

# OPENING NEW DOORS FOR HOME DELIVERY:

The “do-it-for-me” economy takes root as fast, free delivery becomes table stakes



Home delivery of goods ordered online is rapidly evolving in the United States—illuminating possible forthcoming opportunities in other countries where e-commerce has also shown brisk growth. In the US, consumers may already be receiving online orders as fast as they want, and delivery is often free. So, consumers are turning their attention to what's next: ordering bigger, bulkier, perishable, and more valuable products online. These items present more complex delivery challenges that sometimes require value-added services, such as set-up and installation in consumers' residences.

All of this opens new doors—both figuratively and literally—for online retailers and their logistics-services providers. For instance, companies that can get their personnel to interact directly with customers stand a better chance of strengthening brand perceptions and selling additional services that can command a handsome fee.

But this same opportunity comes with a catch: to meet consumers' rising demand for these bigger and more complex products and more sophisticated home-delivery services—and to do it profitably—companies need access to personnel who have the knowledge and skills required to perform these new services. This new class of home-delivery agents will become brand ambassadors. And in many competitive labor markets today, bringing them onboard and retaining them could prove challenging.

## ABOUT OUR RESEARCH

Administered during the second half of January 2019, this year's survey was completed online by more than 1,000 consumers age 18 and older in each of six countries: the US, UK, Germany, France, China, and Japan. As with previous years' surveys in the US, the goal was to gain insight into consumers' behaviors and preferences in ordering products online for home-delivery.

Respondents were evenly divided in terms of gender, and most were living in households that had more than one resident. Half of them were between the ages of 25 and 44.

Since 2014, AlixPartners has surveyed online shoppers in the United States to uncover trends in what they're ordering online for home delivery—including products they're buying, delivery services they're selecting, and their thoughts and feelings about those services. This year, we expanded our study to include five key home-delivery markets in addition to the US: the United Kingdom, Germany, France, China, and Japan. (See "About our research.")

By comparing consumers' responses from all six markets, we've uncovered trends at both the international and local levels—some surprising, others counterintuitive. Understanding these trends can help online retailers and their home-delivery logistics providers craft smarter strategies for succeeding in each market.

## HOME-DELIVERY MATURITY IN THE US

With every survey since 2014, we've seen steady growth in online purchases across product categories in the US. E-commerce adoption has proved especially brisk for goods with more demanding or complex home-delivery requirements—such as electronic equipment and furniture needing assembly. Changes in demand for specific product categories signify that a maturation process is unfolding in this market, whereby demand may be flattening.

To investigate the nature of this process, we examined e-commerce sales as a percentage of total retail sales as well as types of product categories ordered online as reported by our survey participants. Insights from this comparison yielded a maturity model that breaks e-commerce and ultimately home-delivery trends into three chronological waves.



## CONSUMER HOME DELIVERY MATURITY MODEL

### WAVE 1

**1990s through late 2000s**—"Give me variety, and make my transactions secure"

At the outset of e-commerce adoption in the US, consumers often shopped online to gain access to a greater variety of offerings than was accessible to them in local brick-and-mortar stores. Purchases centered on discretionary, small, and low-value goods such as photos, small appliances, small electronics and accessories, books and media, clothing and shoes.

Consumers were also concerned about transaction integrity: "Will my purchase show up on time—or at all?" "Will someone steal my credit card online?"

#### PRODUCT CATEGORIES

Discretionary, small, low value

#### CONCERN

Transaction integrity

#### DRIVER

Need for variety

### WAVE 2

**Late 2000s to present**—"Send my items fast and free"

Data from our annual surveys during 2014 to 2019 indicate that US consumers have increasingly been using e-commerce to buy consumer staples for everyday use, such as pet food, healthcare supplies, cosmetics, food, mobile phones, cleaning and home-office supplies, and home-improvement and hardware items.

Responses to this year's survey questions suggest that consumers in this wave have been especially interested in minimizing costs, particularly for shipping, and maximizing the speed of home delivery.

