

**Deloitte.**

## The Online Paradox

From margin dilutive home delivery to a profitable online business



# How to make online profitable

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

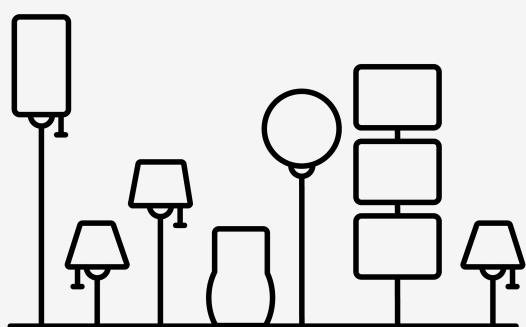
“Covid disrupted the Home Industry. After difficult initial issues the industry was able to reach double digit revenue increase, with a large part of this revenue coming from online sales. Even if total sales volumes would return to normal post Covid, it is evident that online experience becomes even more vital to thrive in the Home retail industry”



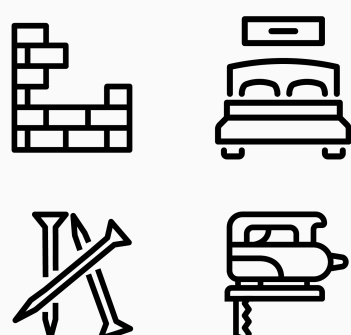
**Adgild Hop**  
Retail Sector Lead  
Deloitte NL

## Thriving Online

eCommerce sales within DIY and furniture retail has evolved over the last years. A profitable online business is challenging due to three key industry characteristics



1. Increasing competition in the marketplace, online and offline



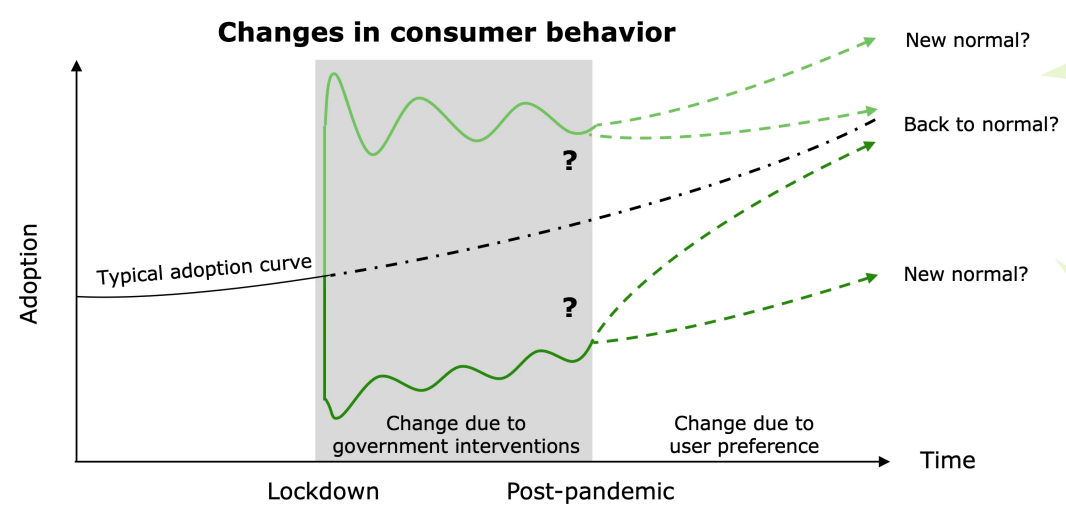
2. Extreme diverse characteristics in product portfolio



3. Margin dilutive home delivery

# Thriving Post-Pandemic

Online was relevant pre-covid, but will play an even more prominent role in the future. It is key to mature online towards a more customer engaging but profitable channel.



