

# Optimizing the Customer Experience with Exceptional Home Delivery

---

*It seems everyone is getting into the home delivery game. Yet many of the biggest retailers and so-called disrupters in transportation are not showing a profit. In fact, for the shipper—retailer, wholesaler, or brand manufacturer—direct home delivery is eating away at the bottom line.*

*The very definition of point of sale is evolving from a fixed store location to anywhere the customer is. And ship-from locations are in profusion as retailers turn stores into mini-distribution centers. This is the world of Omni-channel—anytime, anywhere fulfillment. Or at least, that's the goal.*

*To reach that goal won't be easy.*



*If the customer is evaluating availability as being equivalently important as the product, then a more inclusive definition of 'the order' is also required. Successful retailing today doesn't just include having a great website, a rich catalogue, or platitudes about customer-centricity. Customer-centricity has to be infused in everything you do. Perfect fill rates, on time delivery, and excellence in home service are all part of today's model.*

*But what will that really cost? CEOs and their executive team are on the line to make online profitable. And with the pressure for shorter delivery cycles and free shipping, that won't be easy either.*

*In fact, businesses today cannot apply the old parcel and white-glove shipping-fee-based methods to today's requirements. That does not necessarily mean that all deliveries need to be free. But new methods have to be applied to make home delivery profitable or at least hold the line on expenses.*

*In this paper we will talk about the methods and technology that progressive retailers are using to become successful—selling more goods with profit—in the home delivery game.*

*ChainLink Research  
March 2016*

## Contents:

Introduction: Convergence of Etailers and Retailers .....	1
Profitable Home Delivery .....	3
In Home Delivery, the Customer’s Experience Starts <i>While</i> They Are Still Shopping, Nor does it end when the truck is on the road....and maybe not even when the order arrives... ..	5
Continuous Optimization—How It Works .....	7
Widening the Vista .....	7
Make Policies Dynamic .....	8
Optimize the Offerings.....	9
Integrate Logistics with Commerce .....	9
Make the Logistics Network Central.....	10
Integrate Inbound and Outbound.....	11
Conclusion: We Have to Find a Better Way!.....	12
References .....	13

## Introduction: Convergence of Etailers and Retailers

The home delivery genie is out of the bottle, with ecommerce the fastest growing segment of retailing. Many big brand retailers have reached the saturation point with their stores in every mall across the world. To deal with this, they are developing new brands and store concepts; and of course, the biggest investment is in Omni-channel *fulfillment*. Smaller retailers can reach the world, we know, through the web. But they, too, need to sharpen their act to keep up.

Etailers from Amazon to Wayfair to Alibaba and now Google want the consumer's entire wallet—not just for books or furniture or hard to find items; they want to deliver your bananas, too, supplanting the corner store. With their infinite catalogues, they surely can't stock all items in warehouses across the entire country. But in a sense, that is just what they are struggling to do as they determine where to put warehouses, what to stock and how to fulfill *locally*. This regionalization may include creating private fleets. Those are big investments to *fulfill a delivery promise*. And with big promises, the retailer's brand is at stake—and so is their financial future.<sup>1</sup>



Traditional retailers who once thought the web was their way to greater sales with better margins are now realizing that ecommerce sales come with their own burdens and greater costs.<sup>2</sup> Turns out those brick and mortar locations might be an advantage, after all. Although many shoppers do their research online, many still want to see, touch, or taste before they buy. So a location, aka a local store, is still important. And many of the goods customers purchase in the store, such as a new PC, washing machine, or entertainment center will require home or office services. Click and ship from store is a growing area for retailers who are leveraging store inventory and locality for short delivery windows. This increases ship-*from* locations, thereby adding complexity to inventory strategies and logistics networks.

<sup>1</sup> Retailers who offer free shipping find an impact of 5% to 9% margin loss on their online sales. In the race to open new warehouses, major retailers are spending from tens to hundreds of millions of dollars. Of note are moves by Amazon to [acquire](#) and build logistics services.

<sup>2</sup> For example, last year the cost of free shipping to Amazon amounted to \$5 billion, or 5.1% of Amazon's sales; up from \$4.2 billion, or 5% of sales in 2014; thus, Amazon's recent change to their shipping policy—increasing the minimum order from \$35 to \$49 to get free shipping.

In fact in retail, the very definition of *location* is changing. Though the physical store is still—and will be—very important, *point of sale is now wherever the customer happens to be at that moment.*

Wholesalers and manufacturers are not out of the loop here at all. Many wholesalers have gone retail and sell direct to consumers. Many retailers are beginning to lean on their suppliers to drop ship. In perishables, wholesalers and manufacturers have been doing daily direct-store delivery for years with everything from fresh bread to ice. But now they will have more competition on the road for logistics services and may well find the cost to deliver increasing.

