

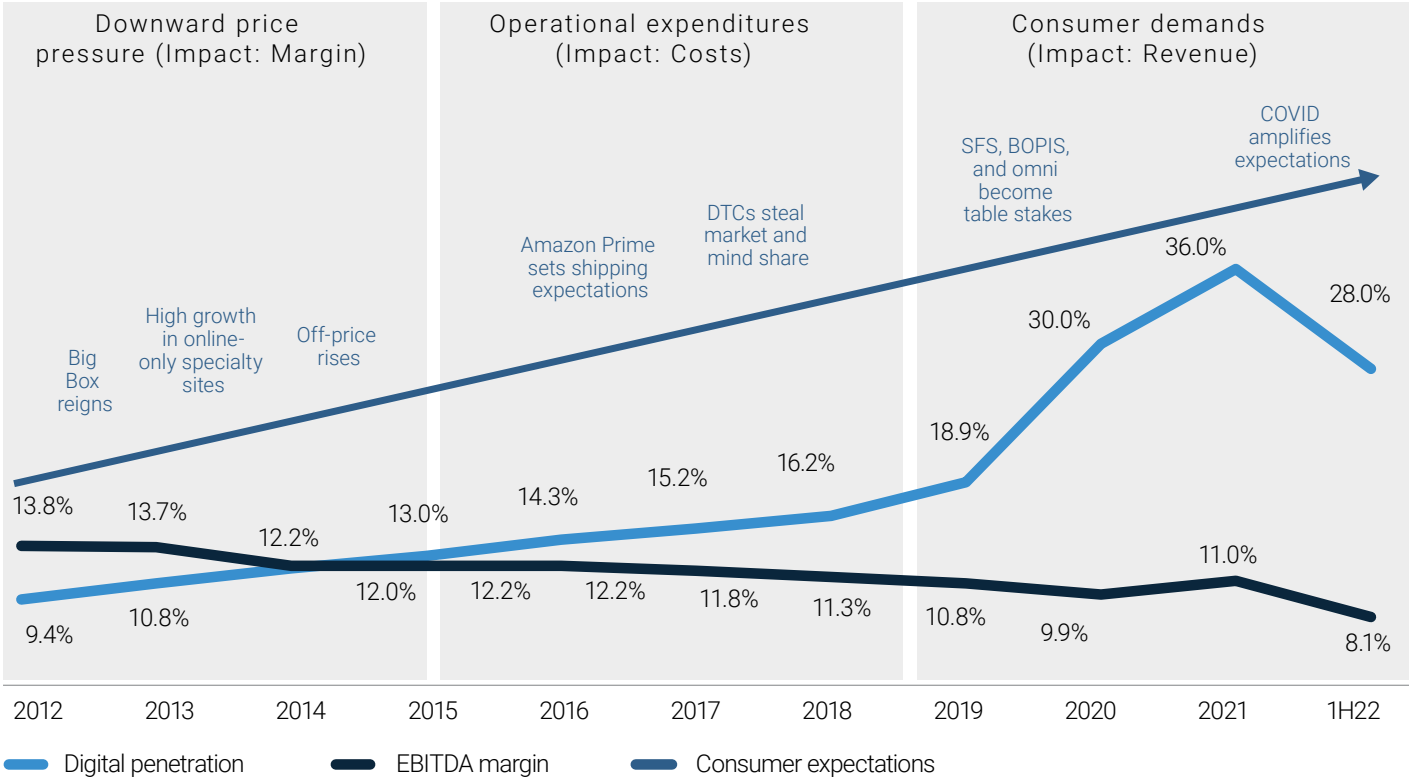
COMPANIES ARE FALLING SHORT ON CONSUMERS' HOME DELIVERY EXPECTATIONS



The e-commerce surge forced by the pandemic has been a tricky turn of events to tackle for businesses. On one hand, it allowed companies to make significant headway in meeting or exceeding online sales growth goals. On the other, fulfillment and delivery operations and associated expenses rose at a pace that noticeably hurt margins. Two years on, companies are refocusing on finding efficiencies and reducing fulfillment costs. The challenge is to do so while continuing to meet the increased consumer expectations.