## DIY e-commerce

E-commerce adoption for DIY has peaked during the lockdown period. Even though it remains uncertain how e-commerce rates will evolve, a more important role for online is still expected

- **Government interventions** have forced overnight changes in behavior
- Post-pandemic behavior is driven by what consumers want, not what government mandates
- Key question for business: "will we go back to normal or can we benefit from a **"new normal"**?"
- **Stickiness of behavior** is primarily driven by whether the **new experience is better than the old one**

"With the knowledge that online will become more prominent and the assumption that ignoring this is not an option, for the vast majority of retailers, the question then becomes how to minimise the margin impact of an expensive e-Commerce channel without jeopardizing on customer experience."



# THE ONLINE HOME BASIS

Provide an insight in the home industry, including competitor landscape, the assortment complexity, and corresponding segment trends



# KEY PROFIT DRIVERS

Share baseline cost structures for store & online transactions and deep dive on key profit 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



# THE ONLINE HOME BASIS

Provide an insight in the home industry, including competitor landscape, the assortment complexity, and corresponding segment trends



**Sander Feenstra**  
Supply Chain Strategy  
Lead Deloitte NL

“The battle for the DIY and furniture consumer is not solely fought within the stores anymore. Tech players - among others - are heavily investing in the online Home segment. However, profitability is heavily impacted due to complex assortment characteristics and corresponding expensive last mile deliveries”

## Introduction to home

The global market for Furniture & DIY is growing and the share of online spend keeps increasing as well, resulting in a double impact growth of the online home business



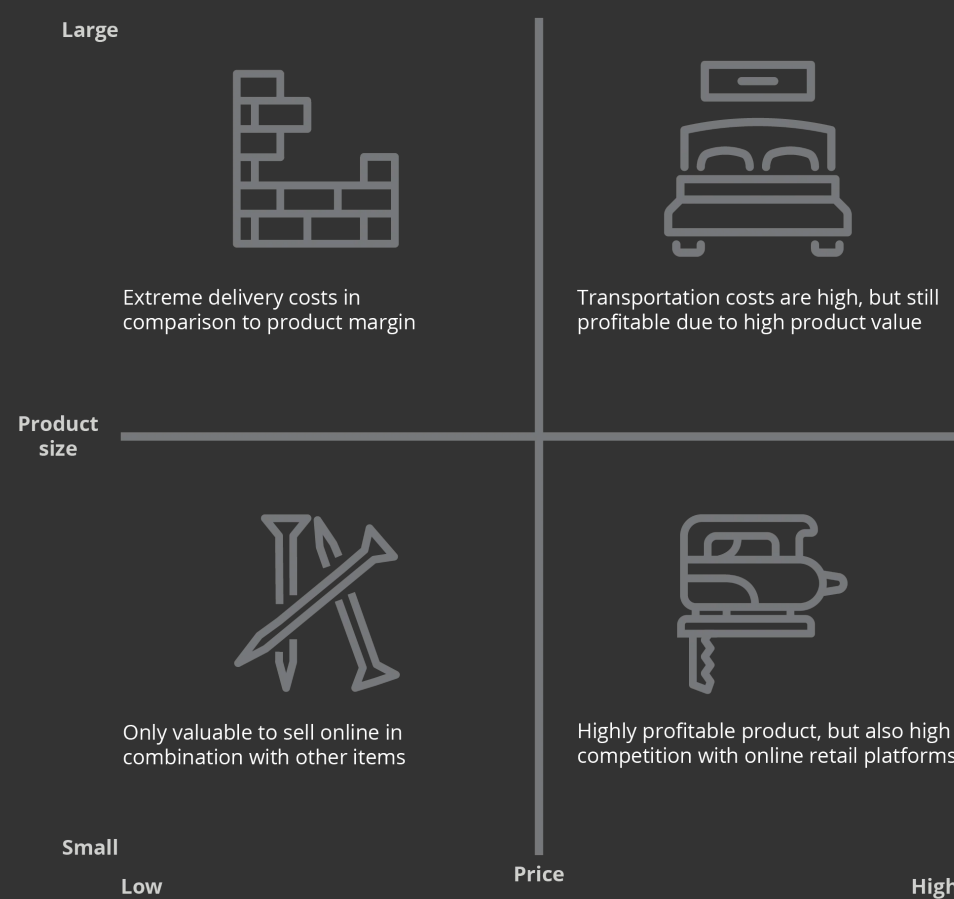
## Complexity of Home Industry

The traditional DIY and Furniture retail landscape is being disrupted. New competitors are entering the market, putting pressure on the sector. The new competitive landscape includes international brick-and-click players leveraging economies of scale to enable excellent service for low prices, manufacturing brands going direct to consumer in niche products segments, and online pure players / tech giants leveraging data and prioritizing growth over profit”.