Logistics service providers are seeing the opportunity and merging, expanding, and developing services in new territories to provide regional and last mile delivery services on behalf of their customers. This is a *place your bet on Omni-channel* strategy that is radically changing the carriers' business models.

Carriers and warehouse fulfillment operators need to be key players in the Omni-world. Otherwise major retailers will supplant them with their own services.<sup>3</sup>

All this activity—this convergence—is driven by the customer and the competition: whether small businesses or consumers, they yearn for fast and, often, free service. Yes, the genie is out of the bottle. But rather than a genie granting wishes, it's more like the *Gift of the Magi*,<sup>4</sup> extracting an exchange for that gift of more customer sales.<sup>5</sup> All segments are feeling a heavy burden to address the home delivery challenge.

*Home delivery is not just an issue for logistics.* In fact, it is very much an issue of transforming and integrating *customer-centric business processes.* *How to serve the way the customer wants it—and do it profitability—is the question on every seller's mind.*



<sup>3</sup> Several major retailers are taking back their warehouse management as well as investing in fleets.

<sup>4</sup> See [O. Henry's](#) stories in which the gift is always accompanied by irony.

<sup>5</sup> Online sales grew across the world at an astounding rate in 2015: for example 30% in China, 12% in the UK, and in North America (US and Canada) ~ 21%.

## Profitable Home Delivery

Today, retailers are spending billions on building new warehouses for fulfillment. They are offering customers a variety of shipping and services, mostly at fixed rates. For parcel shipments, retailers most often present a simplified view of rate tables from the major parcel carriers to the consumer. But behind the scenes, these are not the true costs the retailer is paying. Due to higher demand, major parcel carriers introduced Dimensional Weight (DIM) rates about a year ago, that now provide behind-the-scenes challenges for retailers in determining which parcel carriers to use.<sup>6</sup>

For other types of delivery, other cost drivers such as mileage, weight, or other attributes add to the retailers' cost to serve.

Occasionally, retailers do have policies (based on some rule of thumb: e.g., the value of the order, density of customers, or just the need to compete) that they use to offer reduced or free shipping fees. With *all free shipping/free returns*, though, they place no incentive on the customer to purchase more. In addition, they generally have no mechanism to absorb the cost of returns.<sup>7</sup>

Can we agree, then, that fixed shipping fees have nothing to do with the real cost of delivery?<sup>8</sup> In reality, consumers may be getting a great or raw deal. A retailer who may use a weight range, for example, may be charging a consumer an \$8 shipping fee for a less than one pound item. As consumers get smarter about shipping options, they are unlikely to be repeat purchasers.<sup>9</sup>

### The Myth of Free Shipping

First movers in free or same-day shipping are waking up to lower—or no—profits. The loss per shipment in these scenarios can eat 5% or more margins from the sale. In addition, outbound last mile costs between three to five times as much *per item* than inbound.

Consumers are becoming more *return* oriented. As their online shopping habit increases, they have become less likely to absorb bad purchasing decisions and expect equitable—or free—returns.

Even as a *Prime* member, the customer has no assurance of free—or fast, for that matter, on *every* item. Successful retailers know that free only works in association with many other factors that make free viable. But retailers who are blanketly offering this are finding Omni-channel a lot more costly than anticipated.

And retailers who persist in charging high fixed fees to deliver are losing business.

Lately, retailers, behind the scenes, have instituted drop ship or warehouse charges to suppliers, passing the cost of delivery on to them. However, this is surely a method to alienate suppliers and also maintain high supply chain costs which will be reflected in the overall product costs over time.

The bright spot here is that advancements in technology are providing retailers and suppliers with newer approaches that can work for the retailer (i.e., keep customers) and the customer (i.e., not cost too much for shipping).

<sup>6</sup> Based on weight and dimensions one carrier may offer a better price.

<sup>7</sup> Traditional retailers can absorb the cost of returns by leveraging in-store personnel. Not so with online.

<sup>8</sup> Unlike B2B shipping where service fees are based on mileage and a host of other contractual services, in retail the price is fixed upfront regardless of what happens on the backend. In long haul transportation, by comparison, often the final bill is not created until the delivery is complete and the miles and services have been tallied.

<sup>9</sup> Or they hold out for the promotional free-shipping opportunities, which impact the retailer's ability to plan and forecast sales.

Conversely, consumers clamoring for free shipping can seize the opportunity for those heavy-weight items. But here, the retailer is taking a bath. For a retailer, neither of these scenarios is a sustainable situation.

