



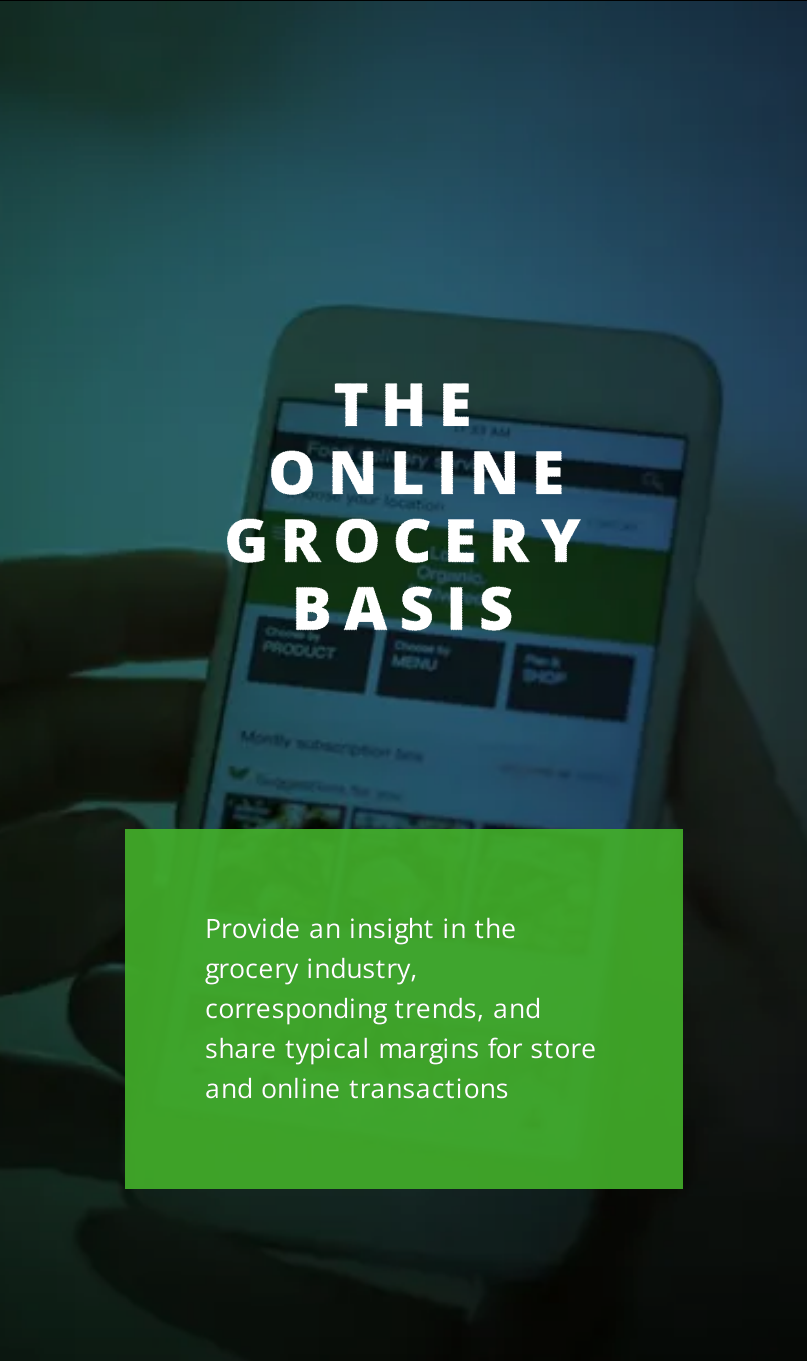
The Online Paradox

From margin dilutive home delivery to a profitable online business



Introduction

This document shares the basis of online grocery, the financial implications of transactions moving to online, and a translation towards a profitable future



THE ONLINE GROCERY BASIS

Provide an insight in the grocery industry, corresponding trends, and share typical margins for store and online transactions



KEY PROFIT DRIVERS

Deep dive on the transaction overview, key cost and revenue drivers that lie underneath the online paradox to understand the key issues of different fulfilment options



THE PATH TO SUCCESS

Share solution directions that can help to turn The Online Paradox into a profitable online business model