#### PRODUCT CATEGORIES

Everyday-use items, consumer staples

#### CONCERN

Speed of delivery

#### DRIVER

Low cost

### WAVE 3

**The future**—"Give me convenience, control, and service in my home"

We see a steady march of US consumer interests toward Wave 3, as e-commerce penetration of total retail sales inches up, year over year, and as the types of products people order online change. Consider: In the five years during which we've tracked this data, our participants' interest in ever-faster and free shipping for goods ordered online has been rising—traits that strongly characterize Wave 2. But US consumers are also ordering more large, bulky, and/or high-value items—such as electronics and appliances, furniture, jewelry, auto parts, and home furnishings.

These same consumers are also expressing heightened interest in additional services associated with delivery, including installation, assembly, setup, and maintenance.

#### PRODUCT CATEGORIES

Large, bulky, high-value, perishable

#### CONCERN

Delivery convenience

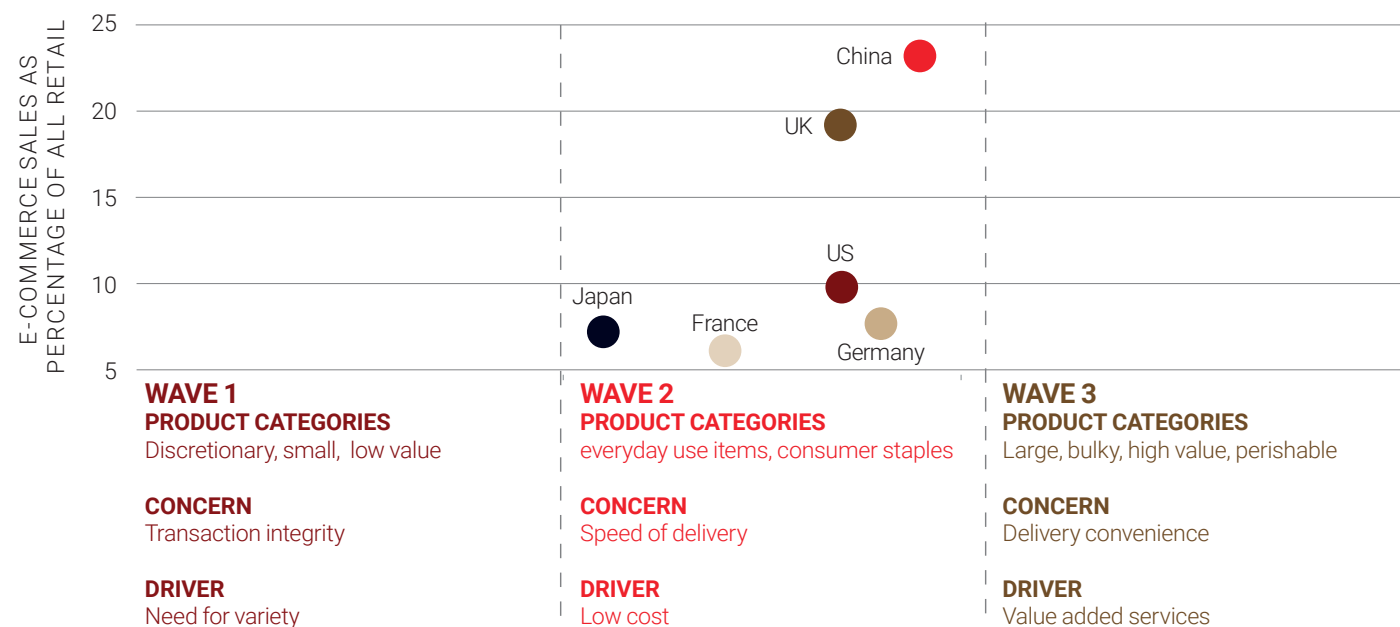
#### DRIVER

Value-added services



## FIGURE 1: HOME-DELIVERY ADOPTION WAVE BY COUNTRY

Consumer home-delivery maturity waves and key drivers (%)



Source: Statista

## ENTERING THE “DO-IT-FOR-ME” ECONOMY

US online shoppers are thus increasingly embodying the “do-it-for-me” economy. They now assume that their online purchases will be delivered fast and cheap, but many also want tasks related to those purchases performed for them. Take perishables like groceries and meal kits, or bulky, high-value items like appliances or sports equipment that come with installation services. Responses to some of this year’s survey questions suggest that home-delivery service quality is front and center in consumers’ minds. For instance, perishables must stay fresh. And newly delivered TVs or sports equipment must be installed and set up correctly—and they’d better work as promised.