In our home delivery survey earlier this summer, consumers told us that they expected an item to be delivered within [three days with free shipping](#). To determine where the industry was placed vis-à-vis consumer expectations, we followed up with an executive survey in our home delivery research this year. And we found that the industry is falling significantly short. **Only about half of all executives said their free shipping service level goal was three days or less, and 47% said they did not feel they were able to meet this goal at all.**

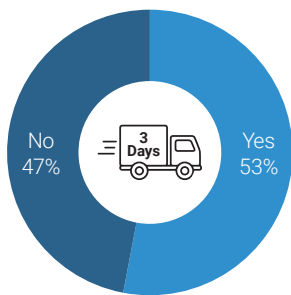
FIGURE 1: RISING CONSUMER EXPECTATIONS DEMAND CONTINUOUS OMNICHANNEL IMPROVEMENTS WHILE CHALLENGING PROFITABILITY



Sources: AlixPartners study of select >\$1 billion U.S. public retailers across sectors; Company 10-K filings and investor conference calls

FIGURE 2: INDUSTRY CONFIDENCE IN MEETING THE THREE-DAY DELIVERY GOAL IS NOT VERY HIGH

Our consumer home delivery survey has been fielded for the past 10 years, during which time we have seen expectations increase for free shipping service level from 5.5 days delivery in 2012 to 3.3 days in 2021. Do your current distribution capabilities allow you to commit to that lead time for free shipping (click-to-porch)?



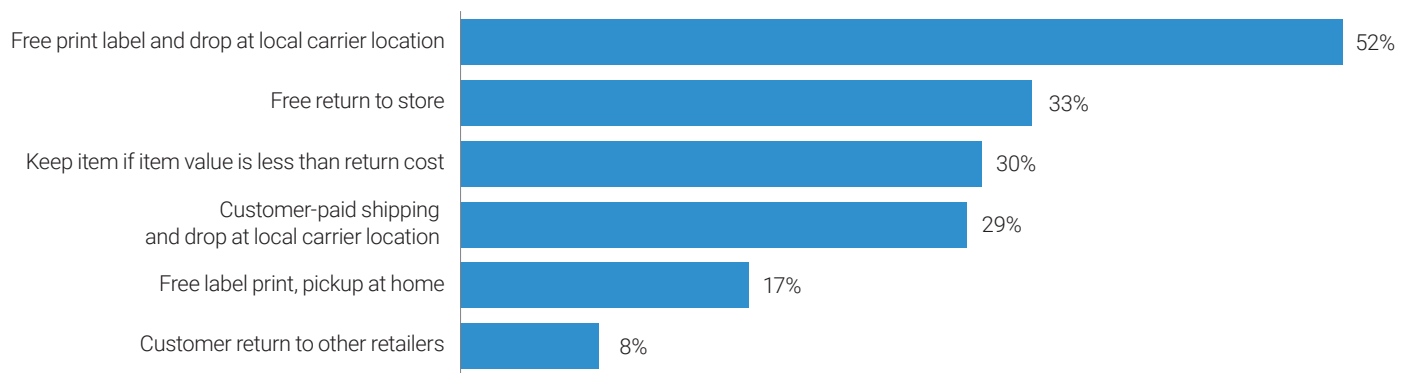
Source: AlixPartners U.S. Home Delivery Executive Survey, Summer 2022

For consumers, the availability of free shipping has remained very important when making the purchase decision. Almost three-fourths of the [consumers told us free shipping has a great impact](#), with only 4% saying it was not a consideration while making purchase decisions. While 48% of the executives we asked currently offer free shipping or returns, of this group, more than half were planning to start charging for shipping. Additionally, 57% were planning to start charging for returns. This could be a massive risk, as today's loyalty-averse consumers will easily take their dollars elsewhere if they don't get expected service levels.

There are other dichotomies to resolve in the returns process. For executives, the most popular return option is to offer a free-to-print label and let customers drop the item off at a local carrier location. While this may be the cheapest option for supply chain operators, **both consumers and retailers prefer returns dropped off in store, allowing for the latter to capitalize on impulse-purchase opportunities.** Over the past few years operators and retailers alike have experimented with various tactics – moving free-shipping-free-returns thresholds, weighing whether it might be cheaper to let the customer keep the item instead of sending it back, partnering with other retailers or shippers, among others. It's time to closely review the results of these tests and apply learnings, especially as what works for one business may not work for another.

