most concerned about making home delivery both efficient and profitable, it helps to understand those challenges that undermine their desired efficiency.

Across the ecosystem, companies report that their top three operational issues are balancing delivery capacity against demand, measuring delivery quality, and predicting delivery windows (Figure 13).

Figure 13: Barriers to Efficiency



Source: RSR Research, September 2014

It should be no surprise that logistics providers drive the issue at the top of the list: 82% of these respondents report that balancing capacity against demand is a top issue, vs. 72% of manufacturers and 59% of retailers.

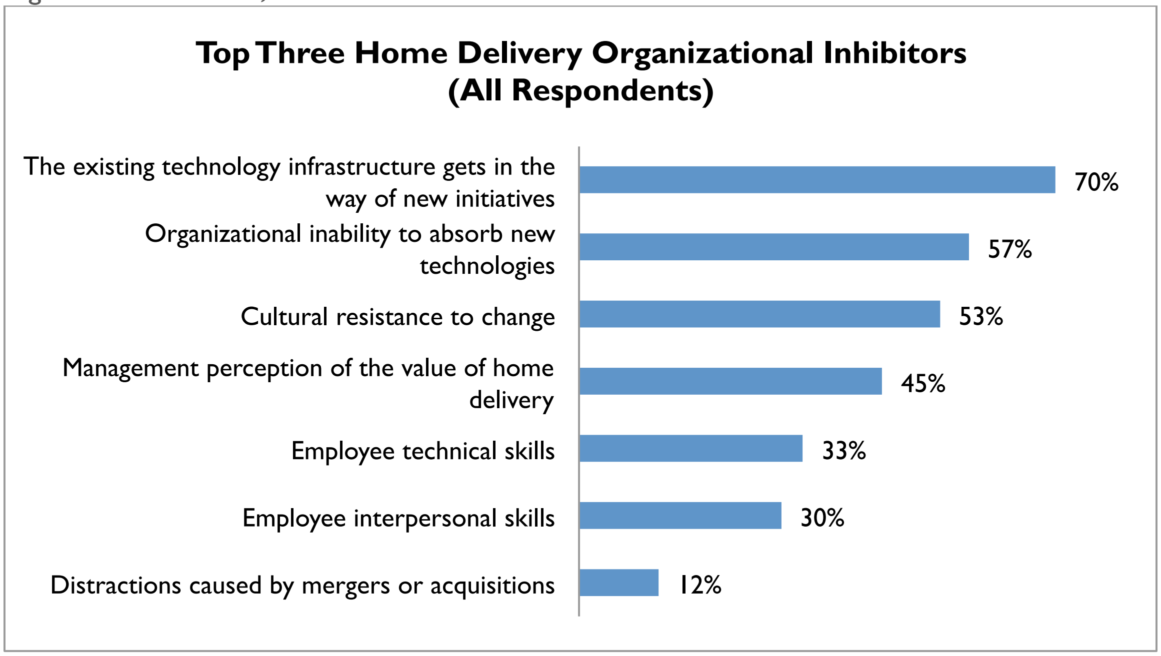
Manufacturers, in part because they are often involved on behalf of a retailer in serving consumer demand, are most concerned about measuring delivery quality (81% vs. 53% of retailers and 46% of logistics providers).

Retailers, perhaps because they have taken on more of a logistics provider-like role in serving customers, profitable or not, divide their concerns across three primary areas: balancing capacity against demand, measuring delivery quality, and predicting delivery windows.

Causes and Effects

As far as identifying internal barriers that are creating these operational issues (or, at a minimum, preventing companies from addressing their challenges), across the ecosystem companies report a one-two punch: the existing technology infrastructure, and organizational constraints in the form of the organization's capacity to absorb more change as well as just plain organizational resistance to change (Figure 14).

Figure 14: An Old, Familiar Tale

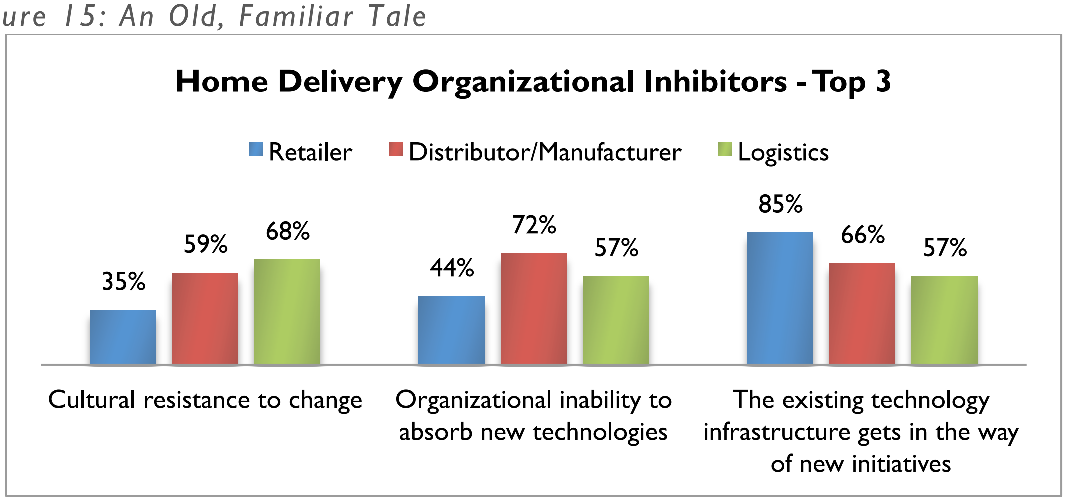


Source: RSR Research, September 2014

Sitting in the middle of the chart above, with 45% of respondents, is "management perception of the value of home delivery". There is very little difference in perspective on this issue no matter where the respondent might sit within the ecosystem – manufacturers, retailers, and logistics providers all report this as at least a top-5 issue for them. Given that many of these players are challenged to find revenue opportunities within home delivery, they may continue to run into this barrier until they can better position the value of the home delivery opportunity.