But responses to other questions indicated that convenience has also begun mattering more to these online shoppers—perhaps because home delivery has reached satisfactory speed and minimum cost. For instance, some consumers want to have several different orders delivered together, versus sent separately on different dates, or are comfortable choosing a later delivery date if they don’t need an item immediately.

Responses to some of this year’s survey questions suggest that home-delivery service quality is front and center in consumers’ minds

By offering such options, a retailer not only provides convenience for consumers; it can also lower its shipping costs.

In other cases where companies have especially powerful brand cache and serve high-end customers (think Peloton bikes and Miele appliances), the product can only be ordered online. And consumers are required to pay a hefty fee for in-home delivery and installation services provided by knowledgeable personnel, who may be employed by the retailer’s logistics provider.

## HOME-DELIVERY MATURITY IN OTHER MARKETS

To further illuminate the home-delivery maturity model, we mapped e-commerce sales as a percent of all retail sales against product categories ordered, for all markets in this year’s survey (figure 1). Using the US market’s historical progression across the maturity model, we can draw some interesting parallels to what’s happening now internationally—and what may happen in the future.

In particular, this cross-country comparison reveals divergent paths in the adoption of home-delivery services for goods bought online.



## UK AND US



Take the UK. In this developed market, demand for home delivery is similar to that in the US. However, e-commerce adoption in the UK is considerably higher than in many developed markets; indeed, it's nearly twice the US rate. Specifically, consumers have shown a greater comfort with ordering large, bulky, perishable, valuable, and complex items for home delivery that typify Wave 3. The UK has similar demographics and cultural characteristics as the US but seven times the population density—and home delivery lends itself especially well to high-density populations.

The market has seen pioneering innovators establish themselves as a credible alternative for many customers. For example, Ocado launched a delivery service within densely populated London using Waitrose product. This proved the success of the model and the customer appetite leading to adoption in the grocery sector across the UK. Further a history of catalogue shopping led by businesses such as Argos built trust in ordering products, including bulky products, for delivery. White goods specialists such as ao.com have followed.

The upshot? The UK and US are at similar maturity levels, though UK shoppers seem especially loyal to the online channel. For instance, they're not necessarily ordering from a wider array of product categories; rather, they order the same products online that they're already accustomed to buying through that channel, versus shopping for those products in stores. In contrast to US consumers buying groceries both online and in grocery stores, those in the UK primarily use the online channel for food purchases.



## CHINA

By contrast, China doesn't fit the US mold in any respect. This market has leapfrogged over Wave 1 and landed squarely in Wave 2, thanks to a rocket-assist from the significant penetration of e-commerce into Chinese retail. Online giants like Alibaba jump-started both e-commerce and e-payments. Alipay, for instance, offers an arrangement whereby customers place their payment in escrow—to be released only when goods they've ordered online are delivered and they're satisfied with them. Closure of the escrow is done by the customer upon delivery, by the delivery person.

In China, e-commerce took off during the mid-2000s at a time when brick-and-mortar retail was underdeveloped. Not surprisingly, e-commerce growth outstripped that of physical stores and e-commerce now dominates organized retail. Chinese consumers now seem ready to leapfrog again—this time into Wave 3. In some respects, they've already ventured into that wave. For instance, fashion retailer Vanci has long let customers try on clothing delivered to their door, and immediately return any items they're not happy with.



## JAPAN

Meanwhile, Japan—clearly the laggard of the group—exhibits e-commerce penetration closely resembling that seen in the US market five years ago. That's surprising—given Japan's tech-savvy population, sophisticated logistics infrastructure, and the fact that the country has some of the highest-population-density home-delivery markets in the world. Possible explanations for this counterintuitive finding include the higher percentage of older consumers in Japan and the lesser willingness among Japanese to share personal information, such as credit card numbers, online. In Japan, people 65 and older represent 27% of the population, compared to just 15% in the US, and older people tend to be less comfortable with e-commerce than younger people are. Retailers in Japan have their work cut out for them in driving higher e-commerce adoption rates. But if they can overcome that hurdle, the density of the market—coupled with a high level of logistics capabilities—should prime Japan to move ahead in the maturity model.



