



Omni-channel point of view
Delivery as competitive advantage

Introduction

Moving successfully towards an omni-channel supply chain model is built on the development of five key strategic capabilities. In our second point of view, treating inventory as one pool of products across the entire network of an organization has been proposed as a key enabler for a successful omni-channel strategy. In our next point of view, personalized and flexible fulfillment has been put forward in order to respond to the erratic omni-channel demand.

Because of the continuously rising customer requirements, companies are challenged to rethink their strategy and reorient the way their supply chain is organized. Customers want their product to be delivered at the right time, at the right place and in the right format. On top of that, they expect faster and more flexible deliveries in combination with constant availability of information. However, customers are not always willing to pay for this service level increase. Therefore, building an omni-channel distribution model -capable to respond to these rising requirements- is key to survive in the competitive market.

This point of view focuses on how customer expectations are affecting the current delivery model, what the challenges are in moving away from the traditional model and in which way omni-channel deliveries can leverage competitive advantage.

Omni-channel ecosystem

Five key capabilities to respond to the increasing customer requirements

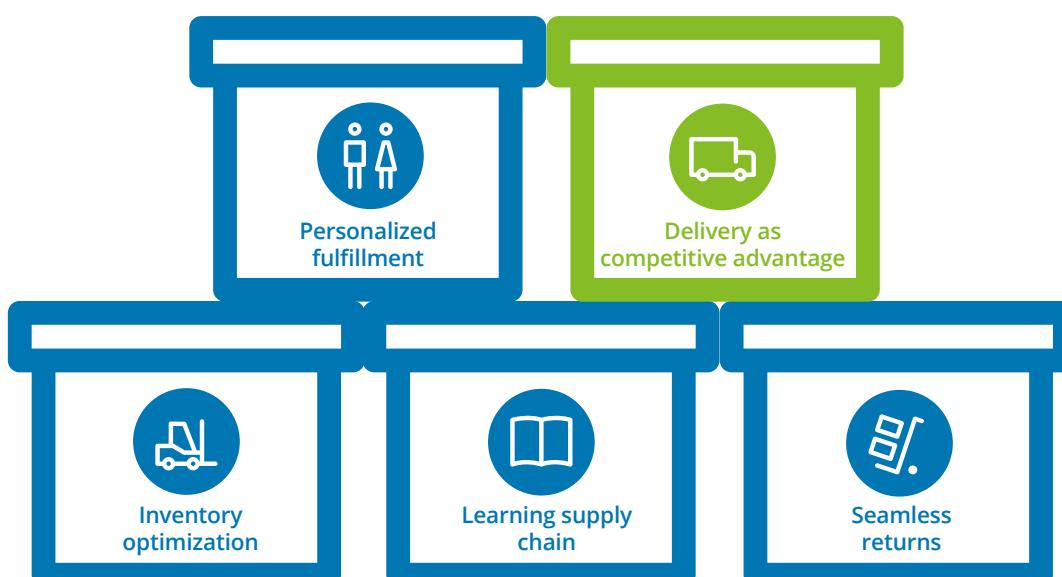


Figure 1- Five key capabilities to support the omni-channel ecosystem

Customer requirements are changing towards fast, reliable, free and flexible deliveries while having instant access to information

Leading e-tailers, such as Amazon and Bol.com, are redefining the traditional way of doing business by setting new service standards to which customers happily adjust. Based on the service level they are able to offer, customers are adapting their expectations for purchases on all platforms. Customers expect fast, reliable, free and flexible deliveries, in combination with the instant availability of information.

Fast, free and reliable

These preeminent e-tailers have successfully implemented their business model. As a result, customer expectations are higher than ever before. Two years ago, the majority of customers indicated 'fast shipping' as within three or four days, while nowadays, most customers interpret 'fast shipping' as shipping within two days. However, they are usually not eager to pay extra for this service level increase, as 64% of customers does not want to be charged for two-day deliveries¹. On top of that, recent technological evolutions have steered up possibilities and expectations concerning delivery timeframes. As an example, Amazon is piloting delivery by automated guided drones in the UK to shorten current delivery timeframes to a bare minimum. Another aspect on fast deliveries is the reliability of deliveries. Customers are disappointed and frustrated if their orders are not delivered at the promised time as they often select a certain provider based on the estimated delivery time.

Flexible

On top of that, flexibility seems to become key in the delivery process. When customers are purchasing an item, they want to choose from different delivery options like home delivery, pick-up in store, pick-up in smart lockers, etc. More and more, they also wish to select the type of last-mile delivery based on the promised delivery time (i.e. deliveries during the day in a locker, while evening deliveries can be dropped off at home). Furthermore, they want to have the ability to make last-minute switches to another delivery type at their own convenience.