Outside of management challenges, companies report very significant differences in inhibitors depending on where they sit in the ecosystem (Figure 15).

Figure 15: An Old, Familiar Tale



Source: RSR Research, September 2014

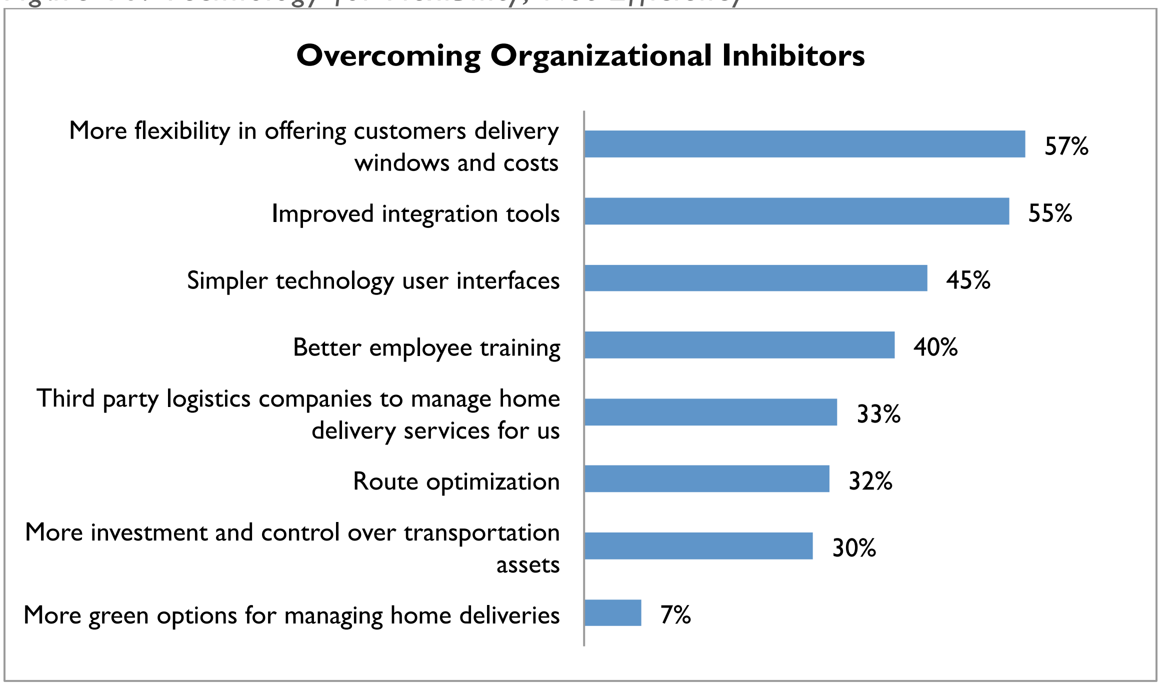
Logistics providers are most challenged by cultural resistance: they have the most experience with transportation and logistics challenges and face a more skeptical audience for home delivery processes. Manufacturers find that resistance is less the issue, just that as they position their organizations for a greater volume of direct to consumer delivery, their teams are at capacity for additional organizational and process changes.

Retailers are something of a different story. Transportation and logistics for retailers has historically been less complex than the challenges faced by their ecosystem peers. Their lack of experience appears to be coming back to bite them when it comes to applying internal skills to solving the challenges of home delivery. These aren't simple milk runs to stores. Which is why it's no surprise that retailers are feeling constrained by their IT infrastructure – where they lack skills, hopefully technology can fill the gap. We'll see in the Technology Enablers section below if budgets are aligned to the challenges that retailers report.

Overcoming Inhibitors

While technology constraints may top companies' list of organizational inhibitors, technology solutions do not necessarily top their list for overcoming internal challenges (Figure 16). It's ironic that they can't offer that flexibility without technology.