## FRANCE AND GERMANY



Finally, France and Germany show numerous similarities. For instance, e-commerce adoption in these two countries has lagged behind that of the rest of Western Europe and the US, and consumers in both nations have a high sensitivity to delivery costs. One key question is whether online ordering of groceries can break through in these markets. Consumers typically are wary of online grocery ordering initially, but once their concerns about food safety and quality ease, they tend to start ordering other kinds of products online for home delivery. Indeed, markets in which online grocery ordering is brisk tend to have high e-commerce penetration. And once consumers feel comfortable buying food online, that may translate into greater interest in buying more Wave 3 products online.

## HIGHLIGHTS: HOW THE COUNTRIES COMPARE

These international comparisons related to the maturity model can yield useful insights for online retailers and their home-delivery service providers. But a closer examination of similarities and differences across the six countries can also generate helpful information. With that in mind, let's look at some highlights from our survey findings.

### WHAT ARE CONSUMERS BUYING ONLINE?

In the two key product categories below, we saw vastly differing trends across the countries we studied:



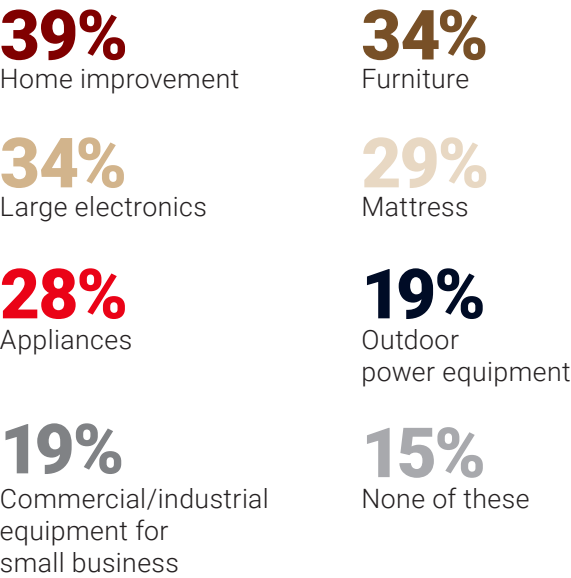
#### APPLIANCES, FURNITURE, AND LARGE BULKY ITEMS

Over 40% of respondents on average said they've purchased large, bulky items in the past (such as furniture, appliances, large electronics, and home-improvement and outdoor power equipment). These included 59% of the Germans and 47% of the Japanese in this year's study. But when asked how often they've bought large durable goods for delivery in the past 12 months, 63% of Japanese respondents answered "never," followed by 45% of US respondents answering the same.

We also asked what large durable goods respondents were most likely to buy online in the next 12-18 months. Forty-six percent of Japanese consumers said "none."

For all types of large durable goods, Chinese consumers plan to buy more from these product categories than consumers in every other country we studied—with home-improvement items topping their list of expected purchases.

#### CHINESE ONLINE SHOPPERS PLAN TO BUY MORE LARGE/BULKY ITEMS FOR DELIVERY IN THE NEXT 12 MONTHS VERSUS CONSUMERS IN OTHER MARKETS



