

Ecommerce: Is Retailer Fulfillment and Delivery Performance Keeping Up With Sales Growth?

Descartes Research Report



Introduction

Two years into the pandemic it is widely accepted that consumer shopping behaviour has changed for good. Top-of-mind for retailers is whether consumers' appetite for even more ecommerce purchases will continue as the pandemic subsides. While ecommerce demand has increased, the quality of the end-to-end buying experience has been mixed. Consumers are now far more sophisticated and demanding, and when it comes to what constitutes a good experience, one size does not fit all. Expectations vary greatly, influenced by product value and age group, even nationality, and they extend across the entire buying experience, from purchase through delivery to unboxing and returns.

Fulfillment and delivery capability and performance are a critical part of the brand experience and under greater consumer scrutiny than ever before. Retailers need to address fast emerging delivery personas, embrace millennials' concerns regarding the environment and at the same time the over 55s' desire for convenience. Retailers are aware of the impact on delivery performance created by driver shortages, but how many are considering the long-term implications for brand value and future customer loyalty?

Descartes Systems Group commissioned research to understand consumers' online purchasing across Europe and North America to understand how the quality of the experience affects consumer perception of both retailers and delivery companies.

In January '22, Sapio Research undertook a series of interviews on behalf of Descartes with over 8,000 consumers who shop online in the USA, Canada, UK, Germany, France, Denmark, Norway, Netherlands, Belgium, Sweden and Finland.



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Top Level Findings



Online buying continues to grow

48% of the overall respondents say they will make more purchases and deliveries in the future – up **2%** from today and **13%** pre-pandemic.



Environmental concerns influence buyer behavior

85% of those aged **18-24**, and **75%** of **25 to 34** year olds consider the environment when placing an order.



It's all about convenience

Online purchase and delivery is all about convenience (**54%**) for consumers but even greater for those **55+** (**64%**).



Expectations vary

Customer expectations vary – security (**32%**), proof of delivery (**30%**) and tracking (**27%**) are all more important for the most expensive items; cost of delivery (**23%**) more important for lower cost goods.



Delivery is not good enough

Three out of four consumers experienced delivery problems in the last three months.



Poor delivery damages consumers' perceptions

23% of consumers have not ordered from the retailer again, **21%** lost trust in the retailer and **16%** told friend and families to avoid the retailer due to a poor delivery experience.

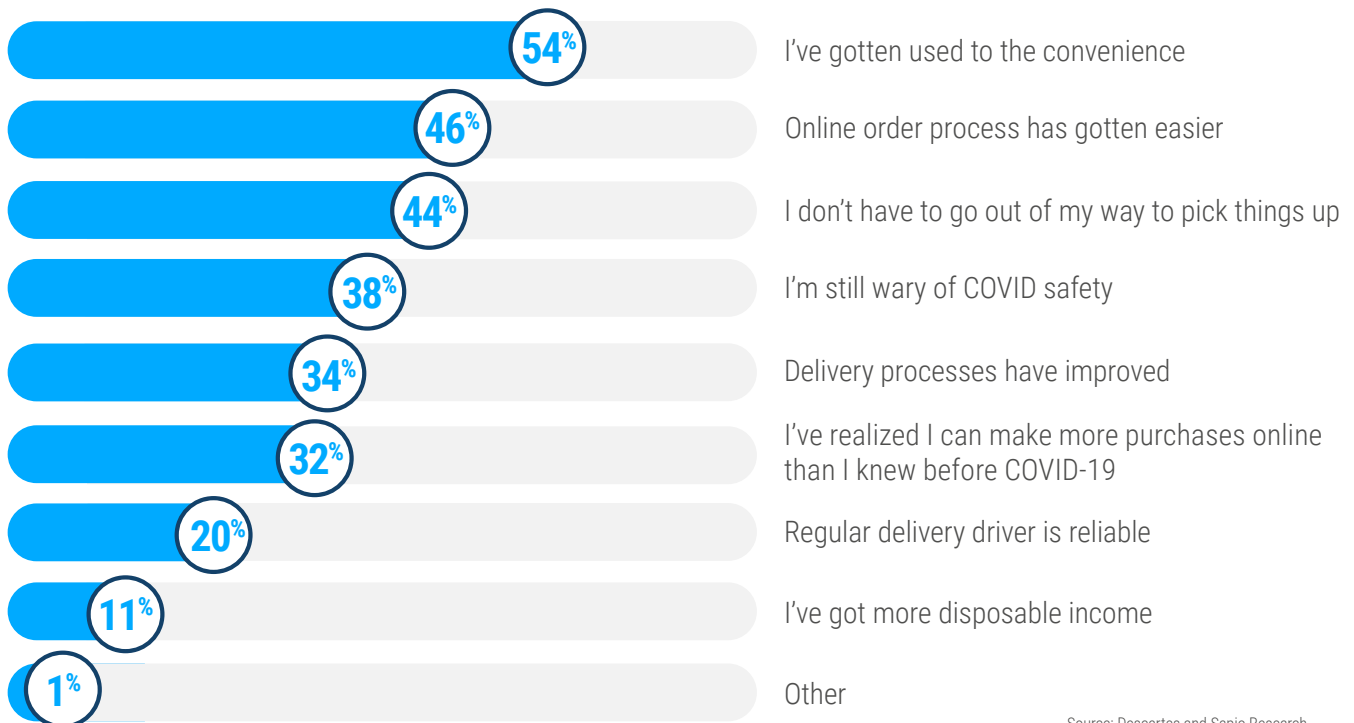
No Going Back – Consumers Accelerate Online Buying Habits