Figure 16: Technology for Flexibility, Not Efficiency

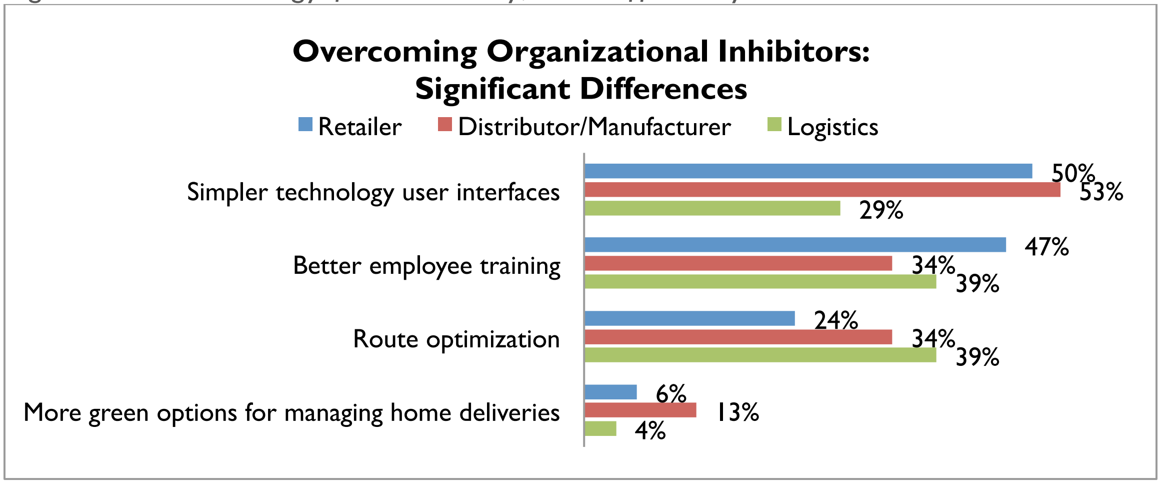


Source: RSR Research, September 2014

Respondents report that their goal is to make the complex simple, and thereby achieve efficiencies, as opposed to automation as a way to force compliance and thus efficiency.

This is why retailers and manufacturers (for whom home delivery is not really a core competency) are much more interested in simpler user interfaces and better training – they want to boost their skill sets internally (Figure 17, below). Logistics providers, on the other hand, are more interested in route optimization than peers. They believe they have a handle on the complexity, now they need to optimize against it.

Figure 17: Technology for Flexibility, Not Efficiency

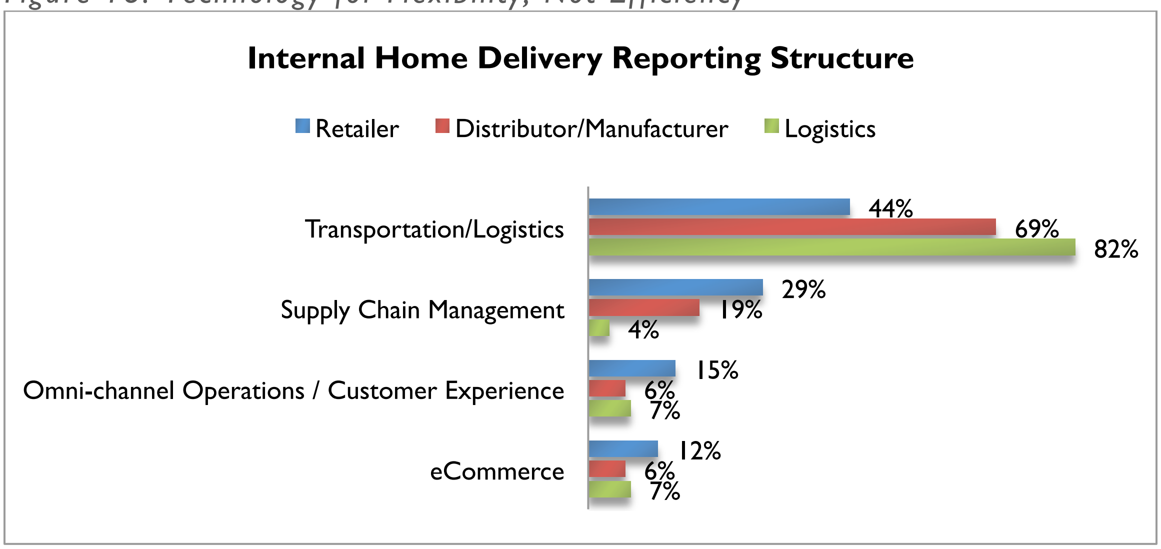


Source: RSR Research, September 2014

Follow the Leader

Companies' ability to achieve the contradictory goals of efficiency and flexibility is in part going to be determined by the amount of organizational focus they place on those goals. While nearly everyone in the ecosystem considers transportation or logistics teams as the natural home for home delivery, retailers have taken a different approach (Figure 18). For our question, we considered "transportation/logistics" to be an organization that reports into the supply chain management group – respondents who reported transportation as the home delivery owner were indicating a less strategic place in the organization than those reporting SCM.

Figure 18: Technology for Flexibility, Not Efficiency



Source: RSR Research, September 2014

Retailers, who have taken a more strategic view of home delivery's role as a service differentiator for consumers, are more likely than peers to have placed home delivery functions under other executives: alongside transportation and logistics in reporting to a supply chain executive, under "omni-channel" (a fast-growing functional area within many retailers), or even reporting to eCommerce. eCommerce can be an organizational entity almost on par with a division or separate line of business, sometimes operating as a group that might have responsibility for all direct fulfillment, up to possibly supporting a separate supply chain function from the one designed to service stores.

In terms of future involvement, retailers appear to believe that the opportunity to differentiate via home delivery services means they need broader involvement from across the company. They are looking for more involvement from Marketing, Merchandising, and even outside consultants as they improve their logistics skill sets.

Manufacturers also seem to see the long-term differentiating potential. Thirty-four percent report that the executive team needs to be more involved in home delivery strategy, almost twice the rate of retailers or LSPs (18% and 21%, respectively).