A home delivery model has to be a lot smarter to be financially sustainable. In the transportation world carriers have been modestly profitable by using routing and rating approaches that are fine tuned to the actual shipment—the mileage, dimensions of the package, and other service factors. In retail home delivery, the model is rather backward—rates are set long before the cost of transportation is known. Traditional transportation buyers, on the other hand, can often shop around for rates or a mix of services and find an equitable service/price deal.

*If delivery is so important to consumers—and it is—shouldn't they, too, be able to shop delivery options?* To do this the retailer needs to consider *delivery as part of the order—not an afterthought*. This is important *since we know that consumers will shop sites for availability and shipping options. They have a wider view of an order; thus, the retailer should too*. The retailer's<sup>10</sup> all-inclusive view of the order—product availability by location, customer location and service requirements, and what it will take to successfully fulfill them—is essential in order to optimize delivery services.

To do this profitability (and with choice for the consumer) smarter delivery planning has to begin *while* the customer is ordering—not afterward. By immediately beginning to evaluate their options, the retailer can present various attractive services and delivery appointments to the customer. Customers can be incented to select schedules for a variety of value propositions. For retailers, options are expanding to leverage ship from store, not just warehouse. The store may be closer to the customer, thereby reducing delivery times and costs. In fact with mobile sales on the rise,<sup>11</sup> which can provide the customer's precise location, a retailer may even incent a customer to pick up in store—saving the retailer further delivery costs.

Customer-centric home delivery is more than planning and assuring exceptional execution through the whole process. It's a total package today—a stellar customer experience which includes merchandise, the delivery service, and ongoing multi-channel customer engagement—in person, on the web, and mobile—and personalized to each customer. This is the *true definition of the Omni-order* today.



<sup>10</sup> We use the term retailer to mean any shipper as well as the agent for the shipper, i.e. carrier.

<sup>11</sup> Data in on 2015 sales showed an increase—to 20% of online orders—coming from mobile devices.

## In Home Delivery, the Customer's Experience Starts While They Are Still Shopping

**Nor does it end when the truck is on the road....and maybe not even when the order arrives...**

Creating a home delivery process that works for retailers, service providers, and of course, customers, is an integrative process of learning and refining. So at the outset it needs to be said that ideas about what will work, what the service offerings and policies might be, and the whole definition of Omni-channel business for a given retailer may change over time. That *should* be expected. Retail competitors are offering new approaches—some will stick and some will not. And ‘why not’ is due ultimately to the lack of profit<sup>12</sup> as well as changing customer tastes and retail business models.

What, then, needs to be considered in the home delivery process?<sup>13</sup> In the new Omni-order world, retailers need to offer their customers various options (since customer needs differ) *while* the customer is evaluating merchandise. Behind the scenes, concurrently, the system is evaluating many options.

It is critical to understand that the cost of these offerings *is a highly variable factor*. For example, one week there may be only one customer in a particular territory and thus, that one order has to bear the burden of the entire cost of that route. Yet on another week there may be twenty customers, significantly reducing the cost per order. Or one day a customer may order a pair of shoes—small parcel—and another day, an entire home entertainment system that they wish to have installed, requiring a two-man team and a larger truck. These and other types of factors will make the cost of that route to the retailer vary from day to day.

Beyond the view of orders, we know that in-transit changes will happen—too much traffic, cancelled or new orders, and so on. We have to be prepared for the unexpected. So we say *optimization never really stops until the delivery is finally made*.

### What Is Continuous Optimization?

A continuous optimization model maximizes the decision space, constantly searching for better opportunities to deliver within precise appointment windows at better cost.

It is a two-phased process:

*While the customer is online shopping*, optimization is discovering options and providing choices, in split-second timing. Multiple modes can be considered from parcel, private fleet, or common carrier.

*After the order is placed*, the carrier can continue to accumulate orders and continue to evaluate even better options. The software is continuously running, scheduling more orders into the plan until it is time to load and go.

In past shipping approaches, promises were made to customers without knowing whether the promise was feasible or affordable. With that method, optimization is not started till the last orders are put in, leaving a limited amount of time in which to discover the best options.

<sup>12</sup> It is worth noting Amazon's quiet change of shipping policies. *Prime* has no assumption of free for *every* item anymore.

<sup>13</sup> For further reading we refer you to: [Home Delivery—More Sales/Less Cost](#), where we discuss the business aspects of home delivery; [Always On](#) where various optimization approaches are discussed; and [Winning at Home Delivery](#), in which we discuss the technology requirements.

