

Operations and Logistics:
September 2015



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*James Lloyd,
Ecommerce Manager, Weird Fish*



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OPERATIONS AND LOGISTICS, once behind the scenes, are now very much in the full glare of the customer view. Shoppers who have ordered online not only want to take control of where and when they'll get their purchases – but to track them along the way.

Delivery, thus, is at the heart of the online promise and today's leading retailers have handed consumers control. Retailers have worked closely with the logistics industry to give customers the final choice of where they pick up or take delivery, and how they return any unwanted goods.

The best retailers have transformed expectations. By showing what is possible, they set a level that becomes the minimum competitive level. Fast delivery to a convenient point is now largely taken for granted – and the boundaries are constantly being pushed.

But such innovation comes at a cost and it's important that such sterling service does not go unrewarded. In high street retail, we calculated that the fixed costs of building a shop were paid upfront, with retailers moving into profitability once that amount was covered.

In cross-channel retail, each parcel sent comes at an unavoidable cost, even when the scale is massive and the individual cost is low. To achieve, and to retain, profitability, operations and logistics must function consistently at a high level.

This is an area that holds within it some of the most important aspects of cross-channel success, which retailers must master to succeed: capability, experience and profitability. That's why this IRUK 500, 2015 Performance Dimension Report on Operations and Logistics is crucial reading.

Over the page our editors, Jonathan Wright and Chloe Rigby, explain the thinking behind this report, and how our research team has gone about measuring the industry's deliveries, collections and returns.

We've relied on the insights of our valued Knowledge Partners to extend the scope of our in-house research, and our thanks go to them. Do get in touch if you have further data sets or studies that you think could help further, and if you'd like to join the ranks of our partners.

We now look forward to unveiling the IREU 500 in January, 2016.

Ian Jindal
Editor-in-chief
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Editors' comment

IT'S A TRICKY balance, but one that leading retailers are achieving. It's between giving customers the fulfilment choices they want and demand, while ensuring that service is delivered at a profit. Customers are learning fast, from the traders at the forefront of retail logistics, just how accurate and effective delivery, collection and returns can be. That's not to say that every parcel arrives on time, or every collection is the experience it might be. But services have improved enormously in recent years and today we're at the beginning of a process that's opening up new possibilities and aspirations. It's territory that's well-mapped in this, our third IRUK 500 Performance Dimension Report, on Operations and Logistics.

When, on Black Friday 2014, delivery services were overwhelmed, consumers let the industry know exactly what they thought. It was a reminder that it's crucial to keep the delivery promise. That's a message echoed in our lead interview (page 18) by Sean McKee, head of ecommerce and customer services at footwear retailer Schuh, which tops this Dimension. In the interview, McKee explains in detail what makes Schuh's service work, and gives useful insights into how the underlying strategy has developed.

Black Friday is also one of the themes in our strategic overview of the sector (page 8), written for us in this report by Sean Fleming, editor of InternetRetailing's sibling title, eDelivery.net. It goes further to investigate the other challenges facing the sector, and how retailers and logistics providers are already dealing with these.

We consider practical steps that some of the UK's leading retailers are taking to offer top-flight services through case studies (page 20) on House of Fraser, John Lewis, Superdry and Amazon, and through our feature on 12 techniques that leading retailers are using (page 24).

We interrogate our numbers through two research-led features. Analysing the numbers (page 12) assesses the current state of the industry in this Dimension; while the breaking new ground feature (page 32) measures the gap between customer expectations and the service customers actually receive.

Finally, we take a long hard look at the challenges of cross-channel returns in our emerging practice feature (page 29). As Dr Jonathan Gorst of Sheffield Hallam University explains, so-called 'reverse logistics' is a subject that's coming more and more into focus for retailers trying to reduce waste and maximise profits.

We'd like to thank all our Knowledge Partners in this Dimension Report. In the months ahead, we'll be turning to the remaining three performance dimensions explored in IRUK 500, 2015. We welcome your thoughts on new areas of research as we add to our primary data and analysis. Please email jonathan@internetretailing.net and chloe@internetretailing.net.

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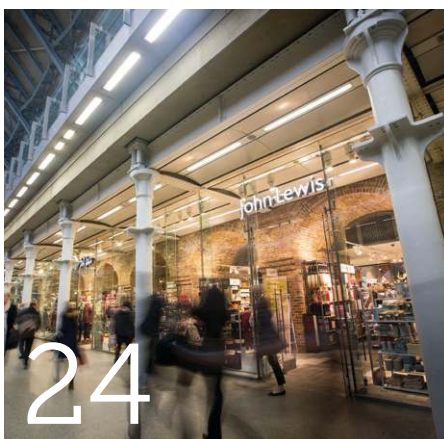
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The future of delivery

James Gagliardi, vice president of solutions innovation at Digital River, anticipates a world of ship-from-and-pick-up-anywhere retail

THE EXTRAORDINARY DELIVERY service that many retailers now offer would have been unthinkable just a few short years ago. Customers expect that retailers will deliver products for free and within just two short days. In reality, achieving all this is expensive. Just think about all the people who had to touch the product and all of the transportation costs that are involved in getting the product to the doorstep – yet most customers resent paying for delivery.

It's not surprising that retailers, technology businesses and logistics partners are becoming very inventive as they look to reduce the cost of delivery. They're thinking hard about what it means to ship from anywhere, to anywhere, and finding efficient ways to achieve that.

Manufacturers, retailers and logistics providers are working out economic ways of shipping across borders. Branded manufacturers are enabling customers to order direct from them, and then have their order fulfilled via a local retailer that already has the item in stock. After all, what retailers and manufacturers both want is getting products into the hands of consumers and having the ability to ship from the closest location.

By the same token, we expect to see last-mile delivery get even closer and more convenient for the shoppers as Uber-style couriers start to deliver right to the spot where consumers are – a same-day delivery service that consumers would be willing to pay for. It's a democratisation of delivery that makes such services more affordable than the pricey couriers of just a few years ago. With the growth and proliferation of the 'Internet of Things', Volvo demonstrated the potential of connected cars to become a delivery drop-off and pick-up point. This initiative is an example of a win-win scenario that's convenient for consumers, and cost-effective for delivery services that can avoid first-time delivery failures and re-delivery costs.

// Retailers, technology businesses and logistics partners are becoming very inventive as they look to reduce the cost of delivery //



Bottom line: customers want flexibility in where and how their product gets delivered, just as they want flexibility in how they can pick it up.

Another notable trend sees customers willing to pick up packages from nearby, central locations – think grocery stores and post offices – that may be on the way home for consumers. To achieve this kind of flexibility, retailers need to solve other challenges. Having a unified view of your product inventory, regardless of where it is, is the only way these services can work. Then, there's the need to solve the attribution question, by working out who gets credit for the sale and the delivery, and how funds are distributed between all the parties. Conversely, returns and refunds also present a problem. This is one area that I think is still being worked out.