FIGURE 3: EXECUTIVES ARE EXPERIMENTING WITH DIFFERENT RETURN METHODS

Which of the following options do you offer your customers for returns?



Source: AlixPartners U.S. Home Delivery Executive Survey, Summer 2022

RACE TO CUT COSTS

Only 34% of executives

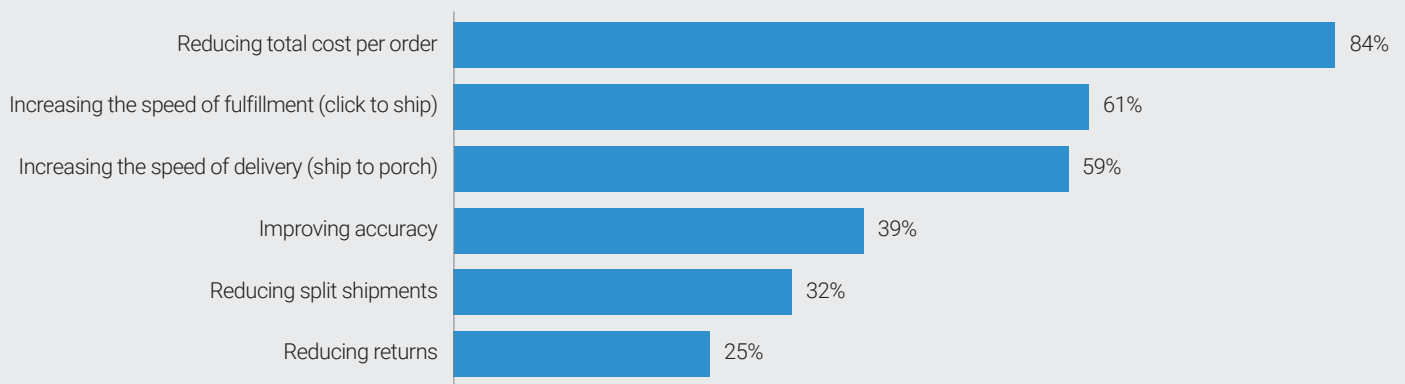
said home delivery was accretive to their profitability when compared to in-store transactions. With that in mind, it's only fair to ask how these operations can be reliably sustained into the future without running margins ragged. Executives are keenly aware that prompt action is necessary.

As many as 84% of executives

said reducing the total cost per order was their number one priority when it came to last-mile delivery. Increasing the speed of fulfillment – both click-to-ship as well as ship-to-porch – was the next important agenda item.

FIGURE 4: EXECUTIVES ARE PRIORITIZING REDUCING DELIVERY COSTS

On which facets of your last-mile delivery are you currently focused?

