

E-COMMERCE FIGHTS BACK

So do home delivery
costs and consumer
expectations



E-commerce enjoyed a considerable tailwind during the pandemic, as social distancing and other measures led buyers to expect shippers to meet them on their doorstep. That trend took a relative breather last year as consumers re-engaged in society, spending more on experiences and physical stores at the expense of internet shopping.

According to consumers surveyed in early 2023 for AlixPartners' annual Home Delivery Report, the appetite for home delivery in all categories increased compared to the prior year despite murky economic conditions. Apparel home delivery, for instance, rose 15% as a share of money spent; pet supplies increased 14%; and cosmetics experienced an 11% lift (figure 1). Overall activity increased across the 22 categories we track by an average of six percentage points. This marks only the second occurrence of an across-the-board increase since AlixPartners started conducting this survey in 2014.

What's clear is that home delivery continues to be a fundamental component of companies' go-to-market strategies. As this channel matures, the finer details of how companies manage production, planning, inventory, and operations become increasingly important. The bottom line: network optimization and inventory placement are key drivers for business performance as consumers continue to utilize multiple channels for commerce.

AlixPartners' latest survey found that an overwhelming portion of the consumers strongly indicate that fast and free continues to be a key consideration when deciding whether to click the "buy" button. Shippers must not only offer this critical option but also strive to clear a high bar. Buyers' patience with free shipping wait times has declined over the decade we have surveyed consumers as demand for interactivity with in-transit delivery details has grown. This is a move toward more consumer control by way of improved delivery capabilities, such as assembly, installation, room setup, and real-time tracking.

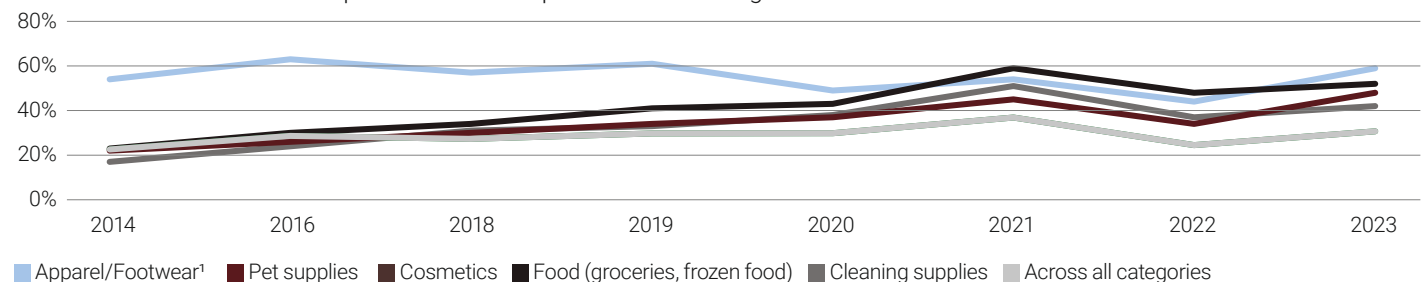
Executives, meanwhile, continue to see home delivery as a high priority. However, little more than one-third of those AlixPartners surveyed said it is accretive to profitability compared to in-store transactions. This sets up a high-stakes balancing act. After initially devoting a disproportionate amount of focus to speed and delivery quality, shippers are increasing their scrutiny of costs amid the impact rising expenses have on margins. Buyers need to play along, however. In this survey, for instance, most consumers still want the convenience of home delivery even if offered \$5 to collect their order from another location.

Among the increasing challenges for shippers are split shipments resulting from inventory issues and returns that are overwhelmingly driven by consumers citing product damage, inaccurate orders, unsatisfactory product quality, or unfulfilled expectations. Even as the rate increases, however, consumers are softening their demand for free returns by showing a willingness to return to a store when free carrier service is not available.

Still, companies should not underestimate the high-value consumers continue to place on free shipping and returns. We believe shippers will continue to respond to this expectation by enacting common-sense policies that result in palatable tweaks to the customer journey and a favorable impact on profitability. For instance, many retailers are raising the spending threshold buyers must meet in order to qualify for free shipping.

FIGURE 1: SHIPMENT VOLUMES REBOUNDED ACROSS ALL CATEGORIES, FOLLOWING A DIP IN 2022

Percent of consumer respondents who purchased categories online



1. 'Clothing/shoes' was used prior to 2020

Source: AlixPartners Home Delivery Survey, 2021-2023

BACK IN BUSINESS

Home delivery volumes have recovered in all product categories this year after an expected dip in 2022 as online shopping increases outpaced GDP and retail sales growth over the period. The trend is powered by an uptick in all categories, including sizable momentum in apparel/footwear, pet supplies, and cosmetics. While grocery activity gained momentum, 60% of grocery consumers still prefer to shop in-store. Some, meanwhile, are open to alternatives to standard home ground service delivery. Nearly 40%, for instance, would accept \$5 or less to collect an order from a pickup location within 15 minutes of their home.