Most interesting for future involvement, logistics providers, perhaps thinking in terms of what they want from their retail customers, would like very much to see more involvement from store operations and merchandising (43% and 46%, respectively, vs. retailers' 21% and 26%, respectively).

Home Delivery: A Leading Indicator

Retailers, in their struggle to incorporate omni-channel strategies into a business model designed for a single channel, have come to recognize that the supply chain is rapidly becoming ground zero in the fight for consumers' hearts and minds – and wallets. However, their challenge, and this is something that the whole ecosystem recognizes, is managing a complicated transformation from a supply chain designed for speed and efficiency in delivering to one channel to one designed for flexibility – all without giving up that speed or that efficiency.

In some ways, the challenges that the consumer products ecosystem faces are but an early-warning indicator of what is to come for the larger supply chain. Consumers demand services along with their products. An important service is home delivery. Retailers are committed to meeting those needs but would like it to be more profitable than it is today – thus, they treat it as a strategic initiative, and one they know they are not best positioned to meet. Manufacturers see the same needs, but are bogged down in the weeds as they implement direct to consumer business models. While they would like to respond as retailers do (with whom they both compete and supply), their capacity for additional change is at an all-time low. And logistics providers have the opportunity to fill the gap in both situations – provided they have the systems and processes in place to enable both the high-service flexibility that retailers want, and the efficiencies that they need.

Technology Enablers

Putting the Money on the Table

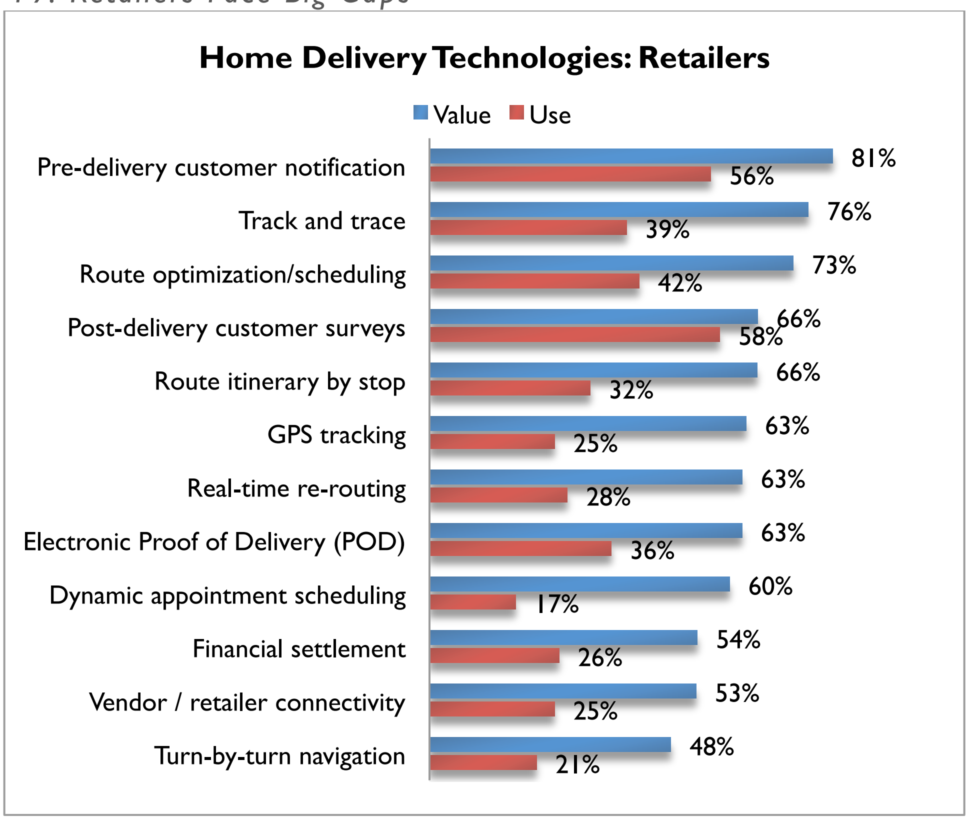
Each of the three types of participants in our surveys is starting from a different set of capabilities when it comes to achieving home delivery objectives. How does this impact their technology investment plans? First let's look at what each group has.

Retailers: Building A World-Class Service

As shown above, retailers are interested in home delivery not because it is a core competency, but because they perceive an opportunity to provide differentiation to an increasingly jaded and price-driven consumer market. They cite technology infrastructure as an organizational inhibitor, and look to technology not to provide efficiency for an existing process, but as a bolster and transformer for a home delivery organization they perceive as less robust than their logistics partners.

This plays out in terms of how they see their technology investments (Figure 19).