In addition to the evolving competitor landscape, the DIY and furniture industry has a large variety of product characteristics to deal with. Consumers want simplicity, but a one size fits all solution for the Home segment is infeasible due to a highly complex assortment setup. Margin protection is a challenge

The Home industry is a highly competitive market with a complex assortment. Retailers face different strategic challenges per product segment and key is to achieve profitability over all segments



- Each product segment has a **distinct competitive landscape** (including Niche players and tech giants) and requires a **different customer engagement** (e.g. project based)
- The **role of the store** in the online strategy has to be determined per product segment – e.g. showroom for high value product, the potential role as online distribution point
- The **online assortment and offline assortment** needs to be aligned to ensure seamless experience, but each product segment shows different (profitability) dynamics
- **Segmented supply chain requirements** for each product segment needs to be designed to ensure a profitable online proposition per product segment
- A trade-off needs to be made to tailor the supply chain to the specific product segments versus the **economies of scale** required to ensure profitability

## Margin dilutive home delivery – The basis

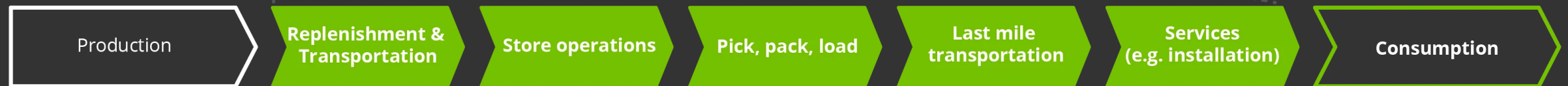
Retail used to be based on the consumer doing the fulfillment themselves, coming into the store, doing ‘the pick’, and doing the ‘last-mile logistics’ themselves. Yet now we’re all increasingly setting the expectation that this massively value-adding activity can be owned by the retailer without getting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



## OFFLINE / TRADITIONAL SUPPLY CHAIN



## ONLINE OMNICHANNEL SUPPLY CHAIN



## Margin dilutive home delivery – The transactional costs

Every transaction that moves from store to home delivery tends to be margin dilutive. Typically DIY and Furniture retailers can reach an indicative profit margin of approximately 10 - 14% on a store basket, while home delivery typically entails an extra 8 - 12% of costs for small products and even 11% - 19% for large products. It does not take a mathematician to conclude this has a significant impact.

Offline transaction



10 – 14%

Online transaction



2 – 6%

Online transaction



-5 – -1%



## 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

“Retail used to be based on the consumer doing the fulfilment 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.”