Although there's still a lot to be figured out in making multichannel logistics work, smart companies will seize the tremendous opportunity at hand to ensure that they are among the winners in this 21st-century race to deliver. ●

About Digital River



Digital River is a leading global provider of Commerce-as-a-Service solutions. Companies of all sizes rely on Digital River's multi-tenant, SaaS commerce, payments and marketing services to manage and grow their online businesses.

www.digitalriver.com

Delivering an end-to-end consumer experience

By Becky Clark, CEO, NetDespatch

IN TODAY'S DIGITAL 'always-on' world, consumer expectations are evolving and retailers must respond accordingly. As e-retail sales continue to grow, the lines are blurring for the consumer between different retail channels. With most shoppers now viewing these as completely interchangeable, retailers must ensure they can deliver the same experience across all their channels, including fulfilment and despatch, to create a truly omnichannel experience for the consumer.

In whatever way the consumer engages with the retailer's brand, whether online or offline, searching, browsing, or ordering; it must leave shoppers with the same positive impression every time. Fast and efficient order processing is now essential, with the expectation that orders will be fulfilled and despatched the same day. To satisfy this, retailers must work to streamline the processes between their omnichannel, ecommerce and warehouse management platforms, through to their carrier's labelling and operational systems, meaning that orders can get out of the door as quickly as possible, and that consumers can be updated with the delivery progress every step of the way.

Marketing of a wealth of new delivery and returns options to the marketplace has meant that consumers are becoming more aware, and want to be given the choice of where to collect and return their parcels. Availability of 'Click and Collect' on the High Street is being supplemented by thousands of convenient locations, in stores and lockers, through services such as Collect+, Smiths News Pass My Parcel, Royal Mail Local Collect and Delivered by Tesco – all complementing the mainstay of home delivery.

Tracking and returning parcels easily and simply is therefore important, as is streamlining the returns process. Gone are the days when consumers would wait patiently for a month to get their money back; consumers expect fast refunds. Online shopping has meant that returns are a sharply increasing headache for retailers. Not only is there the processing overhead, which can impact heavily on profit; but with annual spike dates such as Black Friday, Cyber Monday and Christmas, the associated returns are an increasingly pressing operational challenge.



Today, a retailer's returns policy may have a considerable impact on consumer buying habits. An ineffective returns policy, particularly in cross-border purchases, may make consumers decide to shop elsewhere – a direct impact on profits. Conversely, retailers may find that consumers are more likely to order online when offered more choice in terms of collection and return options.

The good news is that retailers – at no extra cost – can reduce the headaches associated with omnichannel retailing through a carrier-recommended, seamlessly integrated web-order-to-despatch processing platform. As well as producing shipping labels and customs documentation, and alerting the consumer and the carrier, the NetDespatch platform can automatically receive order data from most popular ecommerce platforms, and warehouse and order management systems, with all the required tracking event data being passed back to the relevant party.

NetDespatch is retained by post and parcel carriers such as Royal Mail, New Zealand Post and Asendia, as well as 65% of the current UK 'Click and Collect' locations, to provide their web-based customer facing IT solutions, and currently processes parcel data for 100,000+ businesses in 114 countries across the globe.

As online sales see no signs of abating and as retailers look to deliver that 'connected' experience across all their channels, so retailers must ensure an enhanced consumer experience that delivers positive brand association. This means ease of ordering, multiple delivery options, visibility of tracking, convenient, fast and inexpensive returns – ultimately an end-to-end, seamless and reliable shopping experience. ●

Redefining delivery

Delivery services have been transformed in recent years as retailers work to offer increased convenience and flexibility.

Sean Fleming, editor of InternetRetailing sister title eDelivery.net, offers a top-level view of a changing industry

THE EXPLOSION OF new delivery and collection offerings now underway is like nothing the retail sector has experienced before: same-day delivery, lockers, doorstep boxes, collection and drop-off points, and of course click and collect are all becoming increasingly commonplace. Yet, just a few years ago, they simply didn't exist.

The drive to offer customers greater convenience and flexibility is without doubt one of the biggest developments taking place in the industry. But there's more to this than simply giving shoppers choice: bringing these options to fruition is going to need changes in attitude as well as changes in service.

THE SHIFT FROM ONE TO MANY

Consider the humble contact lens. A few years ago, contact lens wearers would pick up their new lenses from a high street optician. That doesn't happen so often today. What was once a single shipment of 500 sets of contact lenses, delivered to the optician in one drop, is now 500 individual shipments.

The convenience of having lenses delivered straight to customers was a tremendous step forward in offering better service. But, thanks to the law of unintended consequences, this created more work on the delivery side of the equation.

When it's just one example, one box of contact lenses, you could be forgiven for asking what the problem is. One answer is that we are starting to see a disconnect between the front end and the back end of retail. This is important because, while new services, promotions and gimmicks are the lifeblood of competitive retail businesses, such initiatives also leave retailers vulnerable if the fulfilment services and systems necessary to get items into shoppers' hands aren't robust enough to cope.

In the IRUK 500, brands such as Schuh are getting this right and stand out from the crowd thanks to fast



collection from store within an hour, a range of delivery options and a 365-day returns window. House of Fraser, Boots and John Lewis also stand out for the wide choice they offer.

THE JOHN LEWIS EXPERIENCE

Famed for great service on both sides of the buy button, and a strong member of the Elite group in the IRUK 500, John Lewis is a business that invested heavily in cross-channel retail when the UK economy was faltering, and others in the industry retreated to more cautious positions. Being prepared for peaks in demand is part of what keeps it out in front.

“In the early days, when the online business was around £300 million in turnover, it was relatively easy,” says John Lewis's head of operations, John Munnely. “Back then, if you were 10% out [with forecasts] that



just meant a few more packing stations. It's a different story now. With an online business with turnover of more than £1 billion, a 10% variance to the forecast can be critical when scaling the number of pack benches for the D2C operation. The level of detail and the number of testing stages we go through are of the highest order to make sure we don't get that part wrong."

Ecommerce represents around 35% of John Lewis sales, a figure that's equivalent to the sales generated by approximately 15 branches. Not only does that say much about the rate and scale of the growth of online sales, it hints at the efforts required to stay on top of deliveries.

"If we were a pureplay and all our orders were heading out to a carrier, when you look at the likes of Black Friday last year, when we saw something like 2.6 orders per second, that would start to be a problem," Munnely explains. "In the early days no one thought

“ Retailers have got to make sure the supply chain is joined up like never before, because companies are only as strong as the weakest link ”

click and collect would take off. After all, why would people order something online and then go to a shop to collect it?

"The thing about retail is, when it comes to carriers, we're all sharing the same resources. In my opinion, the carrier network is the Achilles heel of the industry. It's under-invested, yet customers still expect more for less. In terms of the value chain, that particular sponge is almost dry."

There are finite limits to the number of vans, trucks and drivers available, to say nothing of the finite amount of road there is for them to drive along. But as more and more customers pick up their purchases from shops, some of that pressure will be alleviated.

John Munnely adds: "We're all going to have to think quite differently about the way we do things, because it's not going to get any easier. It costs more to send a parcel to a customer than to put goods on the shelf in a store. The thing with Black Friday is that it's never going away now, in my opinion, and we've all got to make sure the supply chain is joined up like never before, because you're only as strong as the weakest link."

SPREADING THE LOAD AND THE RISK

Click and collect will certainly take some of the pressures off the delivery sector. But, of the one billion parcels expected to be sent out this year, in the region of 40 million will be shipped to collection shops. That bottleneck isn't going to be cleared just yet.

