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# e-Retail — Using home delivery as a service differentiator and strategic marketing tool

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## Abstract

This paper proposes to marketers engaged in e-Retail marketing, the importance of using the quality of their organizations' 'home delivery' service as a means of differentiating their online offer to drive new sales and retain existing customers. The paper will provide marketers with

- an insight into the delivery needs of consumers — what they want and what is valued;
  - a snapshot view of how the market is responding (or not) to these needs and the opportunity this creates;
  - the costs associated with not meeting consumer's expectations, highlighting the opportunity to reduce these costs and contribute directly to the organizations' bottom line;
  - guidance on how to go about benchmarking the organizations' delivery offer;
- AND
- access to best practice to improve the organizations' delivery offer.

The paper primarily references the latest research from IMRG, supported by other relevant data, and the Internet Delivery Is Safe Gold Standard, the new industry home delivery accreditation, as a marketing tool. IMRG is the UK's e-Retail Trade Body and has as its objective to maximize the commercial potential of online shopping. It is a member organization providing professional networking, market intelligence and information and industry standards and best-practice programmes in support of this goal. *Journal of Direct, Data and Digital Marketing Practice* (2010) **12**, 165–173. doi:10.1057/dddmp.2010.29

## Introduction

In 2009, online retailing accounted for £49.8 billion of goods and services sold in the UK, growing 17 per cent on the previous year (December to December). Even through a recession this sector continues to thrive; but with an increasing number of companies

looking to e-Retail to get their product to market, it has become a very competitive and dynamic marketing environment.

Winning and retaining online shoppers is a daily challenge; and when, during some recent research, IMRG asked e-Retailers about consumer loyalty, it was told, 'there is no such thing' and 'we only expect 20 per cent of our customers to shop with us two years in a row'.

So with shoppers able to compare products and prices across the whole market from the comfort of their homes and change retailers with the click of a mouse, how do marketers create that hook that improves acquisition and reduces churn?

Product choice and price used to be enough, but now *service is the key differentiator* and within the scope of service the home delivery offer is perhaps the most important.

### **'Delivery' drives sales and reduces churn**

As an industry, we are already seeing organizations use their delivery offer to drive sales and retain customers. One major international retailer was recently quoted as saying, 'free delivery is better than advertising', and another ran a delivery promotion just before Christmas 2009 and reported a significant uplift in orders as a direct result. Research conducted in 2010 reveals that between 35 per cent<sup>1</sup> and 52 per cent<sup>2</sup> of retailers now use free delivery above an order value threshold to attract customers.<sup>3</sup>

### **Effective on time/1st time delivery reduces costs**

However, the delivery offer is about much more than just 'Free' delivery and needs to cover the whole customer experience. IMRG has recently undertaken two pieces of research, providing results that demonstrate that the *total* delivery offer provided by an e-Retailer has significant importance for its marketing function and a considerable impact on its bottom line. It is this research that provides the foundation for the paper.

### **Shoppers reference 'Delivery' to decide who to shop with**

## **Consumers' perceptions, attitudes and behaviours**

The first piece of research is the IMRG Consumer Delivery Survey 2010, the tenth in the series, which examines the perceptions, attitudes and behaviours of online shoppers, and the importance of the overall delivery service in relation to customer acquisition and loyalty. It specifically identifies those elements consumers value most when selecting the retailer they wish to buy from.

The key findings of the full survey demonstrate that for e-Retailers selling a physical product, the delivery service offered is an important element of the marketing mix. Extracts from this research are reproduced in support of this paper.<sup>4</sup>

## **Data set**

Between 7 November and 17 December 2009, a detailed questionnaire was received from a sample of 450 households representing active online consumers. These households included approximately 1210 people (an average of 2.72 people per household), of whom 757 (63 per cent) were over 18 years old.

The geo-demographic breakdown of the survey base was confirmed to be representative of the online e-commerce population and the average respondent was 43, with a household income in the region of £42,000 per annum; notably this year for the first time the majority (59 per cent) of the respondents were women.