**Wesley Snoeren**  
Online Fulfilment Specialist  
Deloitte NL

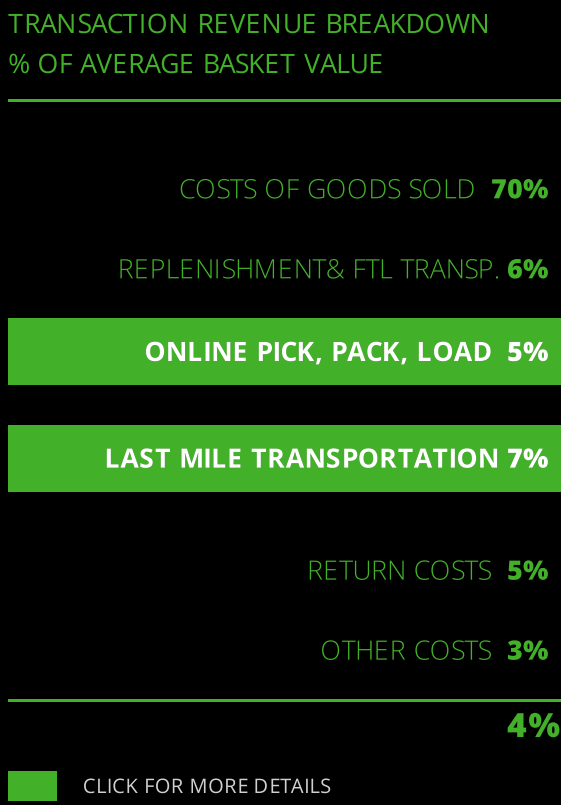
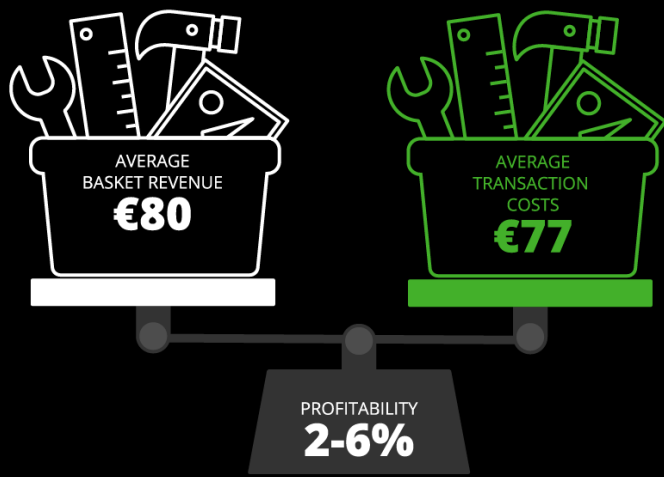
### Margin dilutive home delivery – home delivery drivers

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

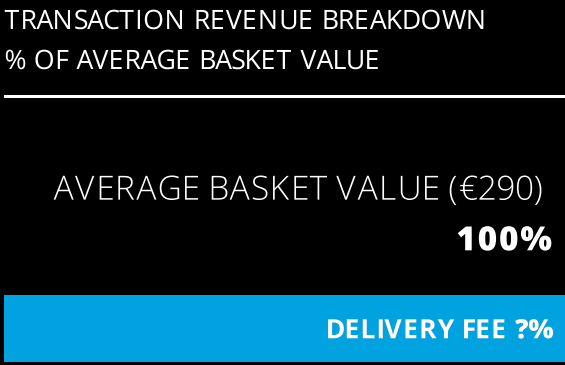
### Indicative profitability home delivery of small products



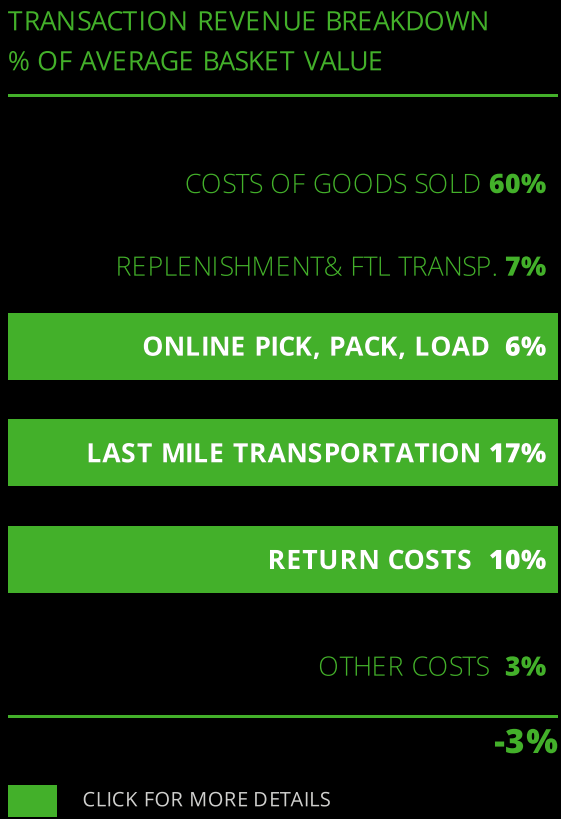
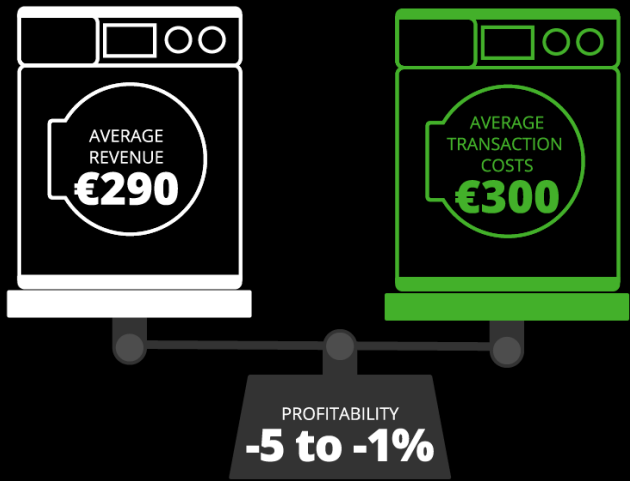
CLICK FOR MORE DETAILS