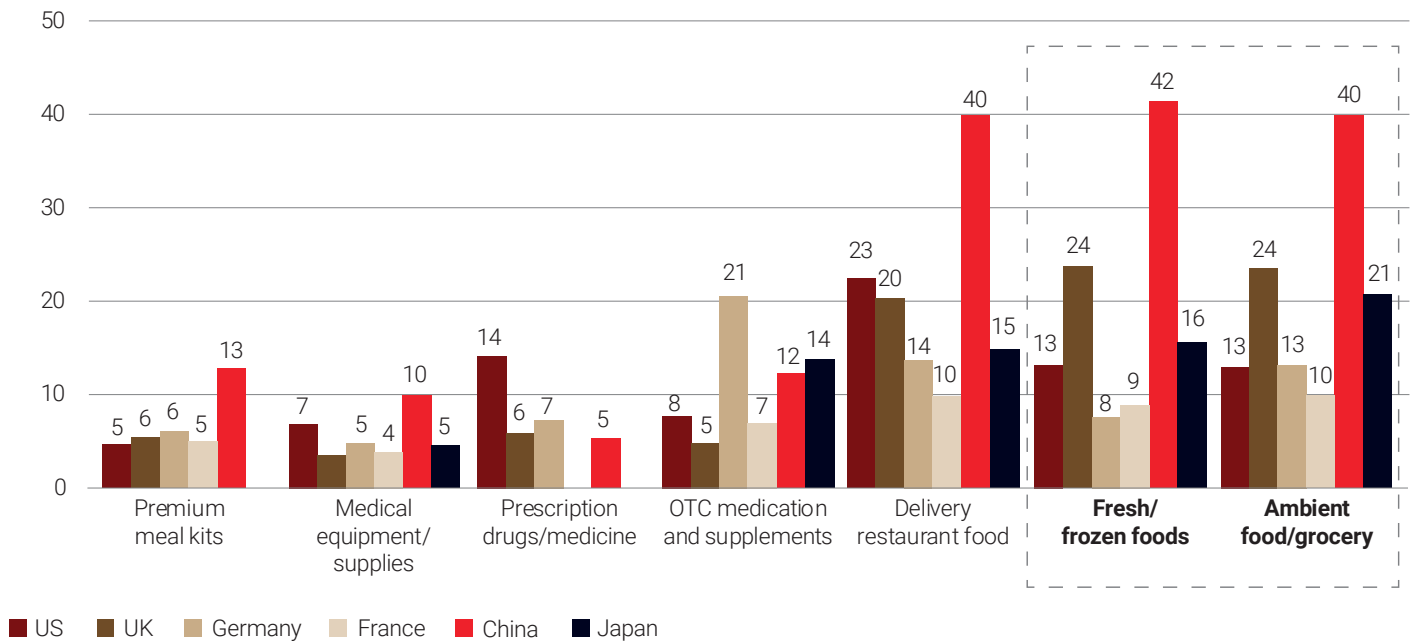
#### GROCERIES AND CONSUMER STAPLES

Basic groceries (fresh or frozen food, as well as ambient-temperature, or shelf-stable, items) are gathering momentum (figure 2). For instance, roughly 40% of Chinese consumers said they plan to buy fresh, frozen, and shelf-stable food online in the coming month. These numbers are much higher than in the other countries, with the US and UK coming in at a distant second place.

Why is the online ordering of groceries and consumer staples more popular in China than in the other countries? One reason may be that many Chinese don't own cars and must carry such purchases home. The inconvenience of lugging heavy items has helped fuel online purchasing. Another reason may be the advanced logistics and automation characterizing the Chinese market. For example, many sellers operating on Alibaba's Tmall, the most popular business-to-consumer site, offer same-day delivery. This can be difficult to get in other parts of the world characterized by less sophisticated automation and less-dense population centers. What's more, Tmall has thrived because it only allows brand owners and authorized distributors to offer and sell those brands through its platform. This may enhance trustworthiness of participating brands in consumers' eyes.

## FIGURE 2: WHICH CATEGORIES DO YOU PLAN TO PURCHASE FOR HOME-DELIVERY IN THE NEXT MONTH?

Groceries and consumer staples planned to purchase for delivery (%)



Note: 'Prescription drugs/medicine' and 'premium meal kits' were not listed in the Japanese survey.

## WHAT ARE CONSUMERS EXPECTING FROM HOME-DELIVERY SERVICES?

Clearly, the array of shipping options offered by e-commerce retailers makes a big difference in how consumers browse products online. When asked how strongly they agree with the statement, "I prefer to browse products on a website based on the available shipping methods/options," respondents in all six countries selected "completely agree" and "mostly agree" at least 48% of the time (in the UK) to as much as 82% of the time (in Germany).

Given the degree to which available shipping options influence browsing behavior, it's important to understand what, precisely, consumers are looking for in the way of home-delivery services during their browsing forays. Our survey data also sheds light on this question.