### Delivery experience

Among these seasoned online consumers, 43 per cent agreed that the delivery experience and the delivery offer from a retailer can influence their choice. The main reasons given were concerns about failed delivery (no one at home to accept the goods) and additional costs, but as Figure 1 demonstrates a number of different elements go together to make the overall delivery offer and shoppers confirmed that concerns about delivery did influence their decision to shop online.

A parallel report undertaken by Royal Mail suggests that two-thirds of the reasons given by consumers for cart abandonment are delivery related.<sup>5</sup>

In addition, almost 40 per cent of consumers surveyed confirmed that a poor delivery experience has stopped them shopping again with a particular retailer, and the Royal Mail data confirm that 90 per cent of consumers are more likely to shop again with an online retailer if happy with the delivery of their order (Figure 2).

**At least 40 per cent of shoppers are influenced by 'Delivery'**

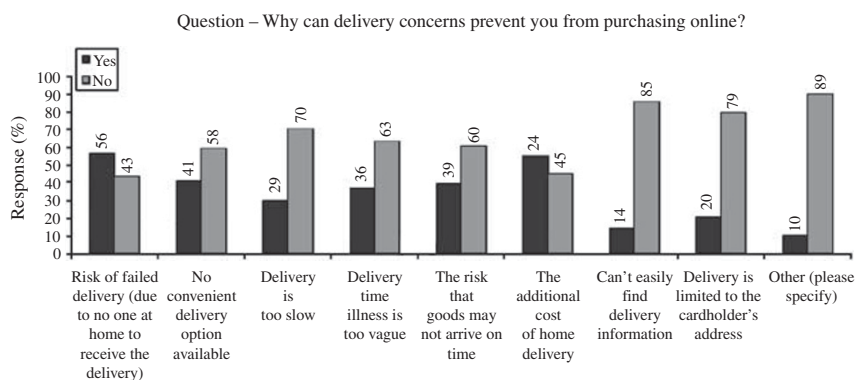


Figure 1: Delivery concerns remain a barrier to online shopping.

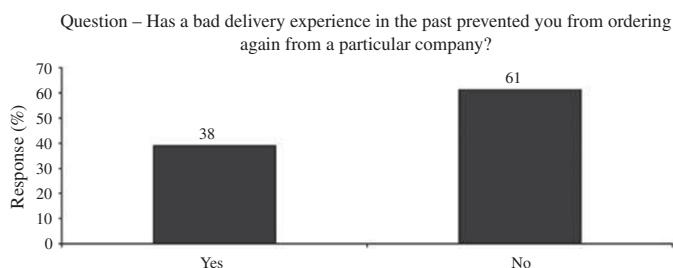


Figure 2: A poor delivery experience can lose customers.

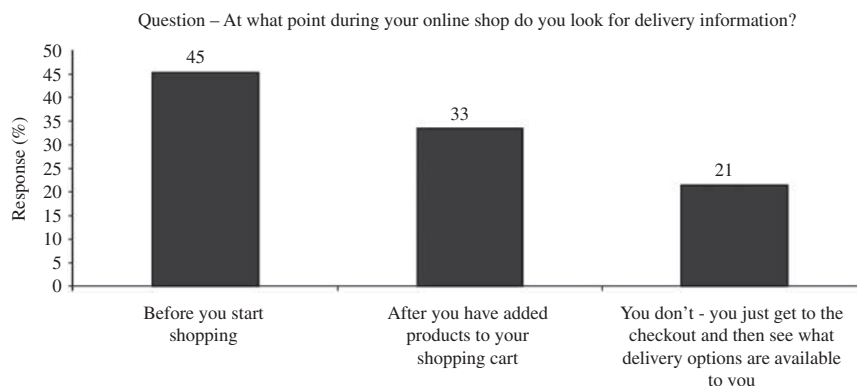


Figure 3: Clear delivery information is increasingly important.