40% 

WOULD ACCEPT \$5 OR LESS TO COLLECT AN ORDER FROM A PICKUP LOCATION WITHIN 15 MINUTES OF THEIR HOME

HAVE WE REACHED TERMINAL VELOCITY FOR FREE SHIPPING?

Expectations for free shipping have settled at roughly three days, after steadily declining from five-and-a-half days a decade ago. If a shipper wants to give the impression that an item is “in stock,” then it is critical to deliver within that window. Even if the three-day threshold is unattainable, free shipping needs to be offered-- its availability impacts 96% of purchase decisions. But not all free shipping is created equal. Today, many shippers are falling short of these expectations (figure 2). Only 48% of companies offer free shipping or returns, and 47% are not able to commit to a roughly three-day click-to-porch free shipping lead time.

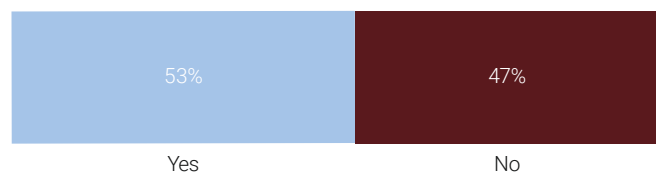


EXPECTATIONS FOR FREE SHIPPING HAVE SETTLED AT ROUGHLY THREE DAYS

FIGURE 2: ALMOST HALF OF THE SHIPPERS SURVEYED ARE NOT ABLE TO ACHIEVE THE CONSUMER'S AVERAGE EXPECTED SERVICE LEVEL

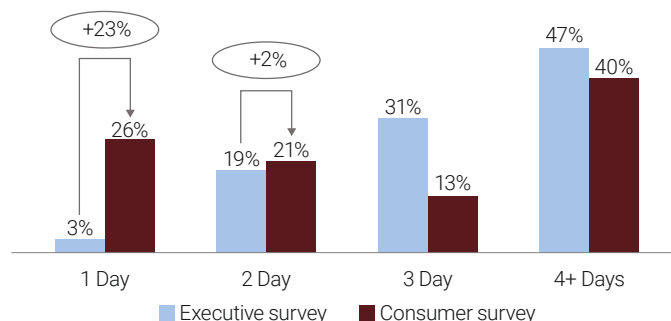
Our consumer home delivery survey has been fielded for the past 10 years, during which time we have seen expectations increase for free shipping service level from 5.5 days delivery in 2012 to 3.3 days in 2021.

Q: Do your current distribution capabilities allow you to commit to that lead time for free shipping (click-to-porch)?



Q: (Exec) What is your free shipping service level goal?

Q: (Consumer) When buying an item for delivery, what is the maximum delivery time you will accept to receive FREE shipping?



Source: AlixPartners Home Delivery Survey, 2023

RUNAWAY HOME DELIVERY COSTS

For executives, home delivery remains a drag on profitability. Associated costs have skyrocketed, nearly doubling over a 12-month period (figure 3).

To address this rising burden on the last-mile delivery front, shippers have boosted their focus on the total cost per order (83% say cost reduction is a top priority for last-mile), speed of delivery, and pace of fulfillment, while taking some of the attention off reducing split shipments and returns and improving accuracy.

Three-quarters of shippers are considering some form of customized service.