Figure 19: Retailers Face Big Gaps



Source: RSR Research, September 2014

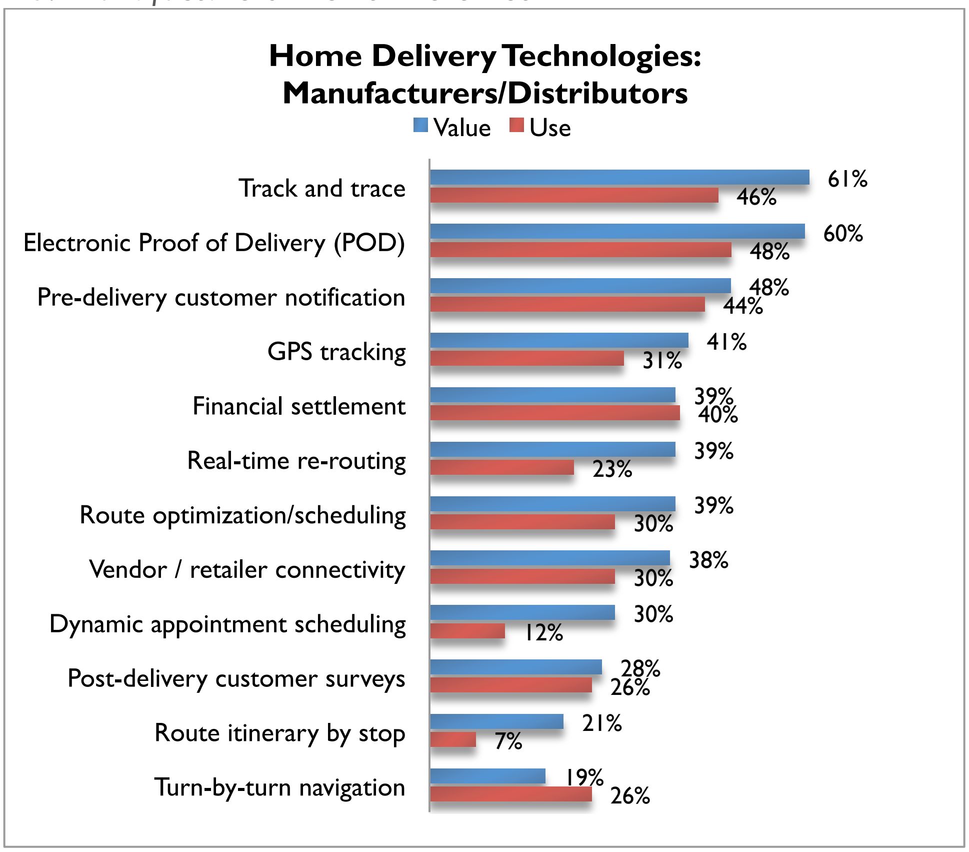
Of our three respondent groups, retailers express the largest gaps between the technologies they value and the maturity of their implementations of these technologies. Their biggest gaps exist around what might be considered the most sophisticated aspects of home delivery: dynamic appointment scheduling, real-time re-routing, route itinerary by stop, and route optimization.

However, there are also significant gaps in what might be considered basic capabilities: track and trace, GPS tracking, even electronic proof of delivery. While retailers would like to be sophisticated, they have a long way to go on the basics.

Manufacturers and Distributors

Manufacturers are still grappling with how to play well in a direct-to-consumer world. They tend to place great value on capabilities that are important in dealing with *retailers* as customers, but not necessarily *consumers* as customers (Figure 20).

Figure 20: Manufacturers Aren't There Yet



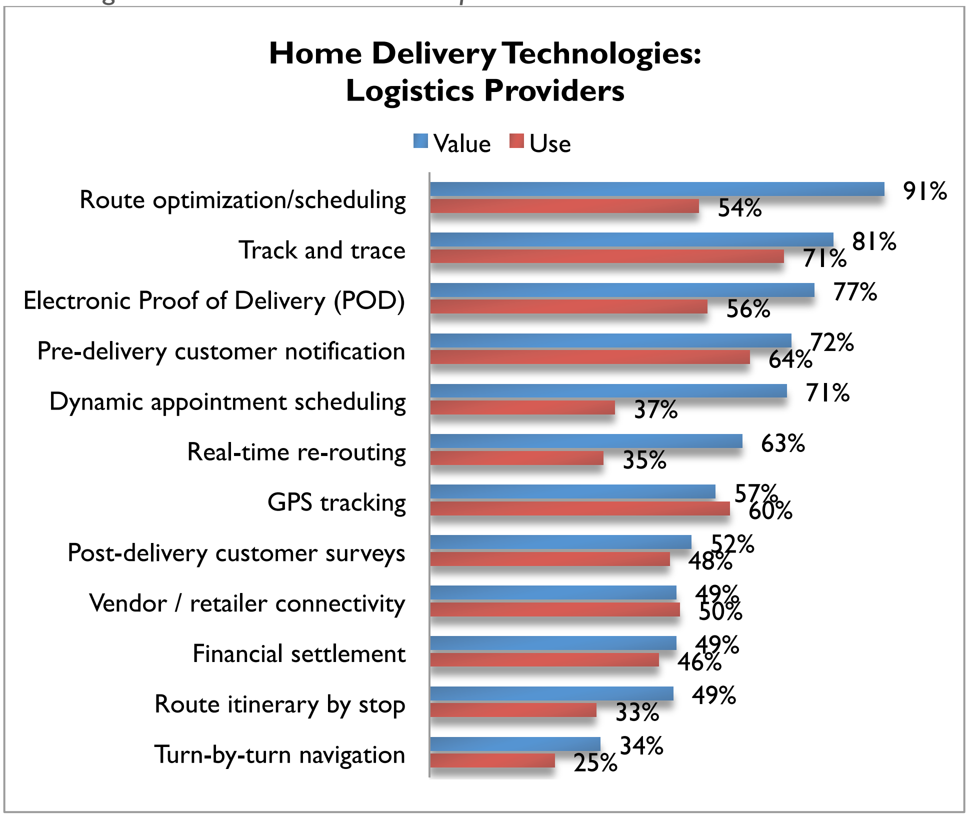
Source: RSR Research, September 2014

In fact, overall, manufacturers are 40% less likely to value any of these technologies than retailers, even though they are only 5% less likely to have these technologies in place. When it comes to capacity to handle more change, manufacturers appear to mean it: they haven't nailed the basics of direct to consumer, and so while they recognize the opportunities that home delivery present for them, they have not carried those opportunities through to understanding the technology implications.