Think about it. That delivery is not just miles on a map, but a mesh of information and decisions that need to be made:

- What are the terms of the order?
- When and where will the merchandise be ready for shipment?
- How will it be fulfilled—the type of equipment (van, truck, refrigerated, and so on)?
- Personnel (e.g., two people to carry in, setup, and install?)
- Which carrier may provide this service best?
- How do I poll other parties, such as fulfillment services or suppliers, on inventory availability and then prepare them to fulfill?

Order administration today is more than checking customer credit and payment; it includes all this plus scheduling the delivery with the customer and all the players who are involved in fulfillment.

For the carrier, although this may be a standard route, it may only be the beginning of the selling period with the possibility of more customer orders. That can present opportunities to leverage routes to provide more deliveries and thus increase the revenue and profit for that route.

Many retailers have their own private or dedicated fleet, but may also use for-hire carriers as well as parcel services. When optimizing and planning a profitable home delivery, all of these elements need to be taken into account. In an always-on world, orders can happen *whenever*. Hence, scheduling and pricing methods also have to be always on, with the ability to offer services and dynamically price them for each custom event.

Old models of creating and optimizing routes after a cut-off period just can't support this customer-centric way of working. That is why we say the system has to be *continuous*. *Continuous optimization* is a *concurrent* analytic, always running behind the scenes to determine the best options for the customer, retailers and logistics. In Figure 1, we walk through some elements of this continuously optimizing process.

## What Is an Order in the Customer's Eyes?

### Merchandise

- + Service options
- + Delivery options
- + Communication en route
- + On time with service completed the first time
- + Post-delivery customer satisfaction and feedback
- + Return options



## What Is an Order Behind the Scene?

- Delivery planning integrated with POS and/or web ecommerce
- Incentivized service and appointment offering
- Integration to inventory—available to promise and assessing optimal *ship from* locations
- Mode selection—parcel, TL, LTL; direct from DC, store, or supplier drop ship
- Continuous delivery optimization with integration to carrier network
- End-to-end communication—retailer, carrier, and customer
- Driver telematics for optimal routing
- Shipment tracking through to EPod
- Ensuring customer satisfaction/post-delivery customer quality survey



## Continuous Optimization—How It Works

### Widening the Vista

Often in optimization we narrow choices, but in a continuous model we are opening the choices with a more inclusive view of available options—a *wider decision space*—that the software can consider in offering a profitable service to the customer. A shorter decision window (order-to-delivery cycle time) may limit the decision space, but by using continuous delivery optimization, retailers can still open up the vista to more possibilities such as additional carriers, which may lead to many affordable options.<sup>14</sup> Often, organizations have fixed contracts with certain carriers or their own fleets, but as more and more customers choose home delivery, those select few just might not be enough.

Retailers who do use parcel carriers need more fine tuning and understanding of today’s parcel carriers’ rating systems<sup>15</sup> and their competencies in different locales. Retailers need to use this data not only to design optimal services for consumers, but to rethink their pack and ship methods. Significant dollars are lost here not just in faulty decisions about delivery options, but packing methods. Even a few pennies saved using less cardboard or mailers add up.