Well over half (**56%**) have increased the number of online purchases with deliveries they made since the pandemic – and for women, that number is **60%**. This sustained change in behaviour has transformed the online to in-store purchase ratio. Today a massive **46%** of purchases with deliveries are made online – up **11%** on pre-COVID numbers – and consumers expect that number to rise to **48%**. In certain countries – most notably the UK (**55%**) and USA (**52%**) – online sales now outrank in-store, a shift in behaviour that has significant ramifications for corporate strategy and customer engagement.

Consumers love the convenience (**54%**) of buying online and they have also noticed improvements in the ecommerce purchasing experience (**46%**) over recent years. For the older generation – those over 55 who may have been less familiar with online purchasing pre-pandemic – convenience is even more important (**64%**). People also like the fact they don't have to go out of their way to pick things up (**44%**) and have also discovered they can make more purchases online than they realised pre-COVID (**32%**).

Millennials had already grasped the value of online convenience and wide access to products before the pandemic, but this rapid adoption of ecommerce by the over 55s – **a demographic with a stable post-Covid disposable income** – opens up new opportunities for retailers. This age group has also been more cautious about returning to busy shopping areas, a fact that has further spurred their online shopping habits.

Going forward, why will you receive more online purchases via delivery than you did pre-COVID-19?



Source: Descartes and Sapio Research

Avoid Complacency – Delivery is not Satisfactory

With ecommerce driving retail sales, it is vital to identify and address any issues or concerns that may prevent consumer purchase. Those individuals who expect to reduce their online purchases were asked to cite the issue – or issues – that would deter them from future online spend. Retailers should be extremely concerned to discover that negative delivery factors were cited by one in five respondents – leading with the fact that deliveries are not environmentally friendly (20%), deliveries are not reliable (19%), bad delivery experience (19%) and dissatisfaction with the delivery experience (16%).

Brand Damage

However, the previous numbers may be understating the delivery performance problem for retailers as almost three in four (73%) of consumers had a delivery problem in the last three months. Late delivery was the top issue (26%), followed by the item(s) arriving at a different time than expected (22%) and the length of time required to make delivery (22%).

Inadequate deliveries have a long lasting impact on customer perception – for both delivery companies and retailers. While delivery companies take the biggest hit, with 24% losing trust in carrier, three of the top six answers infer a loss of future business and reputational damage to the retailer. Almost a quarter (23%) have not ordered from the retailer again, 21% lost trust in the retailer and 16% told family and friends to avoid the retailer – a figure which is potentially far more damaging given the speed with which these experiences are shared through social media and messaging platforms.