Logistics Providers: Taking it to the Next Level

Logistics providers express many of the same gaps between technology value and use that retailers say they face (Figure 21).

Figure 21: Logistics Providers Seek Sophistication



Source: RSR Research, September 2014

However, where retailers are still struggling with the basics, logistics providers naturally already have that covered. Their gaps exist exclusively around the more sophisticated capabilities required to achieve both efficiency and flexibility in home delivery operations: route optimization, dynamic appointment scheduling, and real-time re-routing.

The Race is On

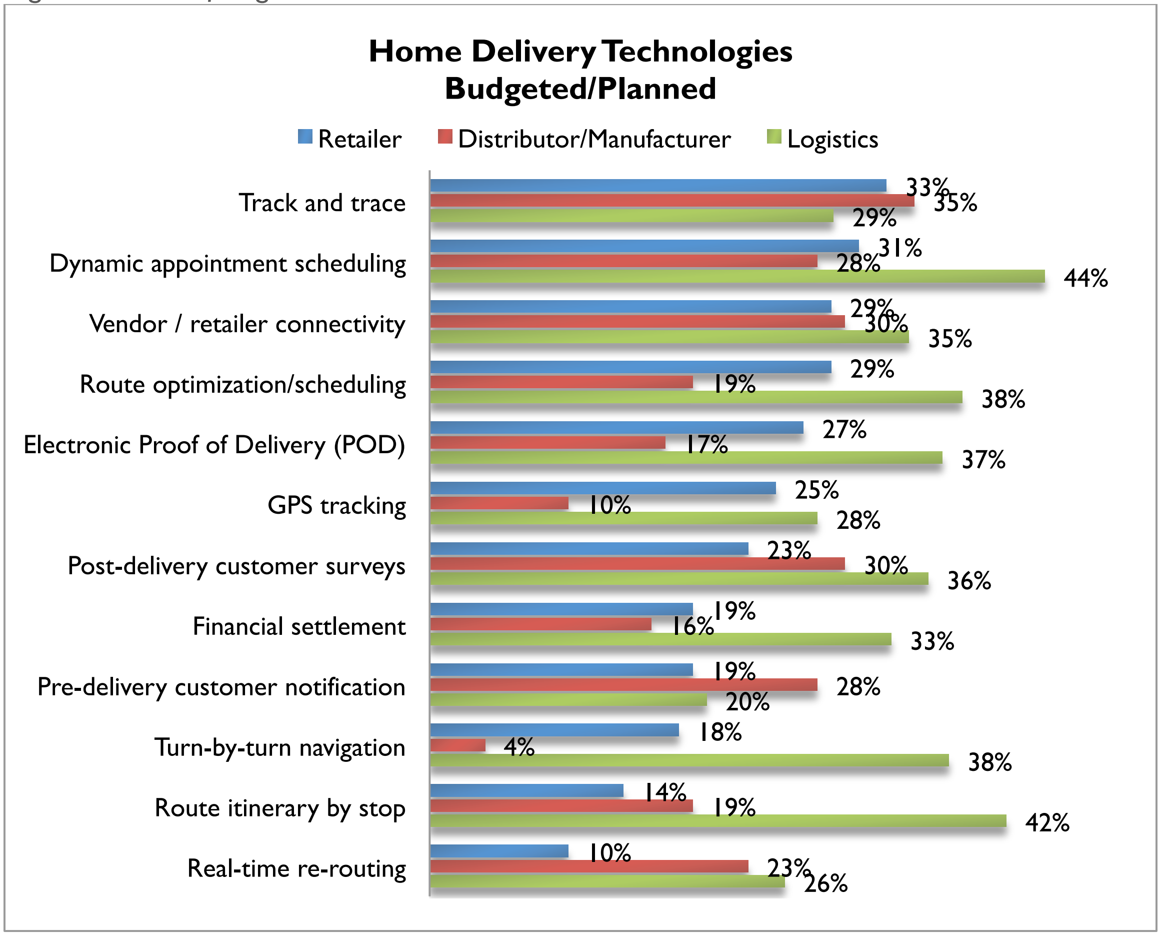
No matter where retailers and manufacturers say they are versus where they would like to be, it is clear from future investments that logistics providers are planning on making the most progress in the next 12-18 months (Figure 22, below).

Where are logistics firms placing their bets? Almost directly on the gaps identified above: dynamic appointment scheduling, route itinerary by stop, route optimization, and turn-by-turn navigation. These are all capabilities that will enable a more flexible and responsive home delivery operation.

Retailers are trying to balance catching up on basic capabilities with the need for more sophistication. Track & trace, for example, is a top investment opportunity for them, but they are also pushing ahead on more sophisticated capabilities like dynamic appointment scheduling.