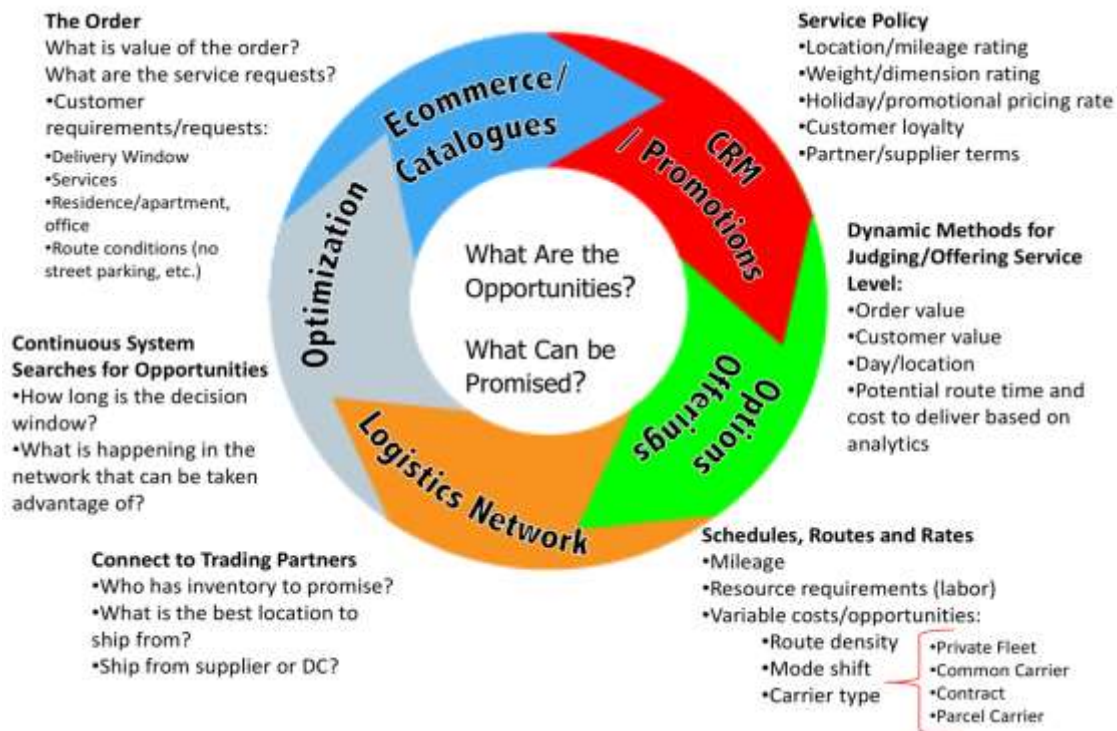


Figure 1: Delivery Planning with Continuous Optimization

<sup>14</sup> For example, Home Depot’s approach can evaluate, from customer location, which of their major fulfillment centers or stores to ship from to optimize the customers’ time-sensitive requirements. Based on the goods to be shipped plus location, they can choose parcel carriers to carry out same-day shipping or use their own fleet.

<sup>15</sup> These are based upon dimensions, weight, and so on. Different parcel carriers have advantages and disadvantages based on these factors, thus impacting cost and service.



## Make Policies Dynamic

Retailers have developed policies governing the services they provide and at what price. However, these policies are frequently based on inaccurate and outmoded cost structures. Rarely have we seen a retailer who has a costing system that evaluates the actual cost per order and uses that to determine policies. Regardless, as mentioned before, route costs are highly variable.

But there is more to consider. Logistics systems, in the past, have not been integrated to customer value factors such as order histories, the customer *value over time*, or other data analytics that are available today in our open web world that might indicate a highly prized new customer opportunity. So those orders judged solely upon dollar *volume* may be missing these customer loyalty or new customer opportunity factors.<sup>16</sup>

Policies have been narrow and rigid, tied merely to fixed thresholds—over fifty dollars, a hundred dollars, and so on for free shipping, for example. Hence, the methods for judging the *service level offered per order* need to be updated to include not just this sale, but possibly all the sales and the cost to deliver per order/per item/per customer.

Today the opportunity exists for more *dynamism*. In fact, it is required. As we keep emphasizing, the pressure for free or fast puts a burden on the retailer. But with a continuous model, an order can be scheduled into existing plans available with very low cost. Then the retailer can assess whether conditions can support a fast or free shipment and, through analytics, who best qualifies for that free shipment. That can be done only with that more integrated and real-time view of the order and within the context of a broad array of choices across many routes and rates (cost to serve).

## Service Providers' New Options

Carriers who can keep up with the Omni-channel world stand to gain the most.

Regional service providers are springing up all over the country, providing local expertise and short delivery times.

Multi-service carriers can blend their TL, LTL and regional presence to provide a holistic logistics service. This can allow them to broaden the relationship, i.e., increase their share of revenue and yet offer better contract terms and rates, thus saving the retailer and supplier money.

With a broader view—a fulfillment *network*—3PLs determine where they may set up shop next. They can share warehouse space across customers or partner with other logistics service providers to balance resources or deal with surges caused by seasonal sales to ensure they continue to generate revenue even during non-peak periods when their standard customers may not be active.

<sup>16</sup> In fact, dollar value very often does not correlate to the true value of the order. Consider customers who are buying promotional or marked down items: the total order may be high, but there is no margin. This plus free shipping may mean the customer is getting goods below wholesale cost.



## Optimize the Offerings

In the new world, customers are online evaluating the product *and service*. Thus, in the background, retailers should also be analyzing and presenting options in real-time, showing alternative appointment schedules, services, and prices. This is true customer service. The old processes did not work this way and in fact, most retailers still don't work this way. They can't, because logistics processes and systems are divorced from online catalogues and commerce. Even within their logistics systems there is no access to their own or their carrier's current delivery plan. Their plans are only created the night before the truck leaves. This leaves a very narrow decision space and it offers the retailer little option but to go with an *assumption of service* without knowing the actual cost to serve.<sup>17</sup>

And since the carrier actually has no plan, the question remains: Can they provide reliable and consistent service?