### Information about Delivery is part of the marketing message

#### Delivery information

It appears that consumers increasingly consider delivery to be part of the overall retail offer and factor this into the buying decision (Figure 3):

- 45 per cent of those surveyed look for headline delivery information before they even start to shop.
- 33 per cent (in addition) check their delivery options as they add goods to their shopping cart.

This makes a total of 78 per cent of consumers who want to know about delivery BEFORE they get to check out.

Failing to display delivery information clearly, early and frequently runs the risk of shoppers leaving the site through lack of confidence. This is the equivalent of a shopper walking into a high street outlet and, not being convinced of the service they are likely to receive, walking straight out again.

#### Is any one at home?

As we have seen a key concern for online shoppers is the risk of failure owing to no one being at home to accept and/or sign for the delivery. Looking into the detail, we find that 17.5 per cent of households never have anyone at home during normal delivery hours and 37.5 per cent only do on some days. This means that 55 per cent of homes run the risk of a failed delivery because no one is there to accept or sign for the goods (unattended delivery).

Despite this, 'Home' delivery remains the firm preference for 86 per cent of the survey (see Figure 4) and 'Work' is less favoured than in 2008, perhaps for reasons relating to company policy and workplace security.

#### Overall findings

The survey leads us to the overall findings that:

- 76 per cent of consumers have experienced a complete or 'first time' delivery failure;
  - 44 per cent failed the first attempt; and

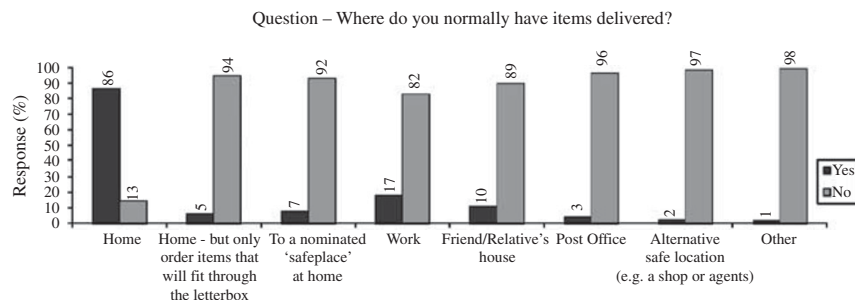


Figure 4: Where do shoppers want orders delivered?

- 32 per cent failed completely/item broken/could not collect from carriers depot and goods returned before they were able to collect;
- In the consumers' mind, 17 out of every 100 deliveries are not completed in line with their expectations.

### Following poor delivery its the retailers brand that suffers

It is interesting to note from the supporting data in the survey showed that when asked to name the retailer and the carrier from which they had received good and bad service, most could remember the name of the retailer but only some could recall the name of the carrier. This demonstrates that as far as the customer is concerned, no matter the reason for the failure of the delivery service, it is the retailer's brand that is damaged.

For e-Retail marketers, the implications of this research are:

- Your delivery offer can be a significant source of differentiation and marketing advantage in customer acquisition — if you use it.
- A great deal of marketing resource and budget can be expended to acquire a customer, only for that customer to be lost owing to one poor delivery experience — and you may never know why.
- A consistent positive delivery experience can be a powerful loyalty driver — customers will forgive you a lot if you deliver their order when and where they expect it.

But beyond this, by helping to create and promote a good delivery offer marketers can make a direct and positive impact on their organizations' bottom line. The costs associated with the failure to meet the consumer's delivery expectations are explored in the next section.

### Strategic impact on the bottom line

The second piece of research (and the third in the series), Valuing Home Delivery Review 2010, was published in April and looks at the cost-benefit equation of 'first time, on time delivery' for the three main stakeholder groups: consumers, retailers and carriers. Extracts from the review are reproduced in support of this paper.<sup>6</sup>

**A good delivery offer, effectively marketed has a direct impact on profit**

### Data sets

Taking a range of scenarios, IMRG looked at the performance and cost data from data sets representing 95 non-food online retailers. The data examined takes account of:

- databases containing more than 12 million online consumers;
- over 3.5 million active online shoppers;
- in excess of 13 million orders;
- purchases to the value of £1 bn;
- over 14 million parcels dispatched.