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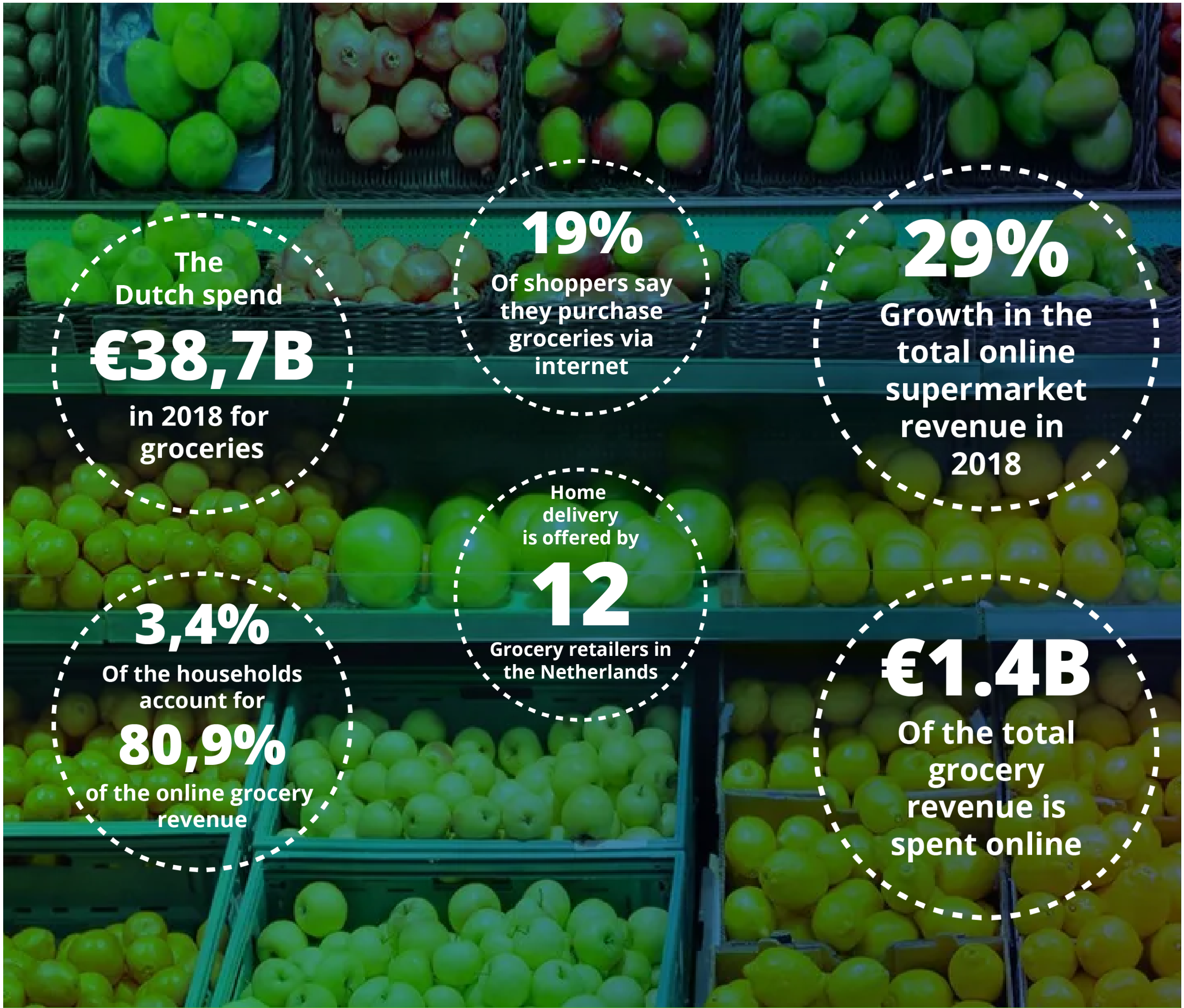
“
Grocers need to move their business online in order to stay relevant, but every transaction that moves from offline to online requires massive upfront investments, and tends to be less profitable or potentially margin dilutive
”



Adgild Hop
Retail Sector Lead
Deloitte NL

Introduction to Grocery

Worldwide, 26% of consumers purchased fresh groceries online (more than 40% in mature markets), resulting in an expected 10% of online grocery market share in the next years. This increase of online sales also means a shift from store-based fulfilment to home-fulfilment.