Carriers are regularly over or under capacity because of the narrow decision space in which to optimize their routes and schedules. And if they don't have the right alignment of resources, services will suffer. Hence, the retailer who uses third parties of any type needs to ensure that what they are offering the customer can actually occur. It is one thing to say, "Here is a special offer," but another to deliver on it.

If the commerce/retailer's system does not know what its options or availability are, the retailer can't really offer it. Connectivity through mobility,<sup>18</sup> rapid planning, and monitoring of third parties all the way through to post-delivery provides an advantage over the current disconnected model between the retailer and the logistics providers.



## Integrate Logistics with Commerce

The implication of the information and technological changes we are suggesting is that a logistics network becomes blended or integrated into the retailers' own commerce systems. With today's web development and systems standards, web services,<sup>19</sup> and cloud integration, this type of *blending of retail and logistics systems is possible*.

This integration embraces the total customer experience. Rather than treating logistics as a hand-off, the order is *both* product and service and positioned as part of the choices customers make, much like any merchandise choice: for example, a computer with or without speakers, and with or without home installation. Web development tools today can enable this kind of integration.

---

<sup>17</sup> Of course, if the retailer is using a parcel carrier, they do have a fixed price. But again, this is not tied to the real cost of logistics or what it *could* be.

<sup>18</sup> With small carriers, mobile updates are sufficient to keep retailers and customers informed of locations, shipments, and delivery to customer.

<sup>19</sup> HTTP, SOAP, REST Architectures, and so on

In the background, the continuous optimization process is reviewing existing plans and options and can dynamically offer service and delivery choices based on a reality—not static assumptions. This provides the customer with choices and provides the retailer with the opportunity to offer up services that are more cost effective or revenue generating.

Integrating the ‘home delivery’ software to commerce may include information from CRM, customer history, or loyalty data. Premium customers are recognized and the retailer can provide services to those most valued customers, even when *this* order may not hit the price threshold for reduced rates.

Most importantly, it integrates logistics in a way that allows for the consumer analytics and evaluating commonly done in web commerce. For example, retailers can see what prospects are searching for, dwelling on, and so on, for *logistics services*. *Today only a few retailers have this capability<sup>20</sup> to take analytics such as customers’ sentiments and preferences, apply them to services, and update offerings and policies accordingly.*



## Make the Logistics Network Central

Besides changing ordering processes to include this real-time, continuous model, there is the use of a logistics network. *The network is central to widening that decision space* to seek out and take advantage of other available options.

Within their own fleets, retailers or carriers can broaden their own assumptions and mode shift. Though we often think of parcels being carried on vans, the reality is that there are often opportunities to ‘hitch a ride’ with a larger truck, leveraging an existing route. For carriers who are now providing these broader services from long haul, LTL, parcel, and courier, this can easily become an option. The network, though, provides a method to leverage the whole marketplace as well as the private fleet. There are often carriers who service that route better/cheaper than one’s own fleet (especially if this is the occasional route).<sup>21</sup> In a network, for hire options can easily be considered.<sup>22</sup>

Mode shifting and widening the decision space allows shippers to constantly evaluate the best rates, carriers, and so on. For example, retailers can leverage existing carriers who have a route to their customer’s locale. Rather than incurring that \$8 parcel carrier’s charge, a small parcel could likely get on board an LTL carrier who goes to that location often and who will charge half that. For large items—home appliances, furniture and so on—rather than using their private fleet, a retailer may leverage an LTL who has a daily route and can provide faster services. The retailer not only gains faster shipping services, but does so at a significantly reduced price.

---

<sup>20</sup> John Lewis, in the UK, is such an example. In 2015, John Lewis, a ubiquitous brick and mortar retailer, reported that 40% of all their sales are now online.

<sup>21</sup> In addition, the private fleet may already be exceeding capacity or is being routed to other locales.

<sup>22</sup> For more about private fleet or for hire read: [Unifying the Private Fleet with Purchased Transportation](#).

Retailers often have policies about where they ship to and what services they provide in certain territories. Carriers derive their pricing and policies based on capabilities (drivers, inventory, vehicles, and so on) in that locale. However, on the web, customers can come from *anywhere*. And if they are comparing (and they are) delivery terms, retailers may want to get services and pricing in line with the local market, when possible.