*Overall, **65%** of consumers will consider the environment when making an order. However, this rises to **85%** of those aged 18-24.*

Have you had any of the following experiences with a delivery in the last 3 months?



Source: Descartes and Sapio Research

Raise the Game – Customers have High Expectations

There is a significant difference in delivery performance between retail categories – but even the top performers are not good enough. Customers are only extremely satisfied half of the time with even the best performers – white goods at **52%** and clothing and footwear at **51%**. At the bottom of the heap, furniture retailers are only extremely satisfying **33%** of customers – there is a lot of room for improvement.

So what is going wrong? Why are retailer delivery models failing to meet expectations and satisfy customers? It is impossible to ignore the combination of dramatically increased delivery volumes and shortage of drivers across all modes of transport. The pandemic caused more people to buy online, while at the same time chasing drivers from the transportation industry. With no short-term fix to this problem, retailers are scrambling to find new ways to get their goods to consumers and do it with consistently high service.

Yet while delivery options become ever more challenging for retailers, customer expectations of the experience continue to rise. The more online purchases consumers make, the more chance they have of being exposed to the full gamut of delivery experience. And there is no doubt that some companies are really pushing the boundaries of the entire online experience, from beautiful presentation that provides an exciting unboxing moment, though great tracking, with continuous, accurate updates, and simple returns processes. These companies have raised the bar – and set new consumer expectations.

As this research confirms, an educated consumer base now has very definite ideas about the delivery process – cost of delivery (**74%**) is deemed extremely or quite important, as is security (**74%**); followed by ease of ordering (**69%**), the cost and ease of handling returns (**69%**) and tracking (**68%**). Price sensitivity is no surprise but the fact that security of delivery is as important should raise a red flag for retailers.



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Nuanced Model

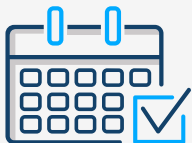
Customers also have different priorities depending on the type and value of goods on order, emphasising the need for retailers to move away from a one size fits all delivery model. Security (32%), proof of delivery (30%) and tracking (27%) are all more important for more expensive items – with cost of delivery (23%) unsurprisingly more important for lower cost goods.

The challenge for retailers is retaining control over the experience, especially when compelled by shortages to rely on multiple delivery modes and companies. In the end, most consumers are immune to the retailer's choice of delivery service, whether outsourced or executed with inhouse fleets. What they expect is a consistent delivery experience and retailers need to match the service of their delivery options with the expectations of their customers. This is why, for example, some luxury retailers have created their own micro-parcel delivery services in select markets for high value clothing, jewellery, household and other items to ensure a high level of delivery service as part of their overall customer experience and brand value reinforcement strategies.

For those retailers selling lower margin items, similarly innovative thinking is also required to safeguard profitability. Common thinking is that all consumers want their goods delivered as quickly as possible. Nothing could be further from the truth. Some consumers are happy to have all their orders delivered on a certain day if it helps the environment – which may also be the lowest cost option if that is a brand value the retailer wants to emphasise. Others may be happier paying extra for a specific time slot delivery. This is why it is critical to understand the delivery personas of their customer base.

All retailers need to consider what customers now expect as standard, irrespective of product value, and then build on that delivery experience to meet specific needs. Certainly, current delivery status information is essential. However, the occasional status update is no longer good enough; individuals expect real-time tracking, exception alerting and accurate ETAs.

Retailers can also benefit from a mindset shift: proof of delivery and tracking are not just additional customer services. Proof of delivery can be used to minimise disputes – for example by attaining photographs of delivered furniture in situ to prove lack of damage; record visiting the customers residence when they are not at home as expected; or worse, minimise delivery fraud. Best in class retailers are now using tracking communication to build greater customer engagement, adding product and service recommendations that are complementary to the current order to drive up cross- and up-selling opportunities.



