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Same-day delivery whitepaper



Same-day delivery: The next evolutionary step in parcel logistics

Same-day delivery has the potential to fundamentally change the way we shop. It integrates the convenience of online retail with the immediacy of bricks-and-mortar stores.

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Online retailers are expected to benefit from reduced delivery time as almost immediate product access improves their position versus stationary retailers, and makes the greater choice, higher convenience and often lower prices of online shopping even more appealing. Bricks-and-mortar retailers in turn have a unique opportunity to combine their existing local infrastructure with an e-commerce channel to offer same-day delivery on a broad scale. A multichannel approach could enable them to win back customers who are becoming increasingly focused on online shopping.

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The major drivers at work in the current landscape

1. Same-day delivery combines the convenience of online shopping with the immediate product access of stationary retail

Imagine ordering a new pair of shoes or groceries for dinner in the morning and receiving the goods when you return home from work. The world's largest retailers, including Amazon and Walmart, are nurturing this vision and experimenting with innovative delivery concepts. But can same-day delivery really become a standard delivery option for the masses, or will it merely remain an option for a limited number of impatient consumers with deep pockets?



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Same-day delivery as the next evolutionary step in parcel logistics

The “last mile”—the final delivery step to the consumer—is gaining importance due to the rising share of online retail. The latter has turned into a major driving force of B2C parcel logistics and triggered intensive evolution of the service offering towards greater convenience (Exhibit 1). Alongside alternative pickup and delivery options (e.g., locker-boxes and parcel shops), speed is the main push in this evolution. Next-day or two-day delivery is currently the industry standard in all developed countries, but the next evolutionary step is affordable same-day delivery.

Evolution of B2C parcel delivery



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With same-day delivery, orders are delivered within a few hours after purchasing them, or in a chosen time window on the same day. *“Same-day delivery is a game changer because it combines the immediate product availability of retail with the convenience of ordering from home.”*

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Strong fundamental drivers support the growth of same-day delivery

The market for same-day delivery is fueled by underlying macro-trends, including increasing worldwide GDP per capita, rapid e-commerce adoption, urbanisation, and changing consumer expectations.

Same-day delivery requires a critical mass of consumers with sufficient financial resources to pay for such a premium service. Rising GDP per capita becomes even more critical when it applies to large metropolitan areas. Accordingly, the relevant economic units are metropolitan areas rather than nations. Yet the existence of densely populated areas with extensive buying power is not enough. A high level of e-commerce adoption is a prerequisite for same-day delivery to actually take off.

These developments are accompanied by rising consumer expectations. Consumers are demanding ever more convenience when they buy online, particularly where delivery is concerned. They want to have multiple delivery options to choose from, and to receive their products as fast as possible. Once consumers have experienced a superior service level, they are usually reluctant to return to the previous inferior level. Few people would be willing to wait four days for a digital camera they have ordered online if they can get Amazon to deliver it the next day (assuming both options are free). Judging from recent survey results¹, younger generations (e.g., millennials), people living in small households, those working long hours, and consumers with higher incomes are among those particularly willing to pay for more convenience.

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2. Consumer Perspective: Willingness to pay for same-day delivery – at the right price

Consumers seem to perceive same-day delivery as attractive if it costs less than 7 to 8 percent of the basket value.

An actual conversion rate of more than 30 percent once delivery cost falls below 7 percent of the basket value or the value of the entire purchase made. The conversion rate appears to be the same for all product categories. Those with high average basket sizes, e.g., consumer electronics are easier to penetrate since the delivery costs as a percentage of the basket value are not as significant as those for clothing order.

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3. Retailer Perspective: Same-day delivery as a catalyst for online sales

Same-day delivery is a big opportunity for all retailers to improve their service level, but requires a high degree of sophistication. Major challenges, such as real-time product visibility across warehouses, very short fulfillment lead-times and flexible last-mile delivery, have to be overcome while bringing cost down to a level that consumers are willing to pay for. Large retailers generating most of the B2C shipments could then institutionalize same-day delivery as a fast, localised network distribution mode in densely populated areas with a critical mass of online shoppers—but would then also need to have an extensive, accessible, and standardized distribution network that operates at an acceptable cost.

Retailers are expected to reap additional benefits from offering same-day delivery. **Experience at Amazon shows that the option of same-day delivery alone actually increases purchase conversion during the checkout process by 20 to 30 percent, although not every customer actually opts for same-day delivery.** The survey results support this claim: more than half of respondents would buy online more frequently if they were offered a same-day delivery option. *“A good delivery experience is a key part of keeping our customers happy and encouraging repeat purchases as well as helping to build brand warmth.” (Nick Robertson, CEO, asos.com)* The availability of enhanced delivery options has positive effects on customer loyalty and reduces the goods return rate, according to Amazon. A reduction in the return rate is very appealing to online retailers since the current share and attributed cost of returns is a significant burden on their operations and financial results.