And manufacturers, for all of their limited capacity for more change, are starting to become more consumer focused. Alongside track & trace, their highest priorities for future investments include post-delivery customer surveys and pre-delivery customer notifications.

Figure 22: Shifting Tides



Source: RSR Research, September 2014

Picking the Fruit

At the beginning of this report we found that home delivery capabilities are mature, but ripe for change. Omni-channel consumer demands and the ecosystem's need to be faster and more flexible are forcing a re-evaluation of home delivery, moving it from a necessity for selling furniture and white label goods, to a service that differentiates potentially every type of consumer good offering in the market place.

The different players in the ecosystem all bring their biases, based on their past investments: retailers, who (outside of furniture and appliances) have not focused on this capability, manufacturers who are waking up to the idea that they might be retailers after all, and the logistics providers that keep all that inventory flowing.

With the home delivery technology investment plans across the ecosystem, it's clear that home delivery isn't just ripe for the picking – change has already begun.

BOOTstrap Recommendations

Overarching Observations

While the ecosystem recognizes the importance of direct to consumer delivery, we worry that it is over-stating its capabilities. The consumer is quite serious about narrower windows and increased services. We strongly advise all companies to do a sincere self-assessment of capabilities vs. their peers.

Unique Challenges, Unique Recommendations

Given consumer expectations for home delivery, the entire ecosystem is certainly paying attention. But with each participant in the ecosystem starting from a different level of maturity, the recommendations for each will differ.

For Retailers: Step-Wise, Rather Than All-In

Even though nearly 50% of retailer respondents acknowledge that their operations are mature but ripe for change, we strongly recommend that the change proceed in a step-wise fashion. It's tempting to rush, given the pressure of consumer expectations, but speed without strategy can be disastrous. Instead, retailers should:

Contemplate Passing Costs on to Consumers. Retailers may not want to pass costs along to consumers, but consumers' increasing expectations for narrower delivery window and high-touch delivery services may make avoiding some kind of charge inevitable. Retailers were least likely among our survey respondents to say they make money or offset costs from home delivery, but as the service grows in complexity, they may find they will need to.

Look More Closely at Drop Ship. Retailers have long resisted drop ship services, in great part because they have been uncomfortable with the lack of visibility and control they are able to achieve over a drop ship process. But one way to avoid having to charge consumers for services may be to offload some home delivery to a drop ship situation. While retailers may want to avoid a drop ship relationship with manufacturers for competitive reasons, distributors and logistics providers both have the capabilities and the asset leverage to make this delivery model more palatable than having the retailer take on home delivery all by themselves.

Don't Invest in Technology as a Proxy for Process. Retailers reported that they were very bullish on all kinds of home delivery enabling technologies, and feeling very constrained when it came to skill sets and experience. This is a potentially deadly mix. While it may be tempting to invest in technology as a way to overcome a skills gap, the best technology in the world can't overcome a badly designed process.

For Manufacturers and Distributors: Gain Maturity Rather than Sophistication

Manufacturers in particular report that they are well on their way to becoming retailers in a world where it is easy to go direct to consumer. But just because they are becoming retailers does not mean they are sophisticated retailers. And home delivery is a fairly sophisticated retail capability. While manufacturers and distributors are relatively newer at home delivery than their retail peers, they, at least, are making more money at it than retailers. Here's how to keep it going:

Get to Know Consumers Better. This respondent group really seemed to downplay the importance of consumer expectations for narrower delivery windows. And they were much less likely to offer additional features for their home delivery services – for example, taking away packaging, or installation services. So while they may be making better money at home delivery, they have not yet looked at home delivery from the perspective of what consumers really want – putting future revenue from the service in jeopardy. Fortunately, manufacturers seem to recognize that this is a gap, and have at least started to look to customer survey tools related to deliveries as one way to narrow that gap.

Invest in Technology for Flexibility, not Efficiency. Manufacturers (and logistics providers, below) reported that they were most interested in increasing leverage and utilization of existing delivery capacity. However, given the consumer demands outlined above, generating more leverage is going to be extremely challenging. Rather than seeking efficiencies from existing investments, manufacturers and distributors need to think through how technology can let them achieve more revenue opportunities – through increased services and narrow delivery windows, for example.

For Logistics Providers: Manage Expectations

Logistics providers have been doing delivery of all kinds for all time. But part of the reason why home delivery to consumer is growing in importance is because consumer expectations around home delivery are evolving rapidly, driven by new models that support everything from groceries to big screen TV's to almost anything in between. This is not your father's home delivery. But to survive this shift, logistics providers need to move carefully:

Understand the Customer's Customer. Like manufacturers and distributors, logistics providers don't seem to place enough emphasis on how much influence consumers have over retailers. As a result, they too underestimate the importance of things like very narrow delivery windows or add-on services like installation or old item removal and service level tracking.

Fight Cultural Biases. While logistics providers are understandably the most capable home delivery providers within the ecosystem, they have also been providing this capability for an old-world retail model where they only home delivery that consumers are willing to pay for or accept is for big-ticket items. Logistics providers recognize that they must fight their own internal tendencies to want to continue to view the world that way – that's why cultural resistance to change is their number one barrier. But fighting that resistance requires a sustained effort over time, delivered from the top down. However, if logistics providers can't get their organizations to recognize the need to change, they will leave a lot of value on the table.