One of the more well-established parcel collection businesses is CollectPlus. Neil Ashworth, its chief executive, thinks greater collaboration, within retail businesses and between different parts of the industry, is becoming essential. He says companies have handled periods of peak demand in a 'vertical' way – I'm

in my silo, you're in your silo – and thinks a more collaborative, 'horizontal' approach is needed.

“Over the previous four years that we experienced Black Friday in this country, it generally just resulted in a bit of PR for Asda and Amazon, but last year saw everyone pitching in. That's why I think there's an obligation for this coming Christmas to be a more horizontal one,” he says.

Unless retailers' marketing teams share their plans with everyone in the entire supply chain, weak links will be exposed. Those weak links are probably being relied on by others in the industry too. Staying in a silo isn't enough anymore; even becoming a conscientious objector to Black Friday is no guarantee either.

“There were some really interesting outcomes from Black Friday,” Ashworth says. “Reiss didn't do anything – no Black Friday promotions at all. Yet they saw a 30% uplift. Why? Because the customer is out there looking for a deal. There was a consequential effect not just down the supply chain but in parallel supply chains.

“Retailers will have to think not only about how they will be affected by their own actions, but how the actions of others might affect them too.”

THE ARGOS APPROACH

Don't go thinking a me-too attitude is enough in itself though. David Robinson is chief operating officer at Argos, the retailer that debuted the concept of click and collect. Its hub-and-spoke distribution network means it can now get more than 20,000 stock items into any store for collection.

“Customers have busy lives and technology has made it easier than ever for them to find what they want, when they want it,” he says. “The next logical step is getting it where, when and how they want it. Those retailers who appreciate that and do something about it are clearly going to be in a stronger position going forward.

“That's why we committed to finding innovative ways of bringing our product range to people, rather than simply expecting people to come to where we hold the stock. Will we be the only business doing that? No, of course not. But anyone following suit out of a desire to follow the herd isn't guaranteed automatic success. Understanding your customers and listening to them has never been more important. If you don't get that part right, the rest of it will be an uphill battle.”



PUTTING VALUE BACK INTO THE PROPOSITION

The delivery sector struggles with the issue of price vs cost. Shoppers want free – or low-cost – delivery, but they also want convenience and flexibility. The IRUK 500 found the median charge for standard delivery is just £3.99. Investing in the people, processes and technology required to give people a choice of delivery location, guaranteed delivery slots and in-flight change capabilities is a big ask when retailers are competing on price and cutting margins in order to win business.

Becky Clark is chief executive of NetDespatch. The company's order and shipping systems help to power business such as CollectPlus and Amazon's same-day delivery service, Pass My Parcel. She thinks it's time the first mile and the last mile were better connected.

“It's all on the retailer, I'm afraid,” she says. “There's precious little the carrier can do. They only carry the parcels the retailer sends out, and the twin peaks of Black Friday and Christmas are painful.”



Clark adds: “You strike a deal with your carrier based on certain criteria, then you have a big promotion that goes really well and things can become unexpectedly expensive for them. The sooner the carrier knows, the greater the chance of avoiding problems. The more integrated your systems are, the more visible your problems will become. The sooner you can see them, the better equipped you will be to do something about them.”

There are many voices in the sector calling for something to be done to inject value back into the delivery service. Getting customers to start paying for things that have been free might seem counterintuitive, but Paddy Earnshaw, chief marketing officer of Doddle, thinks the picture is not as black as it has been painted.

“Propositions offered to customers will have to be driven by innovative solutions from the carriers and by the retailers, and from the likes of ourselves,” he says. “Customers are ordering later in the day, cut-offs moving later and later. If you move that forward to the fulfilment element, it’s really difficult to offer great customer service and customer choice when you know there’ll be failed deliveries time and again.

“You only need to look at the build up to Christmas, how people are desperate to get stuff in shorter time periods by ordering later and later: not only days towards the Christmas period, but also hours towards the December cut off. If there isn’t choice, customers will vote with their feet in our view.

“Interestingly, we’re also seeing that people aren’t afraid of paying for a service. Immediacy has a value – and that value is quite interesting to all of us in this sector. But it’s also quite interesting to consumers who are really desperate to get hold of the stuff.”

 It’s unlikely that the future health of the industry will be found by just hoping enough customers will be weaned away from the cheaper end of delivery options 

TRANSPARENTLY OBVIOUS

In a world where free next-day delivery helped propel growth but also laid the foundations for problems, it’s interesting to see there are businesses carving out viable niches – whether that’s Doddle, or CollectPlus, or any one of the locker box providers, from InPost to Pelipod.

It’s even more encouraging that Doddle is seeing customers willing to pay for an enhanced and convenient collection service. Although whether the company has identified a mass market trend or tapped into the needs, and wallets, of the time-poor and cash-rich is harder to say.

Either way, it’s unlikely that the future health of the industry will be found by just hoping enough customers will eventually be weaned away from the cheaper end of options. Similarly, it won’t be enough for retailers simply to throw new delivery and collections choices at customers in the hope that shoppers will respond positively.

Coping with peaks is part of providing customers with more, and better, year-round options. Trying to move forward without committing to greater transparency is unlikely to work – whether in relation to data, or stock levels, or when it comes to sharing vital information about promotions and volumes with carriers. Retailers need to be agile before the dam breaks, not when caught in a flood.

What matters to customers is the way, and extent to which, the promises made to them while they’re shopping are borne out when it comes to the collection and delivery of their purchases. That means retailers extending not just reach but brand equity and promises to the furthest reaches of the supply chain. ●

Deliver the promise

InternetRetailing senior researcher **Martin Shaw** considers what the IRUK data tells us about delivery, collections and returns

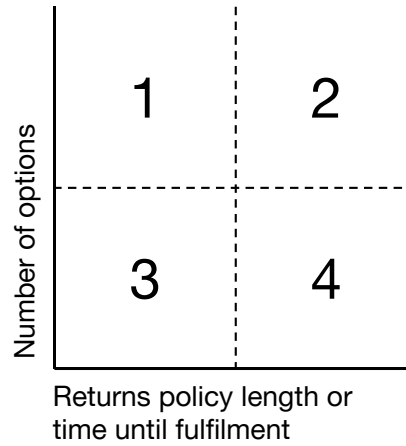
UK RETAILERS TODAY work hard to ensure that customers receive the goods they've ordered in the most convenient and cost-effective way. Just as importantly, retailers try to ensure that it's as easy as possible for customers to return unwanted or faulty items. But what sets the best-in-Dimension retailers apart here? Over the following pages, we look in depth at our research in the three key areas of delivery, returns, and click and collect.

MAPPING DELIVERY

Retailers in the IRUK 500 have differing approaches to fulfilment. This is because different retailers target different kinds of customers who have different interests and priorities, and fulfilment options and operations develop in response to these consumers' needs. While it may be important, for example, to get a new item of clothing delivered in time for a party at the weekend, consumers may be more patient when ordering a hard-to-find item from a niche retailer.

Nonetheless, as the graph on this page shows, it's striking that even among mainstream retailers,

Interpreting the Charts



The charts in this article show the number of returns, delivery or collect options offered by a retailer on the vertical axis. The fulfilment timescale or returns policy length is measured on the horizontal axis.