Margin dilutive home delivery – The basis

Retail used to be based on the consumer doing the fulfillment themselves, coming into the store, doing ‘the pick’, and doing the ‘last-mile logistics’ themselves. Yet now we’re all increasingly setting the expectation that this massively value-adding activity can be owned by the retailer without getting fully reimbursed for this service. And this expectation of service keeps growing: shorter lead times, smaller delivery windows, etc.

OFFLINE SUPPLY CHAIN



ONLINE OMNICHANNEL SUPPLY CHAIN



 Retailer driven process  Consumer driven process

Margin dilutive home delivery - The transactional costs

Every transaction that moves from store to home delivery tends to be margin dilutive. Typically grocers can reach an indicative profit margin of approximately 5% on a store basket, while home delivery typically entails an extra 7-13% of costs. It does not take a mathematician to conclude this has a significant impact.

Offline transaction



3 to 7%

Online transaction



-3 to -7%

Online transaction



-1 to 3%

Sources: Deloitte analysis, company P&L data, annual reports, desk search, expert interviews

KEY PROFIT DRIVERS

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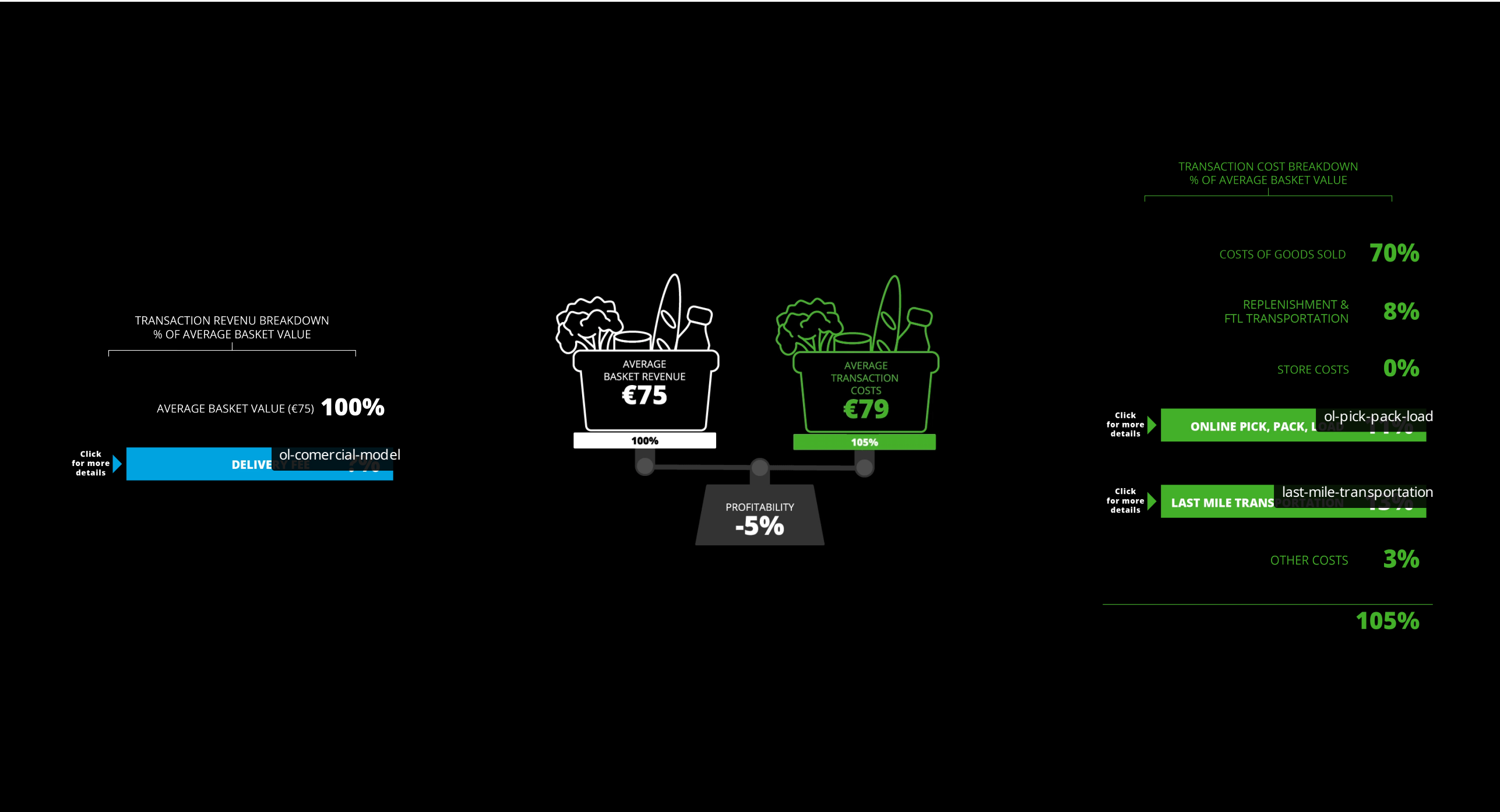