Identify Value vs. Costs. Up until now, retailers have been fairly accepting of a home delivery capability that imposes costs on their operations, without feeling pressure to pass many of those costs along to consumers. But that situation can't last forever. Retailers, more than any other group, feel that their home delivery operations are ripe for change. And the changes they want match up to consumers' increasing expectations – narrower delivery windows, and more add-on services with delivery.

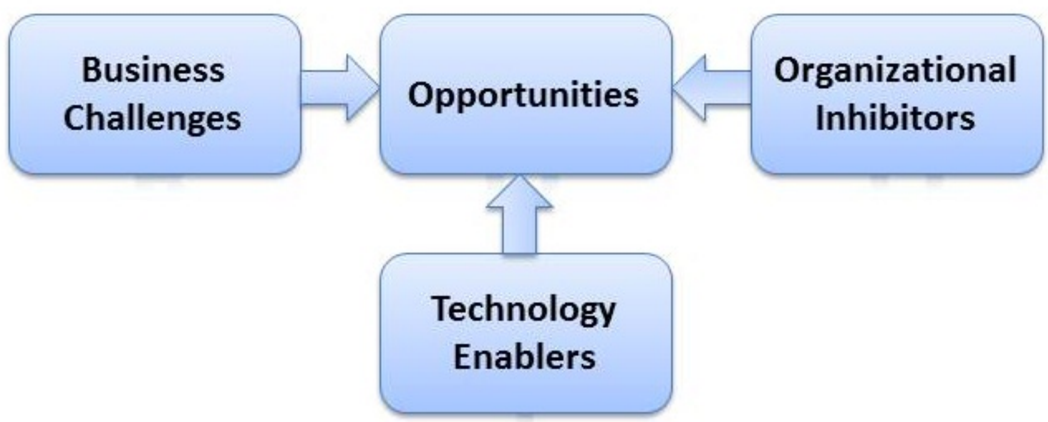
If logistics providers focus on meeting these needs, rather than on driving additional leverage from their delivery capacity, everyone will win. But that doesn't mean that there is no room for efficiency. Logistics providers report a fairly heavy reliance on the large parcel carriers, which can't be the lowest cost way of achieving some types of fulfillment. And while logistics providers see value opportunities in leveraging more drop ship opportunities, their retail partners need more persuasion.

Appendix A: RSR's BOOT Methodology©

The BOOT" methodology© is designed to reveal and prioritize the following:

- **Business Challenges** – Retailers of all shapes and sizes face significant **external** challenges. These issues provide a business context for the subject being discussed and drive decision-making across the enterprise.
- **Opportunities** – Every challenge brings with it a set of opportunities, or ways to change and overcome that challenge. **The ways retailers turn business challenges into opportunities often define the difference between Winners and "also-rans."** Within the BOOT, we can also identify opportunities missed – and describe leading edge models we believe drive success.
- **Organizational Inhibitors** – Even as enterprises find opportunities to overcome their external challenges, they may find **internal** organizational inhibitors that keep them from executing on their vision. Opportunities can be found to overcome these inhibitors as well. Winning Retailers understand their organizational inhibitors and find creative, effective ways to overcome them.
- **Technology Enablers** – If a company can overcome its organizational inhibitors it can use technology as an enabler to take advantage of the opportunities it identifies. Retail Winners are most adept at judiciously and effectively using these enablers, often far earlier than their peers.

A graphical depiction of the BOOT Methodology℠ follows:



Appendix B: About Our Sponsor and Media Partners

Sponsor

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 173,000 connected parties using its cloud based services. We work with leading retailers throughout the world to provide them with innovative solutions that help improve both the top and bottom line, and not only improve their customer service, but make it a competitive differentiator. Whether your challenge is home delivery, omni-channel retailing or global/local inbound logistics, Descartes' solutions can help you realize results quickly and have the flexibility to adapt as your business changes. Our headquarters are in Waterloo, Ontario, Canada and we have offices and partners around the world. Learn more at www.descartes.com.

Media Partners

DC VELOCITY is the leading business journal in the US serving the specific informational needs of those executives responsible, directly and indirectly, for their companies' logistics operations. DC VELOCITY reaches 232,546-plus logistics professionals each month via our print brand, each week via our e-newsletters, and each day with Web-based content that is specifically tailored to their wide-ranging informational needs.

CSCMP's Supply Chain Quarterly focuses on the informational needs of high-level supply chain decision makers. With an array of staff-written stories as well as articles contributed by leading supply chain practitioners, academics, and consultants, The Quarterly provides unparalleled thought leadership on international and domestic supply chain operations. The magazine and its associated digital content offerings provide professionals with both insight and advice on how to make their supply chain operations a success.

Appendix C: About RSR Research

Retail Systems Research ("RSR") is the only research company run by retailers for the retail industry. RSR provides insight into business and technology challenges facing the extended retail industry, providing thought leadership and advice on navigating these challenges for specific companies and the industry at large. We do this by:

- **Identifying information** that helps retailers and their trading partners to build more efficient and profitable businesses;
- **Identifying industry issues** that solutions providers must address to be relevant in the extended retail industry;
- **Providing insight and analysis** about a broad spectrum of issues and trends in the Extended Retail Industry.