Retailers' and wholesalers' year-end financial reports showed a dramatic and consistent growth in online business. So they need to think more broadly about how they can support and sustain that growth. Retailers should be evaluating the density of business in a locale and then developing the capabilities to service it. This takes retailers beyond just a merchandise promotional mindset to one that encompasses the broader definition of their business model.<sup>23</sup> The investments can be large, but can often be offset by partnerships with suppliers, 3PLs, and carriers. This may seem obvious, but those who rely on parcel carriers alone, or for larger items have their own private dedicated fleets, may be missing opportunities to broaden their customer base. Networks allow for the evaluation of many carriers and their capabilities for broader services—dynamically or strategically. Retailers can scan the network, leverage the players, and make decisions.

From the service provider's perspective, it's a great time to think about how to acquire additional customers, gain additional revenue in existing routes or leverage empty miles or warehouse space. An entrepreneurial carrier within a network can offer a service in a locale that they know a retailer's fleet may be loath to service.

As we have described, managing the Omni-world with a network provides a panorama of more opportunities—more business—for many players.



## Integrate Inbound and Outbound

In Retail logistics, inbound and outbound are managed as completely distinct activities. But with Omni-channel, retailers are not just rethinking their DC and warehouses; they are spending millions on new warehouses, equipment, technologies, and new systems.

From a logistics perspective, this opens the decision space—and the physical space—to potentially include LTLs who are delivering *to* a desired facility. For example, the next stop on their route may be to the retailer's customer locale. This could be a win/win for both parties and the costs would reflect that. *Within a network, this broader perspective is possible.* So physical logistics flows, pooling/consolidation or new DC models should consider these options as well.

---

<sup>23</sup> Services should be evaluated in a manner similar to the way in which retailers make decisions to locate stores—based on demand, store size, store format, and so on. Here, the merchandise demand—or potential demand—is coupled with the kind of services that should be offered with it. After determining who the competitors are in a territory and what they offer, these answers and other elements can help determine further investments. Pilots are frequently done to determine the viability of these plans.