### SHIPPING COST AND SPEED

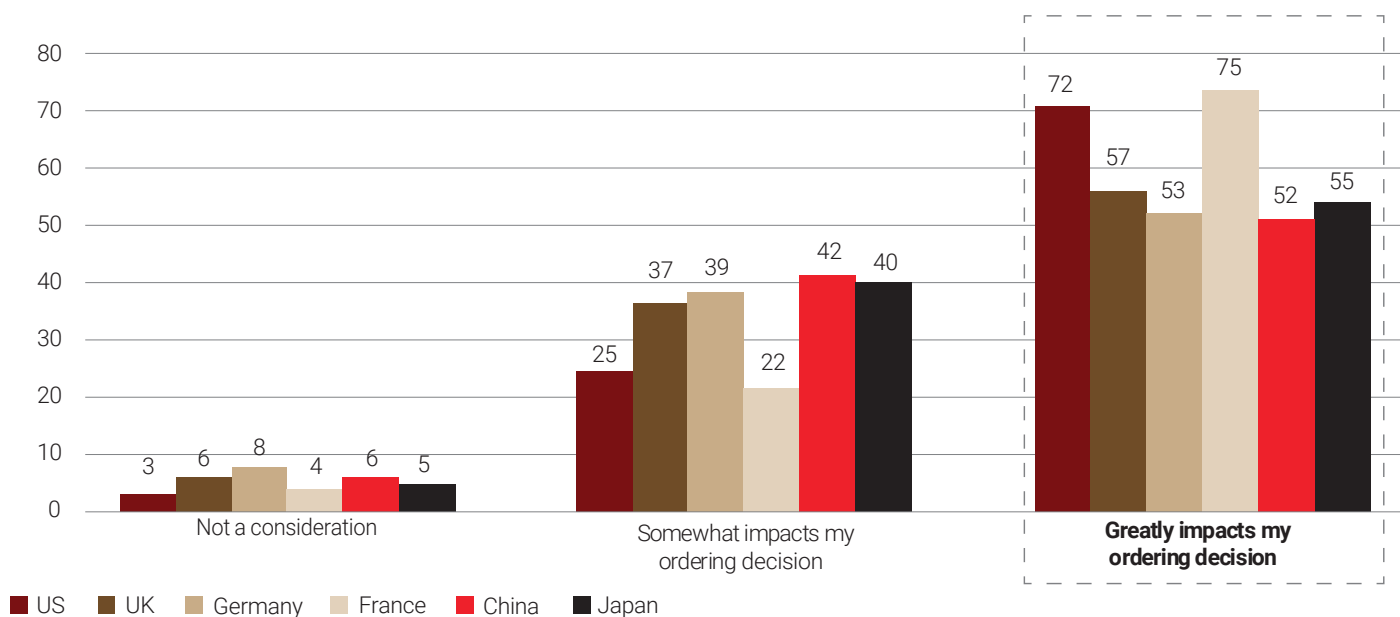
We see interesting data related to these Wave 2 concerns. Among those surveyed, free shipping is most critical to US and French consumers. More than 70% of consumers in these markets say that free shipping "greatly impacts" their purchasing decisions (figure 3). And when it comes to the speed of home delivery, three to four days is the acceptable maximum delivery time for free shipping—not only in the US and France but also in the other countries we surveyed, with Germans saying three days, and Americans saying 4.3 days.

In the six countries studied, expectations related to shipping today are for fast delivery times, with all participants willing to wait just 4.3 days on average, versus 5.5 days for US consumers back in our 2014 survey. This tightening of expectations could stem from "the Amazon effect"; indeed, 60% of Americans in this year's survey and 50% of Germans are Amazon Prime members, with Japan coming in as a close third, at 48%.

Free shipping is most critical to US and French consumers.

**FIGURE 3: WHEN ORDERING AN ITEM FOR DELIVERY, HOW DOES THE CHOICE OF FREE SHIPPING IMPACT YOUR ORDERING DECISION?**

Impact of free shipping (%)

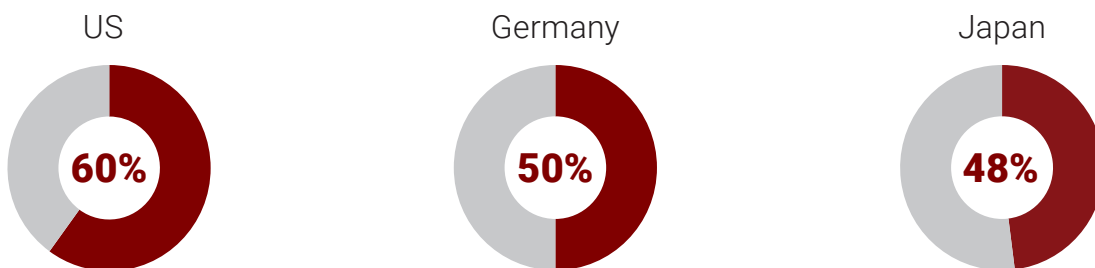


## VALUE-ADDED SERVICES

When it comes to Wave 3 home-delivery service offerings—such as installation, assembly, maintenance, and technical services—products typically associated with such services include furniture as well as large electronics and appliances (figure 4). Interest in these value-added services may be gathering momentum among consumers, given that speedy delivery has become table stakes, and convenience and control may now matter more.