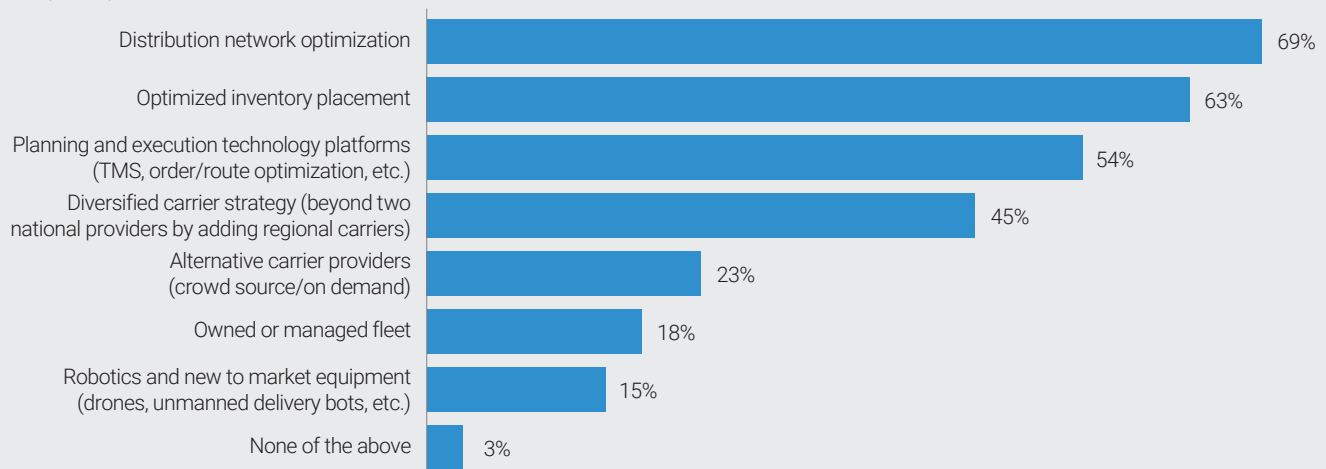


Source: AlixPartners U.S. Home Delivery Executive Survey, Summer 2022

Among initiatives that executives are pursuing to improve home delivery operations from both a service and a cost perspective, distribution network optimization came out on top, followed closely by optimized inventory placement. This is easier said than done, however, and demands a thorough review of the network capabilities and areas of opportunity.

FIGURE 5: EXECUTIVES ACKNOWLEDGE THERE ARE OPPORTUNITIES TO OPTIMIZE THE DISTRIBUTION NETWORK

What initiatives are you pursuing to improve your home delivery operations from a service and cost perspective?



Source: AlixPartners U.S. Home Delivery Executive Survey, Summer 2022



Approximately 40% of executives said they were offering or planning to offer in-store pickup options, one lever to reduce home delivery costs. But here's the challenge: Slightly fewer number of consumers are using the buy-online-pick-up-in-store (BOPIS) option than last year – 6.9% versus 7.6% – and the long-term trend is that the use of this service is flattening.

There are opportunities in network optimization, but these will need to be weighed carefully with costs. Three in four consumers said they did not mind if their order arrived in multiple packages over multiple days. While this means shippers can leverage inventory from across their

network, **56% of executives said split shipments were a challenge as this can have a significant impact on profits associated with additional fulfillment, shipping, and material costs.**

More than a third of these shippers said higher than 90% of their deliveries for the same order were shipped together at the same time. Interestingly, less than half currently offered or planned to offer the ability for a customer to delay delivery for combined packages, which is an immediate opportunity and offers palatable options to the environmentally or less service level-oriented consumer.

SAME-DAY CHALLENGES AND OPPORTUNITIES

Consumer demand for same-day delivery has nearly doubled from five years ago, with both consumers and executives estimating this makes up 5% of orders.

This service now closely matches the volumes of store pickup. However, many still do not offer the option. While there is an opportunity, this clearly remains a complex service that demands investments in technology, infrastructure, and, for most shippers, working with external partners. And while consumers are willing to pay for this service, especially for grocery purchases, they are very price sensitive. On average over the last three years, increasing the same-day grocery delivery fee from \$5 to \$10 resulted in demand falling by approximately 50%. This suggests that operators will need careful calibrations while experimenting with starting or adding this service level.

TO SUM UP, THE FOLLOWING TRENDS ARE EMERGING:



For retailers, providing customers options to make **returns in the store** will create opportunities to capitalize on impulse buys and **lower-cost reverse logistics infrastructure**.



Delivery cost arbitrage will result in a lower BOPIS growth rate for everyday items outside of grocery.



Shippers and retailers alike will make more **investments in physical infrastructure and inventory** to support three-day order fulfillment for as much of the U.S. population as possible.



There will be **more automation and software investments** in fulfillment DCs to support timelines expected by customers.



Retailers will create **new shipping rules** as well as **increase product segmentation** to reduce multiple deliveries per order.

For years, shippers have been trying to calibrate profitability through free shipping order minimums. But consumers have clearly developed an aptitude for free shipping and taking this away at a time when consumers are swimming in options will backfire. While margins need protecting, operators must tread carefully and assess every possible lever before taking away service levels that consumers have come to expect.

The fact that online fulfillment is costly is just that – a fact. This means that traditional solutions are no longer enough, and supply chain leaders need to think differently about everything – from the role of the store, how to manage the store and DC network, inventory placement and allocation strategies, order management rules that are based on markdown avoidance, and, maybe more important than anything, the overall customer lifetime value.

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ABOUT US

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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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