Indicative profitability home delivery of large products



CLICK FOR MORE DETAILS



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



# THE PATH TO SUCCESS

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

“Online fulfilment in home can be made profitable, but it requires significant effort and focus. It eventually comes down to two key questions 1) how to optimise the commercial model to ensure the consumer pays her fair share and 2) how to set up the operation to ensure the incremental costs are as low possible.”



**Mark-Jan Grootenboer**  
Online Fulfilment Lead  
Deloitte NL

## The Path to success

Leading Home retailers implemented multiple initiatives to try to pivot into profitability, with deviating successes. We believe that online DIY and Furniture has the potential to be a profitable business. This is only feasible through a holistic approach, combining best practices of leading retailers, 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



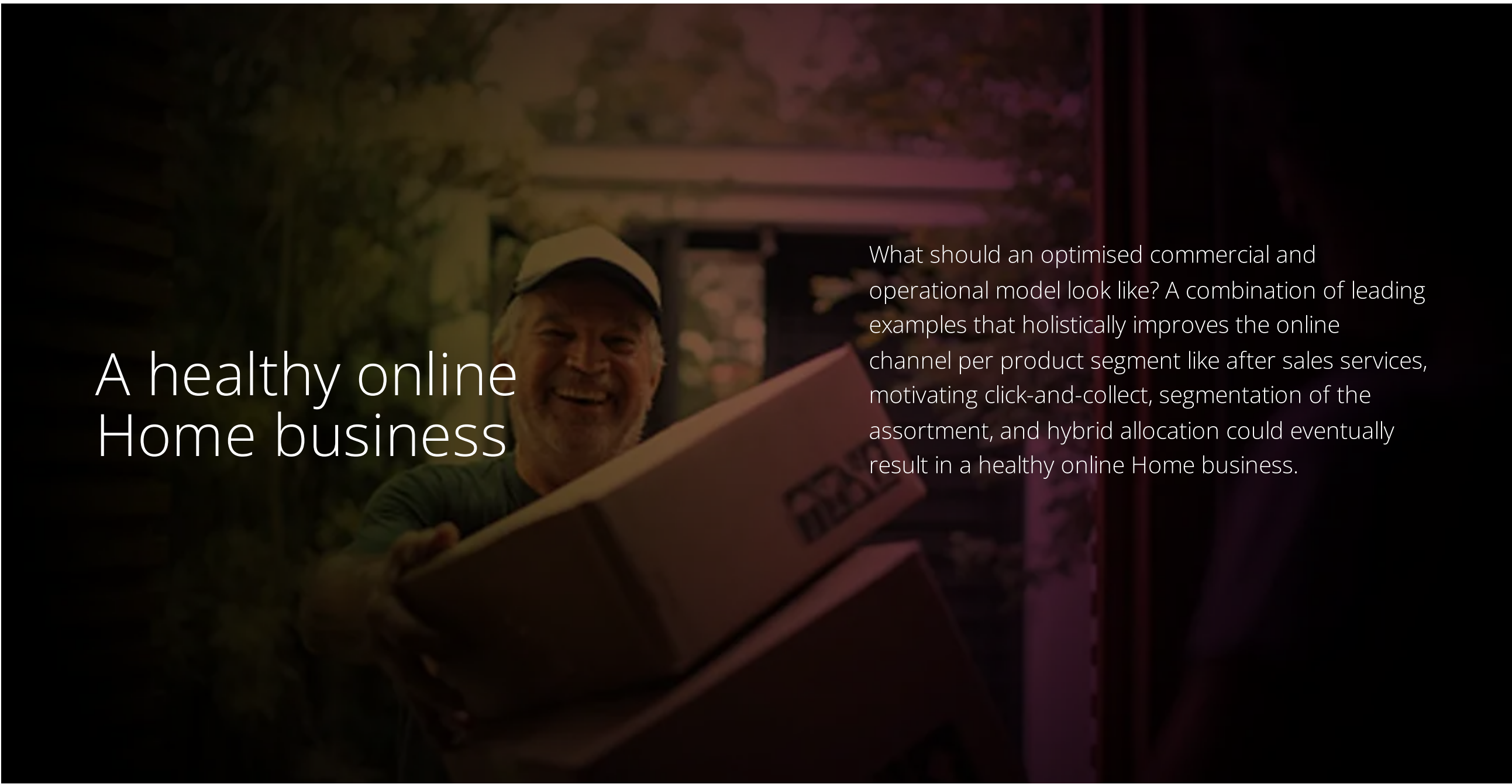
## Optimise the Operational Model

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.

Tell me more...

Automate




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



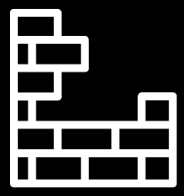
# A healthy online Home business

What should an optimised commercial and operational model look like? A combination of leading examples that holistically improves the online channel per product segment like after sales services, motivating click-and-collect, segmentation of the assortment, and hybrid allocation could eventually result in a healthy online Home business.