But feelings about value-added services vary, depending on unique characteristics of each market. For example, the reasons that Chinese consumers tend not to order appliances, furniture, and large bulky items online for delivery include concerns about loss of or damage to their items during transit, and the possibility that the wrong item will be sent. These concerns may reflect relatively weak consumer-protection standards in China. Especially with large, expensive items ordered online that need installation, consumers have no recourse if they accept delivery of an item and release the escrow—and then installation or setup of the product is mishandled by a second crew arriving a few days later. In such cases, consumers can't go to a store and complain, and may not get satisfaction by phoning a call center. There's more recourse available for installation and setup problems if customers browse large, bulky items in stores and order them there versus buying them online. Robustness of infrastructure also plays a role in the degree to which consumers in a particular market buy large or bulky products online for home delivery.

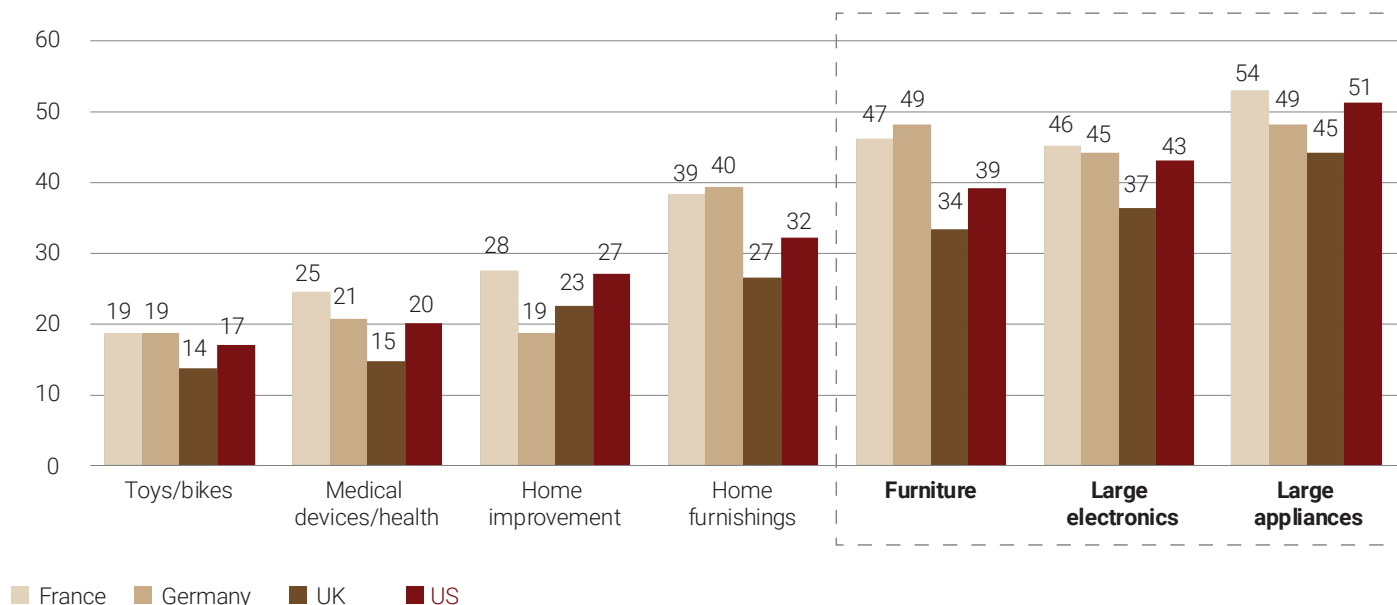
Tightening of expectations could stem from "the Amazon effect" - Amazon Prime members in this year's survey:





#### FIGURE 4: PLEASE INDICATE YOUR INTEREST IN INSTALLATION/ASSEMBLY AND/OR TECHNICAL SERVICES (FOR A FEE) FOR ONLINE PURCHASES WITH DELIVERY TO YOUR HOME OR WORK

Interest in installation/assembly or technical services  
(percentage who select high interest/some interest)