Instant availability of information

While it remains questionable if same-day deliveries and 100% flexibility will become the norm for everyone soon, instant availability of information will be. Customers require immediate, relevant, accurate and consistent information about stock levels, delivery times and shipping. Nearly half of the customers indicate they would look for another seller in case of poor order tracking and transparency².



Figure 2 - Customer requirements

¹ Deloitte.com. (2016). <https://www2.deloitte.com/content/dam/Deloitte/us/Documents/consumer-business/us-consumer-business-2016-holiday-survey-results.pdf>

² Supply Chain Quarterly. (2016). <http://www.supplychainquarterly.com/news/20161004-survey-online-shopper-demand-visibility-as-well-as-speed-in-delivery/14>

The traditional distribution model is confronted with four key challenges

Companies need to be able to deliver anywhere and anytime, while required response times diminish. This increasing complexity results in four main challenges. The first challenge discussed below is the additional pressure on supply chain cost. Also, a closer look is taken to the increasing congestion and the challenge of limiting the environmental impact. Lastly, the carriers' direct impact on the customers' perception is highlighted.

Cost

There is a reverse trend in moving away from big deliveries to big supermarkets towards smaller and single unit deliveries to little shops and individuals. More and smaller orders are being shipped on a more frequent basis via multiple shipments per day. It can even happen that one customer receives multiple parcels via different shipments on the same day. This adds complexity to the supply chain and increases the average shipping cost per item. Loading full vehicles, planning optimal routes and predicting the optimal network is key to remain competitive, which implies changing the way last-mile delivery is organized.

Congestion

The shift towards more, smaller and partial deliveries also causes congestion of cities and streets. In addition, leading e-tailers are most often collaborating with different carriers, making it difficult to consolidate shipments per carrier and per region. As a result, many trucks and vans are needed. They are driving simultaneously to drop-off different orders in the same area, putting pressure on traffic and causing congestion. This traffic congestion makes it harder to build accurate forecasts and to meet the promised delivery moment. On top of that, more vans and longer delivery times have a cost impact since drivers and assets are losing valuable time in traffic. Mobile apps and community based GPS systems for real-time route optimization, such as Waze, can be part of a solution to tackle this challenge.

Environment

The environmental impact cannot be underestimated either. A recent study of the University of Antwerp calculated that every package has a societal cost of 30 eurocents³. As total traveled kilometers rise, so do fuel consumption and emission. This enforces the need for a well-developed transportation management system, which is able to optimize and update routes based on real-time information. Next to the increasing need of a more mature IT system, there is also the need for alternative, low-emission vehicles. These alternative vehicles are becoming the norm soon, since governments increasingly impose limitations on emissions within city boundaries. As such, they limit the entrance of trucks and cars throughout the day.

Carrier performance

The fourth challenge that cannot be underestimated is the customers' perception of the e-tailer. Many companies are outsourcing their distribution to 3PLs and other service providers. The selection of these external parties should not solely be based on cost and the ability to deliver on time, but also on customer service related factors. Since drivers of these 3PLs will be in direct contact with the end-customer, it is vital to ensure that these companies are carrying out your organization's culture and values. Therefore, it is key that e-tailers stay in close contact with their customers to capture feedback. After a parcel has been dropped off, the e-tailer could specifically ask for feedback about the delivery.



Figure 3 - Key challenges

³ DeStandaard. (2017). http://www.standaard.be/cnt/dmf20171106_03173336

Turning your delivery network into a competitive advantage

Big hurdles need to be overcome in becoming a successful, dynamic, omni-channel organization. An ecosystem of relationships enables effective and efficient deliveries. By tackling the above challenges in the right way, opportunities can be created to turn the supply chain network in a competitive advantage.

Customer segmentation

A leading omni-channel organization provides convenient and fast service with a variety of cost options. Generally, customers expect a certain service level for free. However, a subset of customers is willing to pay for higher service levels. Therefore, segmenting customers and building a tailor-fit delivery model for each segment could be beneficial. Customers of lower segments are less demanding and primarily focused on the lowest price. Hence, they are willing to accept a more moderate service level. On the other hand, there are other customers willing to pay surcharges for a higher service level in terms of faster deliveries and memberships. As an example, Bol.com has set up 'Select': members of this program pay a yearly fee and in return, they are offered free deliveries for a wide range of products, with no minimum purchasing threshold. Additionally, orders can be delivered throughout certain evenings.