## Profitability solutions

<p>High potential solution</p>  <p><b>AFTER SALES SERVICE</b></p> <p>Increase profitability by offering (after sales) services e.g. full assembly or installation service; thereby focusing on project based instead of product based selling and increasing overall basket value and profit</p>	<p>High potential solution</p>  <p><b>DELIVERY FEES</b></p> <p>Making sure consumers pay a fair share of the delivery operation increases profitability, dependent on pricing strategy</p>	<p>High potential solution</p>  <p><b>CLICK &amp; COLLECT</b></p> <p>Incentivize consumers to use click and collect options instead of home delivery increases profitability with 2- 4% per order for smaller items and 10-15% for large items</p>
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High potential solution

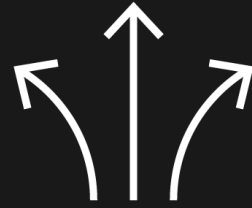


## SEGMENTING THE ASSORTMENT



Different online fulfilment & online to offline strategies per product segment and leveraging the benefits per supply chain segment across segments optimizes overall profitability

High potential solution



## HYBRID ALLOCATION

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

Other solution



Picking click-and-collect orders from store stock when the full order is available significantly decreases store replenishment costs. The inefficiencies created in the picking operation can be partly offset by using store employee idle time

Other solution



Making sure consumers pay a fair share of the return delivery operation increases profitability of returned orders by approximately 13%.

Other solution



## SPLIT/COMBINE FREIGHT & PARCEL

Determining if it is more beneficial to split or combine freight and parcel handling and shipments to maximize customer convenience and minimize costs

Other solution



## DIVERSIFY OTR SHIPPING MODES

A variety of traditional (bikes, vans) or future (droids, drones, autonomous vehicles) can decrease last mile costs



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



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