#### NEXT STEPS FOR ONLINE RETAILERS AND HOME-DELIVERY LOGISTICS PROVIDERS

The US market for home delivery of goods ordered online may be foreshadowing similar developments in other countries. In the US, consumers still want their items delivered as quickly and cheaply as possible overall, and probably always will. But incremental reductions in delivery timeframes have become harder and harder to achieve as the baseline gets smaller. At the same time, the value of speed diminishes; same-day delivery just isn't necessary for every order or every product category. Plus, many deliveries are free already, leaving little room for further reductions in delivery cost. In sum, the consumer behaviors and preferences that drove the growth of e-commerce and home-delivery services through Wave 2 have run their course in America.

With this new baseline – fast and free – well established, US consumers are turning their attention to the next frontier of home delivery: big, bulky, perishable, valuable, or otherwise complex items that require value-added services such as assembly and installation. Consumers are still warming to these types of products and services. This is probably a good thing, because retailers, as well as the logistics providers they rely on, would be hard-pressed to drastically increase delivery volumes efficiently.

In any country where e-commerce has seen, or is likely to see, brisk growth and where similar changes in consumers' preferences are beginning to unfold, these developments present an opportunity for companies that invest in the next generation of home-delivery capabilities. But retailers and brands that sell direct to consumer must consider their options carefully. Home delivery of more complex items is not easy or cheap to develop and maintain on a national basis. Rather, this capability will be reserved for only those companies boasting the largest retail and e-commerce footprints – such as Walmart and Amazon.

Smaller retailers and brands will need to partner with third-party logistics providers (3PLs) to strengthen their national home-delivery prowess.

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Competitive pressure may also take on a new shape for retailers in countries moving into Wave 3 of the home-delivery maturity model. In the past, delivery costs steadily decreased as retailers focused on maintaining or growing market share in e-commerce. Going forward, retailers may be forced to offer not only delivery but also setup and installation services for free if they hope to remain competitive. What's more, consumers' growing interest in convenience is being satisfied by the ability to combine orders and schedule deliveries of items they ordered online. Offering such choice is not a value-added service in a strict sense, and it can reduce shipping costs for retailers. But it also introduces complexities for retailers and their logistics providers.

Most 3PLs will also need to step up their game to meet consumers' rising demands and their retailer clients' needs. In the US, the home-delivery logistics network is extremely fragmented, a situation that has spawned wide discrepancies in service costs, quality, consistency, and available capacity. To keep consumers satisfied, retailers will have to be able to offer a more consistent level of quality and service on a national basis. In our view, the 3PL market overall in the US is not up to the task. And in countries that come late to the Wave 3 game, difficulty finding enough service personnel with the right skills could make it even harder to fulfill consumers' rising demand for new services.

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## FOR MORE INFORMATION CONTACT:

### NORTH AMERICA

**Jim Blaeser**

Director

[jblaeser@alixpartners.com](mailto:jblaeser@alixpartners.com)

**Marc Iampieri**

Managing Director

[miampieri@alixpartners.com](mailto:miampieri@alixpartners.com)

### EUROPE

**Henry Pringle**

Director

[hpringle@alixpartners.com](mailto:hpringle@alixpartners.com)

**Jose Fernandez-Vidal**

Senior Vice President

[jfernandezvidal@alixpartners.com](mailto:jfernandezvidal@alixpartners.com)

**Peter Heckmann**

Managing Director

[pheckmann@alixpartners.com](mailto:pheckmann@alixpartners.com)

**Olivier Salomon**

Managing Director

[osalomon@alixpartners.com](mailto:osalomon@alixpartners.com)

### ASIA

**Michael McCool**

Managing Director

[mmccool@alixpartners.com](mailto:mmccool@alixpartners.com)

**Kenzo Nagaoka**

Managing Director

[knagaoka@alixpartners.com](mailto:knagaoka@alixpartners.com)

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These are the moments when everything is on the line – a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference, it's how we do it.

Tackling situations when time is of the essence is part of our DNA – so we adopt an action-oriented approach at all times. We work in small, highly qualified teams with specific industry and functional expertise, and we operate at pace, moving quickly from analysis to implementation. We stand shoulder to shoulder with our clients until the job is done, and only measure our success in terms of the results we deliver.

Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.

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