Moreover, the price customers are willing to pay for fast delivery does not only depend on the customer segment they belong to, but is also dependent on the situation they are in. Imagine someone who has forgotten to buy a present for somebody's birthday tomorrow. Needless to say that the customer will not hesitate to spend more to get a faster delivery.

Offering additional delivery services is another way of differentiation. Coolblue, a Dutch e-tailer focused on electronics, installs the ordered equipment and gives demos when dropping off the order. They do not purely focus on price because many customers are not eager to install the electronics themselves. As such, they are willing to pay a premium as they value the additional services of Coolblue.

Incentives

Incentivizing customers who do not want to compensate for increasing delivery costs, can help companies in channeling their deliveries and increasing order sizes. Organizations are able to influence their customers' shopping behavior in multiple ways. Customers can be encouraged to schedule deliveries on off-peak moments or purchase several items per order by offering them volume discounts and free deliveries as of a certain threshold. By promoting deliveries in smart lockers or store pick-ups instead of home deliveries, the final mile delivery costs can be reduced, as this will limit the number of nodes in the delivery network. Parcel deliveries shipped to stores can be combined with regular store deliveries and as such, save costs. This also has a positive effect on traffic congestion and on the environment, since traveled distances will be reduced and more parcels will be combined in one-stop deliveries. As more and more customers are concerned about the environment, organizations are also able to limit their environmental impact by offering a green delivery option.

Partnerships

Creating an efficient and effective delivery mode requires collaboration between both e-tailer and carrier in order to offer the best-fit experience to their customers. When both parties would interchange data on customer order patterns, carriers should be able to optimize their transport planning and optimize routings and as such, improve costs. When carriers get in personal contact with the customer, they can capture customer feedback and pass this valuable information back to the vendor. It is advisable that vendor and carrier engage for a long-term relationship and think together how they could improve customer service overall. A potential consequence of this stronger cooperation is a broader role for the last-mile driver. The driver could orient himself as a salesman and based on previous purchases, the driver can present additional items to the customer, allowing the driver to upsell during delivery. Another trend to cope with the challenges in transportation is through collaboration between competitors, as shown in the use case below.

Case 1: John Lewis



Many retailers are facing the same challenges. John Lewis, a British retailer, has taken the initiative to start collaborating on the transportation of click-and-collect orders. Together with a logistics specialist, John Lewis has started Clicklink. This joint venture is set up to pick up the orders from the retailer's distribution center and bring it to the store. In order to fully exploit economies of scale, parcels of several distribution centers from different retailers can be combined to deliver to multiple stores. British retailers like Whistles, Mint Velvet and Ted Baker already rely on this joint venture for their click-and-collect shipments.

Technology

In order to create visibility across all channels, standardized data and a common information exchange platform is needed. Customers expect to have instant information on product availability, location, delivery lead-time and order status. These increasing customer requirements can be answered by applying technology. An Order Management System can provide a single view on inventory and provides the flexibility to adapt to last-minute changes. In addition, a Transportation Management System can be used to optimize and update routing models. Telematics and IoT can support real-time decision-making and will update the management system with highly accurate and qualitative data. Moreover, these technologies can provide the customer with the latest order information. A mobile app could show the exact location of the parcel, provide an accurate delivery time slot, and push a notification once the carrier is in a certain range around the customer based on geo-fencing. As a next level example to minimize delivery lead times, Amazon has installed a system of 'anticipatory shipping' in which it starts shipping products before they are actually ordered based on historic information and available real-time data.

When looking at future transportation options, delivery by self-driving cars, drones and robots might seem futuristic. However, knowing that labor is accountable for 60% of the delivery cost and that there is an acute shortage of drivers within Europe, there might be a case for autonomous delivery.

What's next?

Organizations need to rethink their current network setup, as customers want free, fast and flexible deliveries while having access to reliable and up-to-date information. These evolving customer requirements put pressure on the delivery model. Moreover, a thought-through system to organize return processes should be installed. Return volumes are increasing significantly and have a direct impact on profitability. The way to address return flows in your omni-channel network will be tackled in our next point of view.

Figure 4 - Technologies supporting organizations in becoming successful omni-channel companies



Case 2: Parcify



Shoppers want to be able to make last-minute changes to the delivery time window or location. Specialized carriers, such as Parcify, have based their business model on the belief that the customer wants to be delivered depending on where he is located at a certain point in time. The e-tailer delivers the parcel at Parcify's warehouse in a city center. From there, Parcify takes over the last-mile delivery. Their couriers bring the order to the customer by bike. Through an app, the customer aligns with the courier on the exact delivery location: home, the terrace of his favorite bar, sports club, office, etc.

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