1. Retailers in this quadrant offer many options but standard fulfilment or returns timeframes are less competitive than others in the market
2. These retailers are a customer's dream: several options for fulfilment or returns and convenient time frames to boot
3. If companies in quadrant 2 were the 'best', those in the lower left of the chart are the most challenged; they offer fewer options with less convenient time frames
4. In the final quadrant we find retailers who've focused on just one or two options, but made them very compelling with rapid fulfilment, for delivery and collection; and a long policy period, in the case of returns.

there's a surprising divergence in the number of delivery options on offer. Clearly, for whatever reasons, some retailers see offering delivery options as a point of differentiation.

This leads to an intriguing question: is it fair to say that more options and faster fulfilment are definitively 'better' from the customer's point of view? And if so, is the underwhelming showing of some of the UK's largest retailers in this area a transitional problem, or, have these companies left the field in the battle for customer loyalty, yielding it to the likes of Amazon?

A recent PwC report found that just 16% of businesses make money from 'multichannel', so perhaps a broader appeal within a diverse market begins with fulfilment efficiency. With that in mind, what is the most *efficient* delivery offering for a retailer to make?

In a recent webinar run by InternetRetailing's sibling eSeller.net, Chris Dawson of Tamebay suggested that, even for small retailers, the best proposition includes at least three fulfilment options. The first is the



Statistics cover 98 of the largest IRUK 500 retailers and the study was researched with the assistance of Oracle-Micros. *The figure here refers to multichannel retailers only.



Statistics cover 98 of the largest IRUK 500 retailers and the study was researched with the assistance of Oracle-Micros.

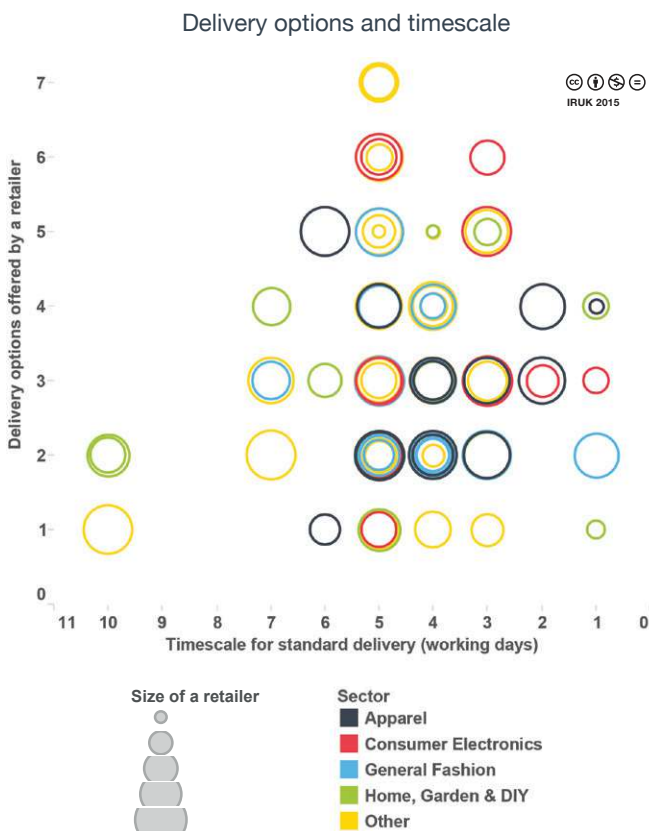
standard option with a low threshold for free delivery and a three-to-five-day timeframe. There should be an expedited, if costly, next-day delivery option for those shoppers who need something urgently.

Rounding out this optimal set of delivery options is a ‘no rush’ option, free for any order value. This final option would appeal to both retailers and shoppers over busy sales days such as Black Friday, when most customers only require their goods by Christmas and delivery services can’t otherwise cope with the spike in demand.

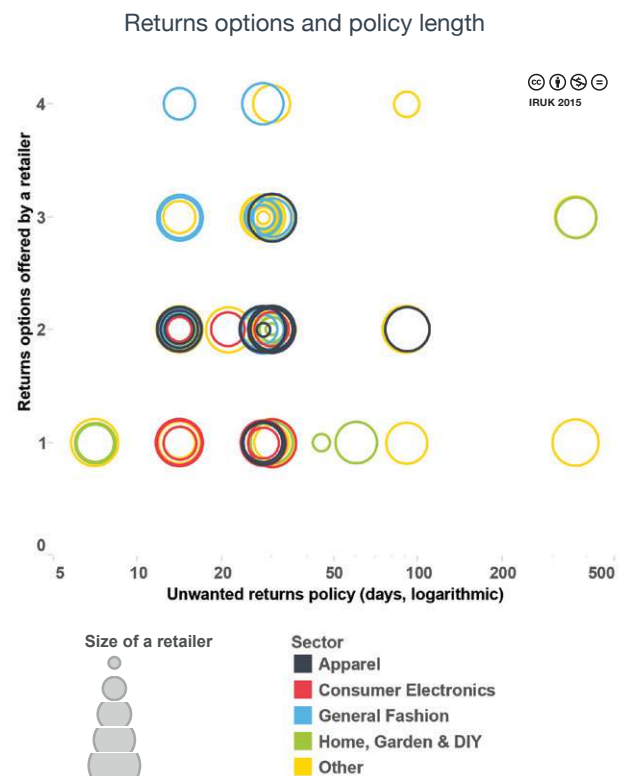
BEST PRACTICE RETURNS

Turning to returns, top retailers offer customers easy, rapid and inexpensive returns on unwanted or faulty goods. These companies aim to minimise both the likelihood of a return being made, and try to cut the costs when this happens.

This has resulted in a retail landscape where ecommerce returns policies conform more to consumers’ demands than ever before. But still not everyone is happy. Customers have come to expect a service that’s both free and easy. A recent UPS study



The circles depict 98 of the largest IRUK 500 retailers, excluding grocers. The chart compares the number of delivery options (vertical axis) to timescale of standard delivery (horizontal axis). The ‘footprint’ of the retailer, as measured by stores, web traffic and revenue, is given by the size of the circle. Researched in collaboration with Oracle-Micros.



The circles depict 98 of the largest IRUK 500 retailers, excluding grocers. The chart compares the number of returns options (vertical axis) to the returns policy length (horizontal axis). The ‘footprint’ of the retailer, as measured by stores, web traffic and revenue, is given by the size of the circle. Returns options include to a store, by post, or through a third party service such as CollectPlus. Researched in collaboration with Oracle-Micros.

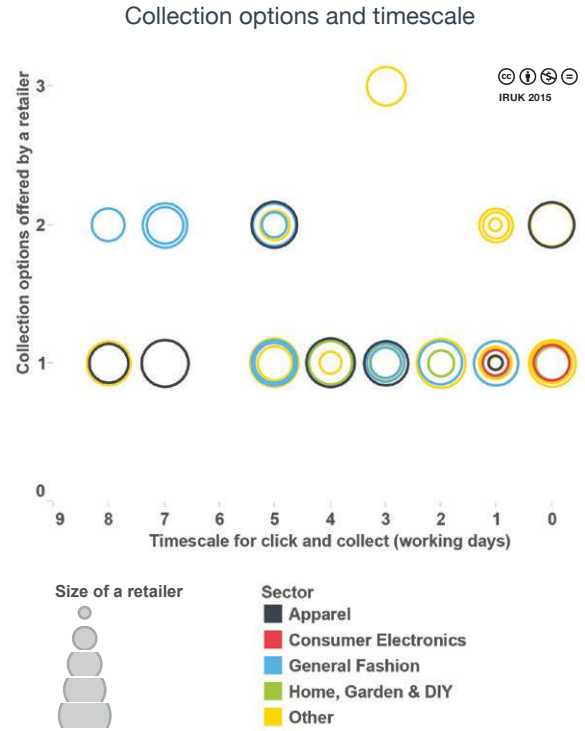
found that 54% of online shoppers read returns policies prior to purchase and are more likely to buy from stores that allow them to send goods back for free.