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3. Retailer Perspective: Same-day delivery as a catalyst for online sales - CONTINUED

To capture the benefits, retailers will have to subsidize same-day services for the foreseeable future. Same-day delivery costs charged to consumers currently range from about AUD\$15 up to AUD\$50 per shipment, but the willingness to pay such high prices is limited according to the survey. Consumers are used to subsidized shipping, and are reluctant to pay extra for it. Companies such as Amazon shaped the e-commerce market by educating customers that they don't have to pay for shipping at all.

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4. Logistics Perspective: Incumbent logistics providers, new entrants, and retailers themselves are developing same-day delivery solutions

Same-day delivery is a consolidation play. A large network with sufficient volume will benefit from significant economies of scale and outperform smaller networks.

The complex challenge of processing, fulfilling, and delivering an order within a few hours requires new types of networks. The current processes used by parcel logistics providers are not suited to same-day delivery at scale. More flexible city couriers, on the other hand, are too small to deal with large retailer volumes.

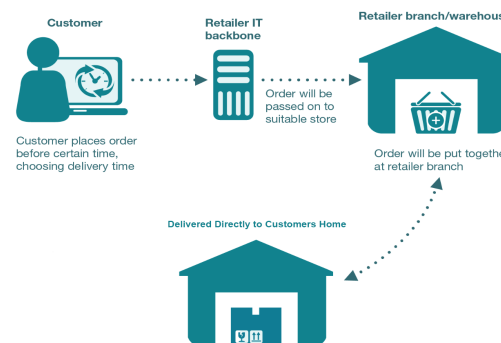
The creation of a same-day delivery network comes at a high cost. Large volumes in each delivery district need to be achieved, which is difficult in the beginning and—depending on the operating model—may require extensive upfront investment. In addition, the speed at which the deliveries are made necessitates a more sophisticated asset and capability base that inevitably results in a higher price point for the logistics service.

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Parcel logistics providers are rethinking their traditional operational models to enable same-day delivery

In catering to the needs of the growing B2C segment, parcel logistics companies are increasingly focusing on convenience features such as alternative pickup and delivery options (e.g., parcel locker-boxes), flexible delivery timing (i.e., scheduled delivery), and delivery speed (i.e., same-day delivery). These companies are the natural suppliers of B2C parcel delivery services. They derive their strength from last-mile delivery via a hub-and-spoke system with overnight sorting and fixed delivery routes. Their infrastructure and processes are optimized for next-day delivery, so one of the key challenges will be to enhance existing assets and capabilities. Parcel logistics providers struggle to offer same-day delivery as it requires flexible intraday pickup and delivery with a maximum of one transition point.

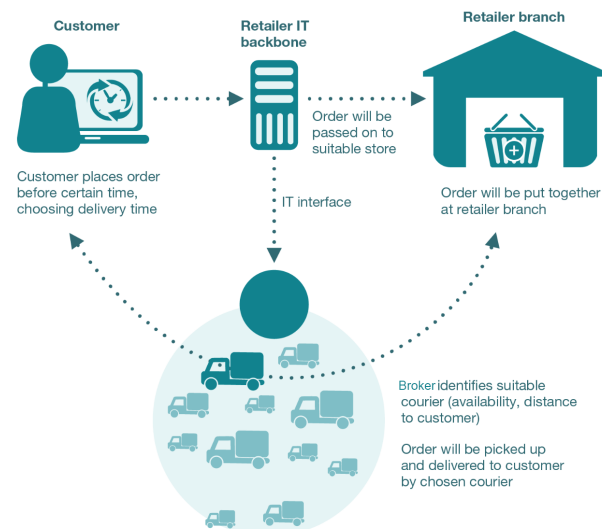
From a theoretical standpoint, the most promising approach is the introduction of an evening delivery wave. However, any time window needs to be large enough to ensure that sufficient parcel volume is economically viable. Providers can build on their existing infrastructure and feed in shipments from Multiple retailers located together close to customers homes to increase the capacity utilization of the additional delivery wave.



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Brokers of courier capacity are entering the market to develop platforms to orchestrate existing logistics capacity

Conventional B2B-oriented city couriers can deliver same-day, but there are thousands of them and they are too small to be an adequate partner for retailers. A new type of player is entering the market to make existing courier capacity accessible for retailers in a scalable manner. Technology start-ups such as Shipit, aggregate local courier capacity on a broker platform to form flexible courier networks. Retailers that are integrated with this platform can offer same-day delivery as an additional option in the checkout process of their online shops. Single orders are dynamically assigned to a courier with free capacity from the network, which picks up and delivers the order within a couple of hours. Their are claims that point-to-point delivery using a flexible courier network is less costly than hub-and-spoke systems for distances of less than 15 km. The main cost drivers for delivery via such a network are variable cost per hour and the distance between stops. With sufficient liquidity in the system and an increasing pickup factor, delivery costs decrease to a level below that of just using the cheapest subcontractors.



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5. Economics: Same-day delivery is a scale game

Large shipment volumes are crucial for all forms of delivery providers because they can reduce costs significantly. While courier networks can only reach higher consolidation on a vehicle level, parcel logistics providers can also reduce costs via process automation. However, last-mile providers can only scale their operations if the retailer has adequate interfaces.