### Results

Overall, the current cost of delivery failure across – the three main stakeholder groups (retailers, consumers and carriers), has been calculated to be between £790 million and £1 billion per annum. *The retailer’s share of this is at least £240 million per annum.*

The specific results for e-Retailers are shown in Figure 5, with the five key areas of cost resulting from a failure to meet the customer’s delivery expectation. These costs have been calculated by taking reported costs and applying these to actual and industry benchmark performance levels to produce aggregated costs. These aggregated costs have then been applied to known delivery metrics to produce overall costs for each scenario and for retailers overall.<sup>7</sup>

The cost areas considered cover:

- Customer service
- Redelivery
- Returns processing
- Stock handling
- Fulfilment
- Lost/Replacement product
- Acquisition
- Lifetime value

They *do not* include:

- The requirement to hold additional stock
- The damage to *brand*, reputation and associated costs

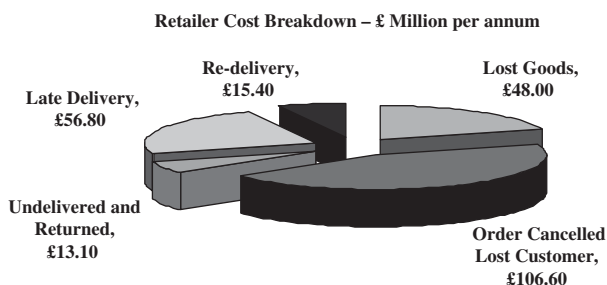


Figure 5: The cost of failed delivery to e-Retailers.

**Table 1:** The cost of lost customers to e-Retailers — cost breakdown

Loss of customer goodwill/loss of customer/cancellation of order		
Activity	Explanation of cost including assumptions made	Illustrative/average cost
Retailer contact with the consumer to try to resolve the issue	It is assumed that the retailer may be involved in at least three contacts with the consumer and carrier to try and resolve this issue at an average cost per contact of £1.94	£5.83
Cost of return	It is assumed that the goods have <i>not</i> been lost. If this was to be the case the costs will be higher. The average distribution charge is from benchmarked industry data	£4.33
Cost of stock handling	The cost of stock fulfilment and the cost of return to stock have been benchmarked from industry data.	£1.33
Acquisition cost	This scenario is likely to result in the loss of the customer and we have therefore included an estimate of the acquisition cost necessary to replace that customer benchmarked from industry data	£5.94
Customer value	A gross profit margin of 31.2% has been applied to the annual value of an average shopper, with both figures benchmarked from industry data	£50.33
Repeat customer value	It is assumed that 20% of consumers are repeat shoppers; this estimate has been sourced from benchmarked industry data	£10.07
Total for scenario		£77.82

**On average, a customer lost due to a poor delivery experience will cost £78**

Of all the scenarios examined, the most damaging is the one that results in a cancelled order and lost customer; IMRG estimates that each time this occurs, the *average cost to the retailer is £78* broken down, as in the Table 1.<sup>8</sup> All of the activity costs and frequencies used to calculate the overall cost have been benchmarked and validated.

To provide a more specific view, readers of this paper may wish to apply the values to their own organization.

### Marketing the delivery offer

Marketers may consider that the main reason for customer satisfaction for delivery lies with the Logistics and Customer Service functions, but Marketing has a responsibility to lead the organization in making sure that the delivery offer meets the customer's expectation and is communicated and promoted effectively.