Compare this to IRUK 500 research showing that a majority of the UK's large retailers offer free returns and refund the original delivery charge. Are retailers responding to consumer demand, or are they fuelling that demand by increasing convenience?

It's evident from our research that even companies from the same sector have adopted very different returns strategies, as the graph on this page clearly shows.

CLICK AND COLLECT

At present, click and collect is only offered by 44% of retailers in the IRUK 500, and by 58% of the largest 100. It's a service that promises increased convenience for consumers, but also more efficient fulfilment: couriers can deposit dozens of orders at a collection point at once, without the risk of failed delivery. Some retailers offer click and collect from a store within the hour, highlighting the advantage multichannel retailers have in this area. Other options include third-party networks such as CollectPlus and collection points at train stations.



The circles depict 70 of the largest IRUK 500 retailers, excluding grocers. The chart compares the number of collection options (vertical axis) to timescale of standard collection (horizontal axis). The 'footprint' of the retailer, as measured by stores, web traffic and revenue, is given by the size of the circle. Collection options include from a store, from a transport location, and from a collection service. Researched in collaboration with Oracle-Micros.



Statistics cover 98 of the largest IRUK 500 retailers and the study was researched with the assistance of Oracle-Micros.

Top500 companies are fulfilling ecommerce orders and returns in different ways. Some appear more 'advanced' than others, perhaps because a strategic decision has been made to emphasise customer service in an era of transparent pricing.

By making fulfilment and returns faster and cheaper, retailers have in turn produced a more demanding consumer market, in a self-reinforcing cycle. This process is enabled by technology and can be expected to continue as ecommerce becomes more popular.

IN CONCLUSION

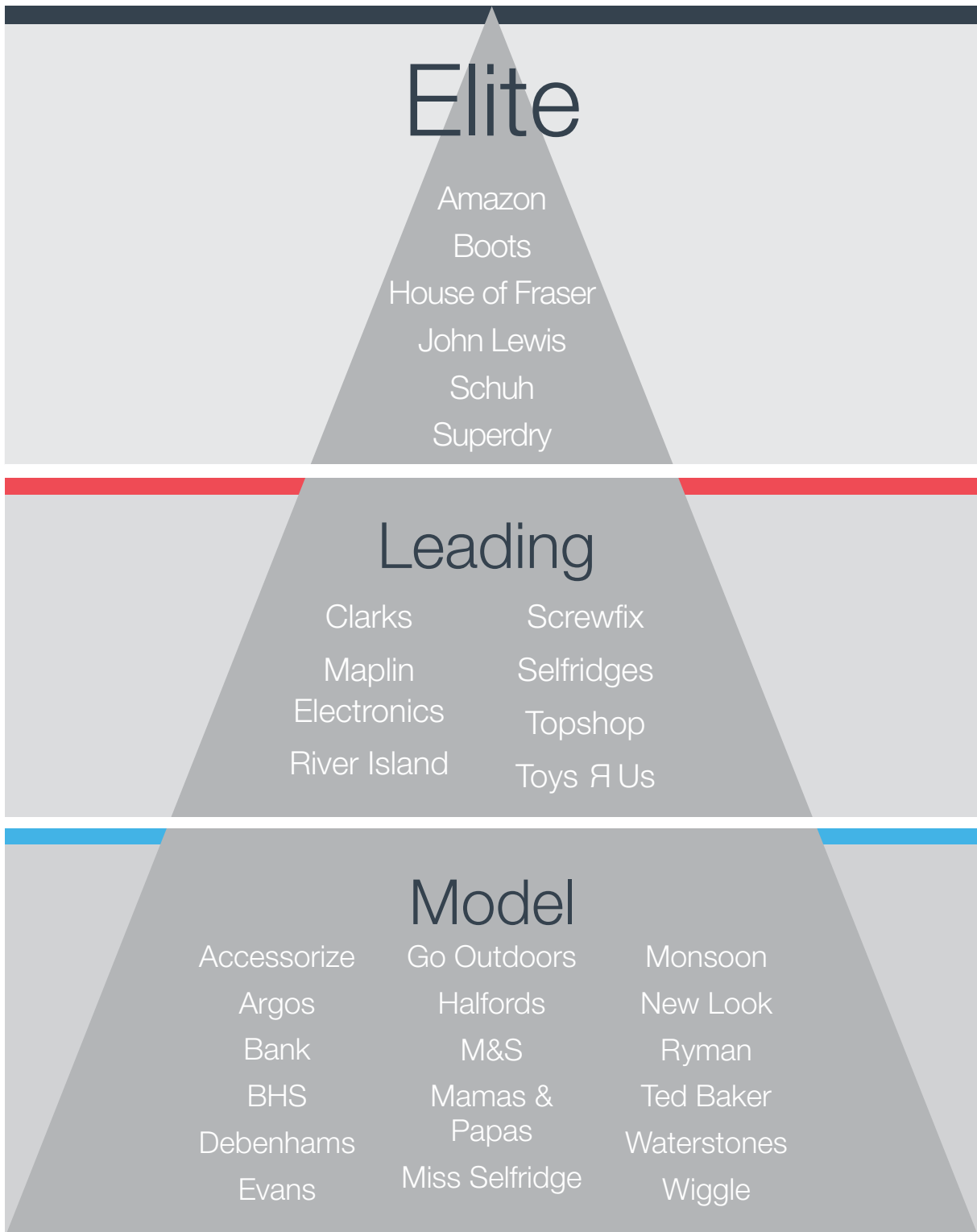
Our research suggests it's not safe to generalise about the state of logistics in the retail industry. Even among the largest companies, those in similar sectors are pursuing different strategies, and while the 'best' can broadly be measured by speed and number of options, success could well derive more from the retailer's cost efficiency than the customer's convenience. ●

Operations and logistics



2015 Results – the top performers in this Dimension

Share your thoughts on #IRUK500 with @etail



For the full Top500 listing, see the IRUK 500, 2015, on page 16.
 The full list of the Top500 clustered by performance segment is available to download at www.internetretailing.net/iruk
 Congratulations to the retailers that have stood out in this Dimension.



The full rundown of the IRUK 500, 2015, as measured across six Dimensions: Strategy and Innovation, Customer, Operations and Logistics, Merchandising, Brand and Engagement, and Mobile and Cross-channel.