Only technologically advanced retailers and logistics providers will be able to offer same-day delivery

In the current market environment, four prerequisites need to be fulfilled to enable same-day delivery: product availability, real-time product visibility, fulfillment capacity, and flexible last-mile capability.

First, products need to be locally available. Depending upon the operational model, regional product availability could be sufficient, especially when the respective retailer generates enough volume to justify frequent pickup/delivery routes to the main urban centers. That said, same-day delivery still remains a service limited to urbanized areas, and is rarely available to the entire population of a country. Multichannel retailers already have local product availability because they maintain a network of stores. Online retailers, on the other hand, will first need to invest in building up a network of local urban warehouses.

Second, retailers need to have a real-time overview of their inventories across their warehouses and outlets, otherwise it will not be possible to determine whether the goods are available for same-day delivery during the checkout process. Many retailers still struggle with this hurdle, which requires that they invest more in their IT infrastructures. The logistics provider needs to be informed of where and when to pick up the shipment via a real-time interface, with the information preferably being fed directly into the respective transportation management system.

Third, the picking and packing processes need to be fast, and fast-tracked over regular orders wherever necessary. Experience at Amazon has shown that significant investment in the logistics infrastructure is necessary to reduce lead time. Retailers planning to ship from their stores first need to develop the capability to efficiently fulfill the orders in-store. The introduction of click and collect serves as a prestage to the introduction of same-day delivery.

Fourth and finally, last-mile delivery needs to be flexible enough to pick up and deliver orders adhoc or multiple times throughout the day. Dynamic rerouting using geo-fencing allows logistics providers to instantly respond to new shipments. For logistics providers using a transition point, the ability to fast-track same-day delivery shipments in sorting stations is crucial.

Once these four prerequisites have been fulfilled, same-day delivery turns into a pure game of scale.

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6. Parcel networks can beat courier networks on variable cost per shipment once they reached significant scale

The economics of same-day delivery are mainly driven by the degree of shipment consolidation. Variable costs per unit decrease as the number of shipments per day and city grow. A retailer fleet operating several time windows during normal business hours has consistently higher variable costs per shipment than multi-user platforms.

In addition, it is much more difficult for a single retailer to reach such scale in a single city. A parcel network offering same-day delivery using an evening wave can consolidate shipments from multiple retailers and is much more likely to achieve profitability, assuming that retailers pay an average price per delivery.

Variable costs decline much more quickly because delivery routes can be optimized and capacity utilization is expected to be higher than with retailer fleets. A courier network operating the entire day starts with significantly lower variable costs at lower volumes. Increasing shipment volumes have a much weaker effect on variable costs since the couriers can mainly achieve consolidation on a vehicle level.

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7. Outlook 2020: Same-day delivery could be a game changer in retail logistics

The development of same-day delivery is driven by the trends outlined in this report as well as the sophistication of retailers and logistics providers. As these factors differ greatly depending on city, same-day delivery is bound to develop at varying speeds.

Market development depends on e-commerce adoption and geographical population distribution

Same-day delivery is likely to become available at most retailers with an online channel on a broad scale in urbanised areas. It is fully subsidised once a certain basket value has been reached.

Economies of scale drive down the cost of same-day deliveries significantly, reaching a level still higher than regular domestic shipments but much lower than today. Multi-user same-day delivery networks run by parcel logistics providers reach enough scale to increase the consolidation factor to about 10 to 12 drops per hour and operate multiple pickup and delivery waves per day. Standard next-day delivery is partially cannibalized, but the broad availability of same-day delivery further propels the adoption of e-commerce as new use cases like spontaneous online purchases emerge, and thus increases total market size.

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Same-day delivery offers large upside potential for retailers and logistics providers alike

The introduction of same-day delivery will take the online shopping experience of customers in the metropolitan cities to a new level of convenience. The product variety available online from specialized e-tailers combined with the price transparency that e-commerce offers (e.g., via product search machines) and same-day product availability is a powerful customer value proposition. However, given the increased complexity of same-day delivery across logistics operations, prices for same-day delivery are likely to remain at a level well above the current price level for standard next-day delivery.

Retailers have a same-day delivery “sweet spot” with their existing local infrastructure, particularly shops and warehouses in or close to metropolitan areas. The proximity to the end customer enables them to provide customers with delivery on the day of the purchase, ideally combined with an option for a time window. Most retailers have already added an e-commerce channel to their traditional bricks-and-mortar sales approach. The combination with same-day delivery could help to win back some of the customers that have been lost to online shopping over the last decade.

The underlying trends of increasing e-commerce adoption and urbanization will create a strong urge for evolution from the current next-day standard in B2C parcel to same-day.

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State of play – Australia 2018

- ✓ 48% of online consumers want Same-day delivery
- ✓ 22% want 3 hour delivery
- ✓ 60% want weekend delivery
- ✓ 52% want after hours delivery

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