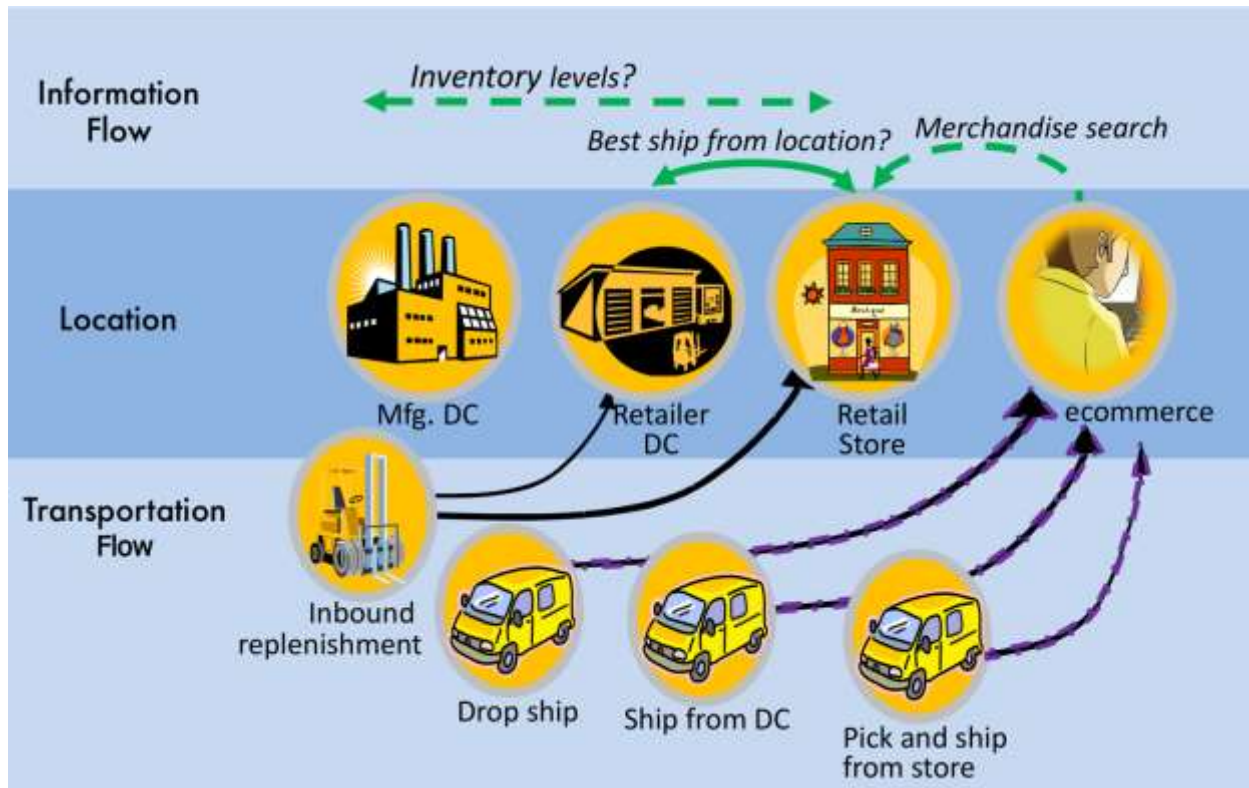


Figure 2: Integrating the Process

## Conclusion: We Have to Find a Better Way!

For retailers to become profitable at home delivery, *logistics services should enhance the value of the order in the eyes of the customer and thus deliver more revenue to the retailer.* To do that, the system has to offer the customer more choice by redefining the order as both product and delivery.

It won't be easy. To do that *we can't subject consumers to the way transportation and logistics departments work today.* Those complex, convoluted, multi-stage, multi-systems that embed long time delays in planning, booking, tending and calculating fees won't work for consumers. It is amazing that the industry has put up with that for so long. The TMS market has grown up to be a very complex world, but that mode won't work in the consumer world. Though system messes are often hidden from consumers, the results are not hidden at all: the late or faulty deliveries which irk customers or unprofitable routes with expedited shipping which lose money for retailers. This has to change if everyone in the process is to *win.*

In home delivery, systems have to be *consumer friendly* in order to succeed. Today, the market often uses the phrase the *consumerization of IT.* This is surely a goal that retailers should strive for. We can see *Omni-channel/home delivery as a catalyst—a wake-up call—to streamline logistics* and improve the information infrastructure in order to address the changing demographics and customer preferences.

Besides logistics networks with many thousands of members, organizations can acquire business process extensions that easily build workflows and integrations between trading partners. Rather than forcing businesses to use technical language for API and EDI jargon, these extensions are presented in business language whereby users easily define the work tasks or processes they want to enable, as well as the end-points—customers, partners and destinations systems. This approach is a welcome addition to the complex multi-threaded world of retail logistics in which so many players have to be connected and their tasks executed to ensure success. This is a click and connect paradigm that a new generation of users expects. It has just the kind of simplicity in *presentation* yet thoroughness in technology that is needed as so many more partners require more from one another.

For service providers, Omni-channel can be a breakout moment. Many have been searching for new services they can provide to differentiate themselves from the pack and gain new revenue streams. Service providers need to ask, what is the portfolio of services that can be offered to customers? To do that they not only need to understand the retailer’s business, but also the consumer market. In this way, they can assess the real demand for these services and create a methodology to profitably partner with the retailer to create a winning strategy for both the retailer and themselves.

It’s time to grab the mantle of the Omni-leader in logistics and *do it now* since retailers will want to know: *Who’s best at this? Who can contribute to our strategy and help meet the consumers’ increasing performance expectations? Who can quickly integrate their services into our processes?*

For the retailer, the fundamental question is *who will define retailing for the next generation?* Omni-channel is a competitive threat and, if done well, a way to differentiate oneself from the competition. Disruptive merchandising ideas are taking hold and attracting a new generation of customers. Retail business models depend on more dynamic service models. If customers consider service to be as important as merchandise, then retailers’ delivery methods can’t be an afterthought. Delivery has to be purposefully designed in, just like stores and merchandise.

Now that the genie is out of the bottle, there will be more changes as the digital transformation of society becomes all encompassing. For retailers, home delivery is a pivotal element of this generational change. Retailers need to not only develop processes that are in step with what consumers desire, but do them profitably. The alternatives are...well, there are no alternatives. The retailers’ own survival depends upon it.

## References

[Winning at Home Delivery](#)

[Home Delivery For Retailers – More Sales, Less Cost](#)

[Always On – Peak Performance for Nonstop Businesses](#)

[John Lewis \(on YouTube\)](#)

[Sear’s Holding \(on YouTube\)](#)

[Woolworth’s Story \(on YouTube\)](#)



#### About ChainLink Research

ChainLink Research, Inc. is a Supply Chain research organization dedicated to helping executives improve business performance and competitiveness through an understanding of real-world implications, obstacles and results for supply-chain policies, practices, processes, and technologies. The ChainLink 3Pe Model is the basis for our research; a unique, multidimensional framework for managing and improving the links between supply chain partners.

For more information, contact ChainLink Research at:

321 Walnut Street, Suite 442, Newton, MA 02460-1927

Tel: (617) 762-4040. Email: [info@clresearch.com](mailto:info@clresearch.com) Website: [www.clresearch.com](http://www.clresearch.com)

---