Share your thoughts on #IRUK500 with @etail

Elite

Amazon
Argos
House of Fraser
John Lewis
M&S



Leading

Asda
Boots
Clarks
Debenhams
Halfords
Homebase
Mothercare

New Look
River Island
Schuh
Tesco
Topshop
Waitrose



Model

ASOS	Game	Pets At Home
B&Q	H.Samuel	Sainsbury's
Bank	Maplin Electronics	Screwfix
BHS	Matalan	Superdrug
Burton	Miss Selfridge	Superdry
Carphone Warehouse	Monsoon	Topman
Currys Digital	Morrisons	Wallis
Evans	Next	Waterstones
F&F	PC World	



Top100

Accessorize	Ebay	Laura Ashley	Sports Direct
American Golf	Ernest Jones	Lloyds Pharmacy	Staples
Ann Summers	Euro Car Parts	Majestic Wine	TK Maxx
Apple Store	Evans Cycles	Mamas & Papas	Ted Baker
Bathstore	French Connection	Moss Bros	Thomas Cook
Boden	Go Outdoors	Mr Porter	Topps Tiles
CarpetRight	H&M	Net-A-Porter	Toys R Us
Claire's	Harrods	Ocado	The Train Line
Decathlon	Hobbs	Office Shoes	USC
DFS	Hobbycraft	Post Office	Warehouse Fashion
Disney Store	HSS Hire	Richer Sounds	White Stuff
Dorothy Perkins	IKEA	Ryman	WHSmith
Dunelm	Jack Wills	Samsung	Wiggle
Early Learning Centre	Lakeland	Selfridges	Zara



Top150

Adidas	Furniture Village	Karen Millen	Sony
All Saints	Games Workshop	Lastminute.com	Specsavers
AO.com	GAP	Lush	Spotify
Blacks Outdoor	George at Asda	MandM Direct	Thorntons
Blue Inc	Goldsmiths	Optical Express	Toolstation
Bonmarché	Google Play	Pandora	Urban Outfitters
Burberry	Groupon	Peacocks	Viking
Coast	Holland & Barrett	The Perfume Shop	Virgin Holidays
Costco	HP	Poundstretcher	Vision Express
Dabs.com	Hugo Boss	Pret A Manger	The White Company
eBuyer	iTunes & App Store	The Range	The Works
Expedia	JD Sports	SCS	
Fat Face	Joules Clothing	Smyths Toys	



Top250

Abercrombie & Fitch	F Hinds	Lyle & Scott	Radley
Arco	Footasylum	M&Co.	Ralph Lauren
Austin Reed	Forever 21	Machine Mart	Reiss
Beaverbrooks	The Fragrance Shop	Mango	Rohan
Berry Bros. & Rudd	The Garden Centre Group	Massimo Dutti	Russell & Bromley
Blackwell's	Graze	Mint Velvet	See Tickets
The Body Shop	Habitat	Missguided	Shoe Zone
Boohoo.com	Harvey Nichols	Moonpig	Simply Be
Boux Avenue	Hawes & Curtis	Mountain Warehouse	Snow + Rock
Brantano	Heal's	Mulberry Company	Space.NK
Bravissimo	Home Bargains	Multiyork Furniture	Speedy Services
Calumet Photographic	Hotel Chocolat	Netflifx	Surfdome.com
Cath Kidston	Interflora	Nike	Sweaty Betty
Chain Reaction Cycles	Jaeger	Notonthehighstreet	Thomson
Charles Tyrwhitt	Jigsaw	Novatech	Tiffany & Co
Countrywide Farmers	Jones Bootmaker	Oasis	TM Lewin
Crew Clothing	Just-Eat	Oliver Bonas	Uniqlo
Dulux Decorator Centres	Kiddicare	The Original Factory Shop	Very
Dune London	Kuoni Travel	Outnet, The	Wagamama
EAT.	Kurt Geiger	Paperchase	Wex Photographic
Ecco	Laitwhaite's	Paul Smith	Whistles
Ellis Brigham Mountain	LEGO	Phase Eight	Wickes
Sports	Liberty	Photobox	Wilko
The Entertainer	LivingSocial	Printing.com	Yours
(TheToyShop.com)	LK Bennett	Pull & Bear	
Euronics	L'Occitane	Quiz	



Top350

Abel & Cole	Dyson	Jacamo	Play.com
Agent Provocateur	EAST	Jacques Vert	Plumbase
Aldo	Edinburgh Woollen Mill	Jamie Oliver	QVC
American Apparel	Esprit	Jewson	Robert Dyas
Anthropologie	Estée Lauder	Jimmy Choo	Rowlands Pharmacy
ATS Euromaster	Etsy	JoJo Maman Bebe	RS Components
Axminster Tools	Euroffice	Kitbag	Superbreak Holidays
Bare Escentuals	Farrow & Ball	Lipsy	Sweatshop
Barker & Stonehouse	Feelunique.com	Long Tall Sally	Thomas Pink
Ben Sherman	Flannels	Made.com	Thompson & Morgan
Bershka	Fortnum & Mason	Matches Fashion	Timberland
Book Depository	Fossil	Menkind	TJ Hughes
Book People, The	Fragrance Direct	Microsoft	Toast
BrandAlley	Fraser Hart	Misco	Trespass Clothing
Brewers	Freemans.com	Mobile Fun	Tripp
CC Fashion	Gant	Moda in Pelle	Vente-privee
Charles Clinkard	Getting Personal	Mole Valley Farmers	Victoria's Secret
Co-operative Pharmacy	Gucci	Molton Brown	The Watch Gallery
Cotton Traders	Hallmark	Musto	The Watch Hut
Crabtree & Evelyn	Harveys Furniture	National Trust Shop	Wedgwood
Deichmann	Hillarys Blinds	Nisbets	Whittard of Chelsea
Dell	Hi-Tec Sports	Oakley	Zalando
Diesel	Hollister	OKA	
Direct Golf	Hughes Direct	On the Beach	
DKNY	Hut, The	Orvis	
Dr. Martens	isme	Overclockers	



Top500

24Studio	Bulk Powders	Dreams	J Crew	National Geographic	Sunglass Hut
Alexandra	Buyagift.com	Emma Bridgewater	JD Williams	North Face, The	Superfi
Alfred Dunhill	Calendar Club	EXPANSYS	JML	Notcutts Nurseries	Suttons Seeds
Alibaba.com	Calvin Klein	Farfetch.com	Joe Browns	Office Team	Swatch
Appliances Direct	Camper	Farr Vintners	John Smith	Outdoor & Country	TAG Heuer
Approvedfood.co.uk	Card Factory	Feather & Black	Joseph	Pavers Shoes	Tate Shop
Aspinal of London	Cargo Home Maker	Figleaves.com	Joy	Planet Organic	TH Baker
Avon	Cartier	Firebox	La Redoute	Poetry Fashion	Thomas Sabo
Baker Ross	CCL Online	Fired Earth	Lacoste	Prada	TimeToSpa (Elemis)
Barbour	Character	Fitflop	Land's End	Pretty Green	Timpson
Barrhead Travel	Chemist Direct	Foyles	Laptops Direct	Printerland	Tommy Hilfiger
BBC Shop	Christy Towels	Fred Perry	LED Hut	Protyre	Trueshopping
Beales	Chums	Glasses Direct	Leekes	Puma	TTS Group
Belkin	Clintons	GNC	Liz Earle	QD Stores	Vax
Bench	Craghoppers	Great Little Trading	Logitech	Rapid Electronics	Virgin Wines
Bensons For Beds	Crocs	Company	LookFantastic.com	Reebok	Vivienne Westwood
Berghaus	Cromwell	G-Star Raw	Lovehoney	Roman Originals	Warren James
Bettys	Cruise	Guess	MAC Cosmetics	Route One	Weldricks Pharmacy
Bondara	Cycle Surgery	Hackett	Mappin & Webb	Scotts of Stow	Woolworths.co.uk
Boodles	Damart	Hamleys	Marisota	SecretSales.com	WorldStores
Bose	Demon Tweaks	Hello Fresh	MaxiShop	Sevenoaks Sound and Vision	Wynsors World of Shoes
Bradfords	Denby	Hawkin's Bazaar	MoMa Store	Slaters Menswear	Yankee Candle
Brandon Hire	DietChef	High & Mighty	Monica Vinader	Smythson	Yeomans Outdoor
Brora.co.uk	Dobbies Garden	Hornby	Morrison's Cellar	SportsShoes.com	Leisure
Build-A-Bear	Centre	Isabella Oliver	My Protein	Sterling Furniture	Zavvi
Workshop	Dolphin Music	itsu	Naked Wines		