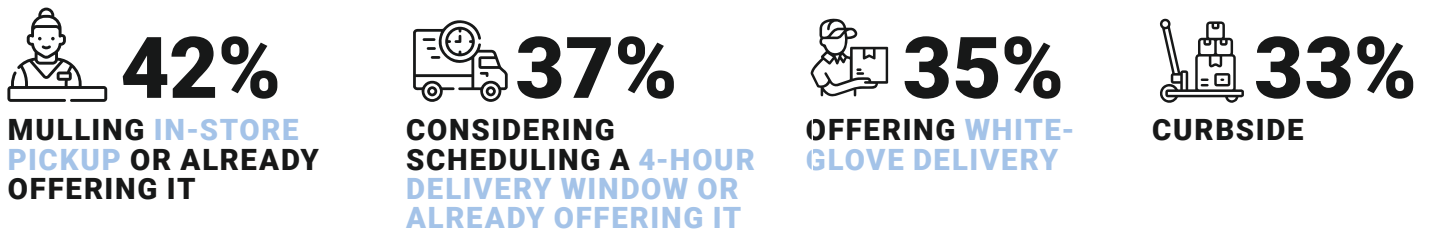
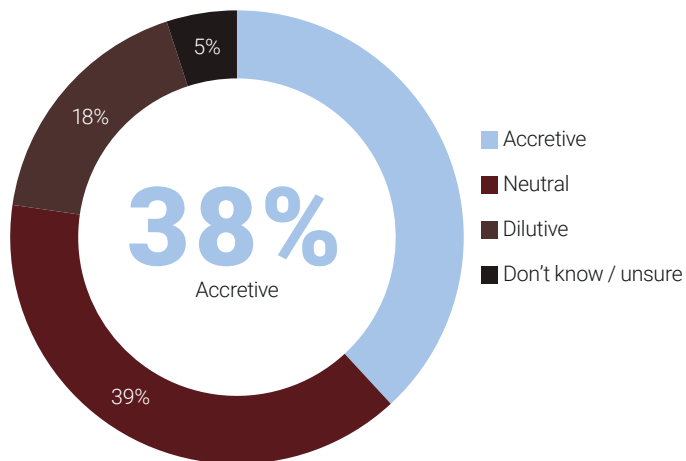
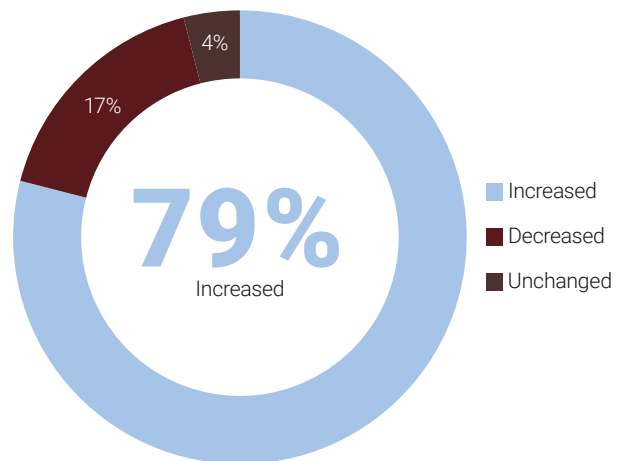


FIGURE 3: IMPACT OF HOME DELIVERY ON PROFITABILITY AND CHANGE IN HOME DELIVERY COST

Q: Is home delivery accretive to your profitability, as compared to in-store transactions?



Q: How do you find your delivery cost on a per-package basis changed year over year (YOY)




Source: AlixPartners Home Delivery Survey, 2023

VIGILANCE REQUIRED

Our 2023 study suggests that home delivery demand, expectations, and business models will continue to evolve. Shippers need to maintain a high service level to meet customers’ expectations while keeping an eye on managing and reducing operating costs per package (figure 4).


We recommend that each shipper develop a robust pipeline of cost-reduction or avoidance initiatives by leveraging one or more of these tactics:

1




Building long-term, strategic partnerships with large national carriers

2




Developing relationships with small regional carriers

3



Building an internal fleet

4

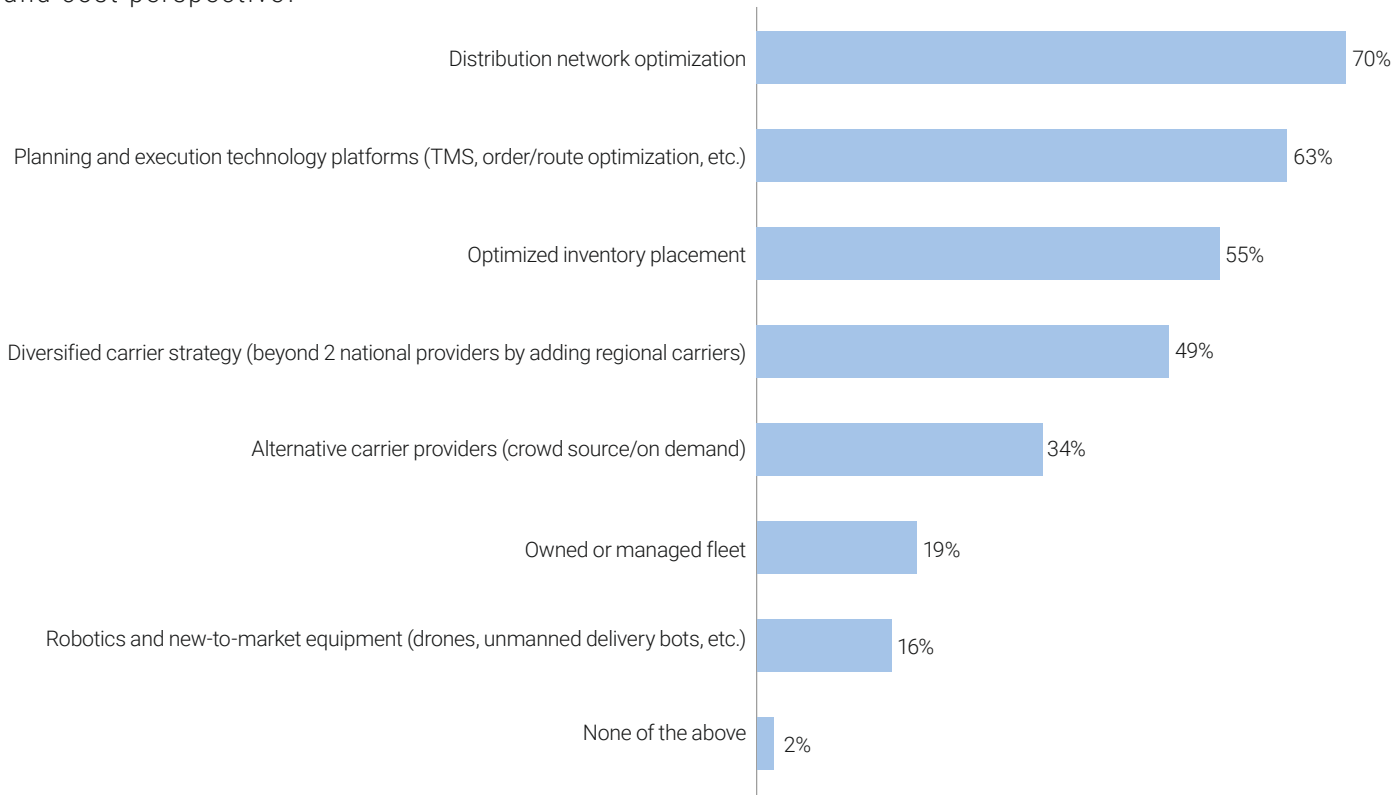


Optimizing outbound footprint, and lowering split shipments

Importantly, tech solutions that enable these initiatives must be deployed.

FIGURE 4: INITIATIVES TO IMPROVE HOME DELIVERY OPERATIONS

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



Source: AlixPartners Home Delivery Survey, 2023

ABOUT OUR RESEARCH

Administered in May 2023, this year's consumer survey was completed online by 1,182 respondents aged 18 years and older in the U.S., across all regions, demographic groups, and income levels. As with previous years' surveys, the goal was to gain insight into consumers' behaviors and preferences in ordering products online for home delivery.

Administered online in May-June 2023, our executive survey included responses from over 100 U.S.-based executives in Transportation, Logistics, and Supply Chain functions from companies with \$100M+ in revenue. In its second year, the purpose was to understand their companies' home delivery offerings and preferences, the challenges they are facing, and the actions taken by these executives to improve operations.

CONTACT THE AUTHORS:

Chris Considine

Director
+1 310 467 7164
cconsidine@alixpartners.com

Bryan Eshelman

Partner & Managing Director
+1 917 208 2982
beshelman@alixpartners.com

Marc Iampieri

Partner & Managing Director
+1 267 2537889
miampieri@alixpartners.com

Raj Konanahalli

Partner & Managing Director
+1 773 294 9728
rkonanahalli@alixpartners.com

Kai Kang

Senior Vice President
+1 978 760 6088
kkang@alixpartners.com

ABOUT US

For more than 40 years, AlixPartners has helped businesses around the world respond quickly and decisively to their most critical challenges – circumstances as diverse as urgent performance improvement, accelerated transformation, complex restructuring and risk mitigation.

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.

The opinions expressed are those of the authors and do not necessarily reflect the views of AlixPartners, LLP, its affiliates, or any of its or their respective professionals or clients. This article E-commerce fights back: So do home delivery costs and consumer expectations ("Article") was prepared by AlixPartners, LLP ("AlixPartners") for general information and distribution on a strictly confidential and non-reliance basis. No one in possession of this Article may rely on any portion of this Article. This Article may be based, in whole or in part, on projections or forecasts of future events. A forecast, by its nature, is speculative and includes estimates and assumptions which may prove to be wrong. Actual results may, and frequently do, differ from those projected or forecast. The information in this Article reflects conditions and our views as of this date, all of which are subject to change. We undertake no obligation to update or provide any revisions to the Article. This Article is the property of AlixPartners, and neither the Article nor any of its contents may be copied, used, or distributed to any third party without the prior written consent of AlixPartners.