The delivery offer needs to be reviewed over four stages:

- *Browsing* — As we have seen from the research above, shoppers look for this information before they even begin to browse or go to the Check Out, thereby making this information easily accessible early in the shopping process (even as part of the acquisition campaign), removing a significant barrier. Customers should be

**The four stages of Delivery: Browsing Buying Delivery Returns**



**A poorly marketed delivery offer is responsible for a high level of cart abandonment**

**A returned order may already represent a lost sale. A poorly handled return may result in a lost customer**

provided with a choice of delivery options, appropriate to the goods in question, which will allow them to select a service that meets their particular circumstances for each delivery.

- *Buying* — Customers need to be clear on the options available to them as they progress through the buying process and add each item to their basket. They should not be surprised at the delivery cost or lack of choice at the payment stage. This will simply result in them abandoning the basket and possibly never returning.
- *Delivery* — Having given the customer the delivery option, they consider it important to ‘deliver’ against it. Providing the customer with information on when the order has been dispatched, an estimate on when it will be delivered and the ability to track its progress will give them confidence and increase the probability that they will be available to receive it when the carrier arrives.
- *Returns* — Whether free or paid, make it convenient for the customer to return goods if they need to. Expecting the customer to do all the work will not encourage them to purchase again; therefore, offer the facility to drop the goods off not only at the post office, but other pick-up points including the store if the retailer has a high street presence. There are also a number of collection services now available, and these can be provided easily by simply showing a link from the retailer’s website.

Once the delivery offer is established, there are certain aids that marketers can use to promote this and give the shopper confidence in that offer. IMRG itself runs a trust scheme that signifies to consumers that the retailer provides a good delivery service. These icons are often used on comparison websites, alongside star rating schemes, to provide online shoppers the means to make an informed choice of retailer when faced with comparable products and prices.



**Retailers can gain delivery accreditation to give consumers confidence**

IMRG has now launched an enhanced Gold Standard for home delivery, incorporating a ‘plain language guide to home delivery’ to help marketers get the message across.



This Gold Standard also provides marketers with the necessary guidance, best practice and access to solutions to help create a delivery offer to meet the Gold standard (<http://www.idisgold.org/>).



**Marketers can use  
'Delivery' to:  
Reduce costs and  
drive profit  
Drive new sales  
Create customer  
loyalty  
Protect the brand**

## Conclusion

The conclusion that can be drawn from this research is that online shoppers can be influenced by the supporting delivery service elements provided by an e-Retailer, which can enhance its brand. With comparison websites making it incredibly easy for consumers to compare products and prices, the deciding difference is often the price they will pay for delivery and the speed and convenience of that delivery.

Marketers play a key role in identifying the strengths (or weaknesses) of their companies' delivery offer and specifying it to meet customer requirements. Having done so marketing can promote delivery as a product benefit:

- reducing bottom line costs;
- driving sales and customer acquisition;
- creating customer loyalty and reducing churn;
- protecting the brand.

## References

1. Published by iForce, April 2010. iForce are a major online fulfilment company.
2. Published by Snow Valley, January 2010. Snow Valley are a leading website solutions company.
3. Free Delivery order thresholds are usually in the area of £50 although iForce reports an increase of 20 per cent from October 2009 (£66) to April 2010 (£81).
4. The full report can be obtained from [www.imrg.org](http://www.imrg.org).
5. Royal Mail 'Trend' report, published 2009. This report places the value of cart abandonment at £2.7bn per annum.
6. The full review can be obtained through [www.imrg.org](http://www.imrg.org).
7. The full methodology is explained in the Valuing Home Delivery Review — [www.imrg.org](http://www.imrg.org).
8. Extract from IMRG Valuing Home Delivery 2010©.
9. IMRG Consumer Delivery Survey 2010, [http://www.imrg.org/8025741F0065E9B8/\(httpPages\)/49C2F541D8F3878E8025741F006ABE96?OpenDocument#anchor1](http://www.imrg.org/8025741F0065E9B8/(httpPages)/49C2F541D8F3878E8025741F006ABE96?OpenDocument#anchor1).
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