Schuh: shaping service around its customers

Schuh's Sean McKee tells **Chloe Rigby** how the retailer understands its shoppers' needs

YOU CAN LEARN, says Sean McKee of Schuh, a lot about shoppers from their delivery choices. The footwear retailer knows, for example, that customers who shop from smartphones are more likely to opt for next-day delivery. Mobile devices come into their own at sale time.

"Very immediate gratification is best achieved on a smartphone," says McKee, the company's head of ecommerce and customer services. That's something worth knowing for a retailer that sees about 22% of its online traffic arrive via tablets, and half via smartphones, while half of its sales are made on mobile devices.

Not only that, says McKee, but, "We see a very big difference in basket size between people who use Shutl or want to speak to us via live help, which is a fulfilment type of a sort. Customers who click and collect at stores typically spend different amounts of money, are looking for slightly different things and have different perceptions of the way they want to interact with us."



What do these conclusions mean for the retailer's logistics strategy? "A wide spread of choice is always going to be essential, but there are choices within that spread that we find commercially more attractive."



// If we take the cost of a service down we expect to convert better – there is a pretty simple logic to what we're doing //

FROM INSIGHT TO INVESTMENT

Schuh has based investment in infrastructure on this learning. A West Bromwich distribution centre (DC), opened in November, now augments its original delivery hub in central Scotland. As a result, last order time for next-day weekday deliveries to southern England has moved from 5pm to 10pm, with the aspiration to offer a 10pm cut-off every day.

Schuh's position at the top of the IRUK500 Operations and Logistics Performance Dimension is earned through sheer choice of fulfilment options. Depending on availability, UK shoppers can choose between 10 tracked delivery and collection choices. At one end, free 20-minute check and reserve, click and collect, and standard delivery; at the other, next or nominated day delivery, and Shutl. Returns can be made for a year.

In the future, Schuh plans to enable shoppers to pre-order out-of-stock items, while offering next-day click and collect as a minimum – and same-day at best. "It isn't always overtly sexy," says McKee, "but it's about getting things quickly to the customer and giving the certainty they tell us they want to have."

LEARNING ON THE JOB

The retailer learns as it goes, experimenting with, for example, the cost of next-day delivery. Immediacy, says McKee, is key for shoppers from the south-east, with London shoppers the most likely to use the speedy delivery-from-store Shutl service. But 70% of Schuh's online orders are delivered by free standard delivery.

At the bottom line, the retailer ensures that deliveries are profitable. “You have to make sure that the cost of the parcel is reflected in the overall mathematics that you do when you try to work out that you’re making a profit, and you need to be happy with those costs,” says McKee. That means answering questions such as: to what extent shall we subsidise premium services?

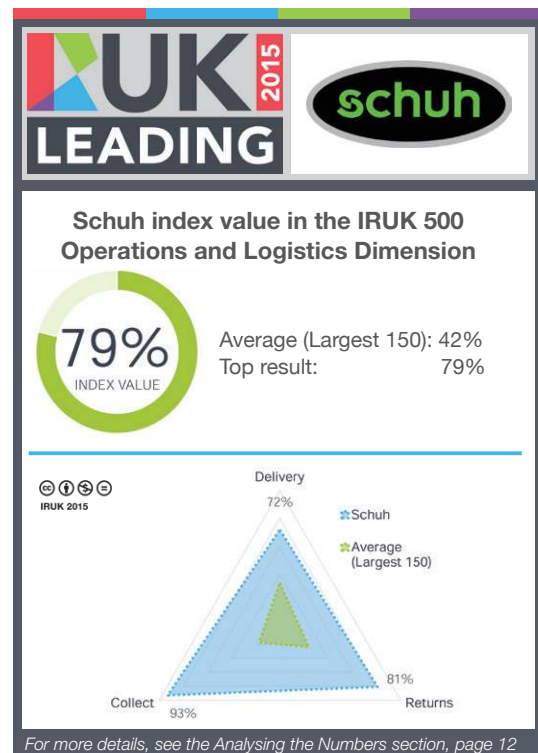
Over the last six months, the company has trialled changing the price of next-day delivery from £4.99 to £1 or £2 as it looks, says McKee, to “work out where the sweet spot resides between time of day and the device that is used, and the price you pay for the service”, as well what impact the price of delivery has on demand. It now charges £4.99 as standard, but uses lower prices to encourage higher order levels at quiet times. The percentage of deliveries that are sent next day has risen. McKee adds: “We link it very directly to conversion rates. If we take the cost of a service down we expect to convert better – there is a pretty simple logic to what we’re doing.”

THE BLACK FRIDAY EXPERIENCE

Achieving the balance needed to deliver the service most efficiently comes under particular scrutiny at peak times. McKee says levels of demand that started the night before Black Friday [28 November] 2014 “blew us away”. Its systems generally stood up to the test. “Most customers got exactly the service they expected that day, but a very small minority were disappointed,” he says.

Next year, he promises the retailer will have learned from the experience. It already knows from its carriers that it will be able to offer a finite number of next-day deliveries. “There just isn’t enough capacity in the system and there isn’t going to be any more capacity in the system, so we just need to think about managing customers’ expectations correctly and making promises we can always deliver on.”

About a quarter of Schuh's online sales are fulfilled from stores through stock picks that take place four times a day



UNDER THE SURFACE

Schuh uses a merchandising system, Shark, which was developed in-house, and which gives a single, close to real-time view of product and its location. Trading policy is first come, first served, using an algorithm that matches the best store to the best stock.

The company has 110 stores in the UK and Ireland, and plans to expand, but there will always be demand for more choice. McKee monitors emerging potential delivery and collection options, such as pick-up at Doddle railway stores or Transport for London stations.

He predicts delivery will soon move away from fixed-point delivery, using the retailer’s ability to pinpoint the customer’s location through a mobile or wearable device. “We’ll be delivering to where you are in a way that’s convenient to you,” he says.

He also sees potential in delivering to different retailers’ shops in the way that eBay already does to Argos shops.

So, from his experience, how would McKee advise others looking to improve their fulfilment options? “There isn’t a formula that I can identify but there are basics,” he says. “You have to offer a click-and-collect service and you have to offer a very cheap or free delivery service that arrives with the customer in a reasonable time frame. But whatever your individual promise, you have to deliver.” ●

Amazon: flexible beyond its footprint

THE FACT THAT, as yet, Amazon sells only online means there are natural limits on how quickly it can get an order to the customer. Shoppers cannot walk into its shops and pick up an item ordered online within a few minutes.