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Consider the Environment – Millennials Expect Greener Retail

There is one factor that could derail the continued growth of online sales – consumer perception about the environmental impact of home delivery. Almost a quarter (**24%**) of all consumers will think twice about ordering groceries online due to the environmental impact, and **20%** restaurant food.

Overall, **65%** of consumers will consider the environment when making an order. However, this rises to **85%** of those aged 18-24, and **75%** of 25 to 34 year olds, demonstrating very clearly the expectations of younger individuals. Europeans are far more committed to environmental change – **78%** of French and **77%** German consumers would think twice about buying online, compared to just **58%** of consumers in North America.

For retailers, consumers' growing green expectations are not just one more pressure in an already challenging market – this is a real opportunity. Many retailers have sustainability strategies – but how well is that message shared with customers? Does it incorporate the delivery model? Is that embedded into the routine ecommerce offer?

A growing numbers of retailers are offering customers environmentally friendly delivery options. Some "green" options not only benefit the environment, but the retailer's bottom line because they drive delivery density which reduces the distance travelled to make deliveries, costs and carbon footprint at the same time. Providing customers with delivery tracking and timely communication, can also significantly improve first time delivery success rates further reducing the cost – financial and environmental – and customer disappointment associated with delivery failure.

Future Proofing

Retailers and delivery companies are beginning to explore new environmentally led innovation - such as the use of bike couriers and electric vehicles, especially within urban areas with congestion charges and clean air zones. With the ability to model parameters and assess the carbon footprint of the chosen delivery model, retailers can start to tell a positive green story to the consumer base – one that compares the carbon footprint of an efficient, optimised home delivery to the miles each customer would have to travel to buy and collect the goods from a local town or city.

In addition, customers are open to new ways of receiving goods. Almost two thirds (**64%**) are interested in combining orders into a single delivery at the end of the week (rising to **70%** of 18-24s); while **63%** would be interested in combining all their orders over a period for a single delivery when there are multiple deliveries in their area. Almost a half (**48%**) would pay for faster delivery (**57%** in urban areas) and **45%** would be prepared to pay for a more convenient time (**55%** in urban areas), providing retailers with a chance to use delivery as an incremental revenue stream, significantly reducing or, in some cases, offsetting the high cost of home delivery.



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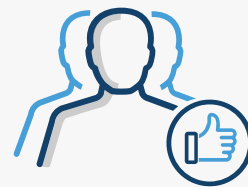
Conclusion – Good news, bad news

The research shows that, overall, ecommerce and home delivery is a positive story, but with clear warnings for retailers. The facts that consumers expect to increase their ecommerce purchases even as the pandemic subsides and that older adults have significantly increased their online purchasing preference are good news. However, the bad news is that home delivery performance has plateaued in the last two years, while consumer expectations for it have not. Regular delivery failures are fatiguing consumers and they are making future purchase choices based upon current retailer home delivery performance.

Complacency with current home delivery performance is not an option for success. Yes, home delivery is an expensive proposition, but with the right strategies and superior execution it is a competitive differentiator and revenue generator for retailers – even for the most mundane products. The ability to understand the delivery personas of customers and tailor delivery options to meet them is the key to a happier customer and better top and bottom line.

The delivery capacity crunch, combined with increased complexity and concern over environmental impact, means retailers must rethink their delivery strategies. This requires a unifying technology strategy that helps to ensure consistent execution and delivery visibility for the customer. Retailers should consider this as an opportunity to engage consumers, while simultaneously helping the environment and reducing the cost of home delivery.

Now is the time for home delivery performance to be placed on equal footing with retailers' other critical strategies for growth and improved financial performance.



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About Descartes Systems Group

Descartes (Nasdaq:DSGX) (TSX:DSG) 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. 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; access global trade data; file customs and security documents for imports and exports; and complete numerous other logistics processes by participating in the world's largest, collaborative multimodal logistics community. Our headquarters are in Waterloo, Ontario, Canada and we have offices and partners around the world.

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