Wesley Snoeren
Online Fulfilment Specialist
Deloitte NL

Margin dilutive home delivery – home delivery drivers

The margin impact of home delivery is driven by the operational model (picking and last mile transportation) and commercial model (delivery fee)

Indicative home delivery profitability



Indicative Click & Collect profitability



Sources: Deloitte analysis, company P&L data, annual reports, desk search, expert interviews

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“
If we assume that ignoring the online grocery trend is not an option, for the majority of retailers, the question is how to minimise margin impact. This comes down to two key questions 1) how to optimise the commercial model to ensure the consumer pays a fair share and 2) how to set up the online grocery operation while minimising the incremental costs.
”



Mark-Jan Grootenboer
Online Fulfilment Lead
Deloitte NL

The Path to success

Leading grocerers implemented multiple initiatives to try to pivot into profitability, with limited success. We believe that online grocery has the potential to be a cost neutral and possibly even profitable business. This is only feasible through a holistic approach, combining best practices of leading grocerers, and optimise the commercial and operational model in parallel. A clean model based on clear choices is key.

Optimise the Commercial Model

An optimised commercial model brings the right value to the consumer while making sure a fair reimbursement in pricing or consumer effort is introduced. However, consumer perception is key to take into account for all commercial improvements.

[Tell me more...](#)

Pay



Optimise the Operational Model

An optimised operational model makes sure the commercial offering is executed in a cost efficient way. However, transactional cost benefits need to be evaluated with the necessary investments. In addition, strategic decisions define the extent of optimisation possible (e.g. centralised vs decentralised fulfilment).

[Tell me more...](#)

Automate

Sources: Deloitte analysis, company P&L data, annual reports, desk search, expert interviews

Solutions

What should an optimised commercial and operational model look like? A combination of leading examples such as milk-run model, automated picking, delivery subscription fees, and hybrid delivery solutions like click-and-collect could eventually result in a healthy online grocery business.

Profitability solutions home delivery

High potential solution	High potential solution	High potential solution	High potential solution	Other solutions	Other solutions
Making sure consumers pay a fair share of the delivery operation increases profitability, dependent on pricing strategy	Incentive consumers to use click-and-collect options instead of home delivery increases profitability with 5 -7% per order	Automating the online picking operation in the warehouse increases profitability, dependent on the degree of automation	Creating fixed delivery timeslots and use a modern milk run model potentially doubles the orders delivered per hour	A variety of traditional (bikes, vans) or future (droids, drones, autonomous vehicles) can decrease last mile costs	Diversify the ship-from location (CDC, RDC, store) based on proximity to the consumer and market density creates an optimal balance between picking and last mile costs

Profitability solutions Click & Collect

High potential solution	Other solutions	Other solutions	Other solutions
Automating the online picking operation in the warehouse increases profitability, dependent on the degree of automation	Lockers where consumers can pick-up C&C orders without interaction with store employees eliminates customer facing store costs	Combining click and collect orders with regular store replenishment decreases the replenishment costs, but the additional warehousing operations needed increase warehousing costs	Picking click-and-collect orders from store decreases replenishment costs, but significantly increases picking costs

Do you want to create a successful online business?
Connect to our online fulfilment specialists



Adgild Hop

Retail Sector Lead
Deloitte NL

ahop@deloitte.nl
+31 6 500 552 10



Sander Feenstra

Supply Chain Strategy Lead
Deloitte NL

sfeenstra@deloitte.nl
+31 6 500 552 10



Mark-Jan Grootenboer

Online Fulfilment Lead
Deloitte NL

mgrootenboer@deloitte.nl
+31 6 123 445 24



Wesley Snoeren

Online Fulfilment Specialist
Deloitte NL

wsnoeren@deloitte.nl
+31 6 132 749 10