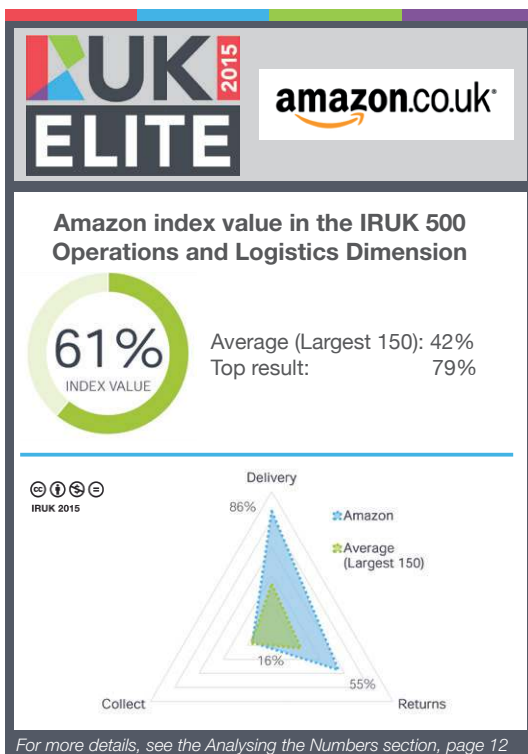
But these are limits that Amazon has worked hard to overcome. To give but two examples, it has set up its own Amazon Logistics home delivery capability, harnessing the power of local delivery firms to get items to the customer from local hubs as quickly as possible. And customers can use its own-branded lockers across the UK, in locations from branches of Tesco to London Underground and Birmingham International Airport, to pick up their online orders. Christopher North, managing director of Amazon.co.uk, said when Amazon unveiled its Birmingham lockers: “Amazon Lockers at travel terminals are amongst the most popular so it made perfect sense to us that the next step would be to install them at a leading UK airport.” He described the lockers as “the delivery option of choice for many customers who want to pick up their shopping at a time and place that suits them best”.



In all, Amazon offers eight delivery choices and four types of pick-up point. Collection options include same-day delivery through the newspaper delivery network to shops in the Pass My Parcel network, and pick-up from Royal Mail, CollectPlus and Duddle outlets, as well as Amazon Lockers. Delivery choices include super saver, first-class, one-day, two-day, express, evening, expedited and scheduled delivery. Not all are available across the country: evening delivery, costing £14.99, is available for some products in 11 cities, including London, while expedited delivery excludes areas, including parts of the north-east and Scotland.

It's only through very impressive capabilities that the online giant can offer a wide enough choice to overcome its lack of stores, and earn a place in the Elite group in the IRUK Operations and Logistics Performance Dimension.

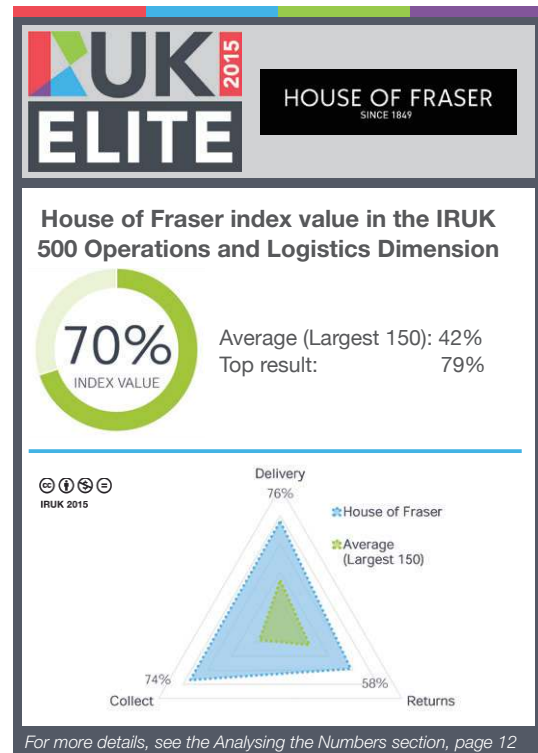
It's interesting to note that Amazon, which for many years competed on free delivery, now seems to be removing its more uneconomic delivery offers, since super-saver delivery is now only free with a minimum £10 spend on books or £20 on other items, a move that discourages the low-value orders that at one point enjoyed free delivery. Perhaps the online giant, which in the US has introduced one-hour delivery in some cities, has concluded that when customers pay for convenience, the service is ultimately more profitable. ●



House of Fraser: meeting demand

CUSTOMER DEMAND HAS driven House of Fraser's fulfilment choices. The retailer offers shoppers eight delivery options – expanded from seven since our original research took place. These range from free standard delivery or buy and collect, through to delivery before 9am for items ordered by 9pm the previous evening – at a cost of £8. In between there's a range of options, at varying prices, designed to cover most customer needs, whether shoppers want to have products delivered in the mornings, evenings, weekends, or prefer to collect them from a range of convenient points. Supporting these services, there's detailed information on the House of Fraser website, covering subjects from how to track orders through to free returns across channels.

Why has the retailer worked so hard on getting its delivery proposition right? Simple, it's what customers tell the retailer they want, and giving customers what they want wins business. Andy Harding, chief customer officer at House of Fraser, told delegates at InternetRetailing Conference 2014 that investing in delivery options put it ahead of the competition while also enabling it to respond to shopper demand. "The voice of the customer is telling us that home delivery is not convenient," he said, announcing the launch of House of Fraser's pre-9am delivery service. "Most people work and taking time off work, even when you know which 15-minute window it will arrive in, is still a pain. Collection is also not convenient for everyone."



That's why, he says, the retailer developed its next-evening and next-morning delivery services. "We'll deliver before you go to work, after you come back from work or you can also collect."

The company has stood out as an innovator on collection. House of Fraser shoppers can order and collect from dedicated collection points in locations such as standalone HouseofFraser.com stores and digital floors in House of Fraser department stores, and the Cambridge branch of Caffè Nero. This last location is equipped with changing rooms so that shoppers can try on their clothing purchases before taking them away, or return them if necessary.

Speaking at IRC, Harding said that all innovation had to be "rational", making sense within the context of the organisation. The Caffè Nero operation, he said, made sense because it drove both extra footfall and brand awareness.

If House of Fraser continues to listen to its customers in the way it has to date, it will be more than interesting to see where these shoppers lead the company. ●

John Lewis: flexible expansion in the face of online growth

JOHN LEWIS HAS grown its ecommerce business around delivery. The company first sensed the online opportunity back in 2010, says John Munnely, head of operations at John Lewis' Magna Park Campus distribution centre. It responded by building flexible capacity that allowed it to expand as online orders grew well ahead of expectations. In the year to 31 January 2015, John Lewis online sales hit £1.4 billion while its total gross sales reached £4.43 billion. Click and collect accounted for 54% of ecommerce orders, and use of this service grew by 47%, year-on-year. In such a business, Munnely told InternetRetailing Expo (IRX) 2015, "The new shop assistants are the pickers, packers and delivery drivers, and that's something we all need to get our heads around."

Today, the company offers UK shoppers a comprehensive choice of six delivery and collection options. The only free option is click and collect, with pick-up from a John Lewis or Waitrose store from 2pm

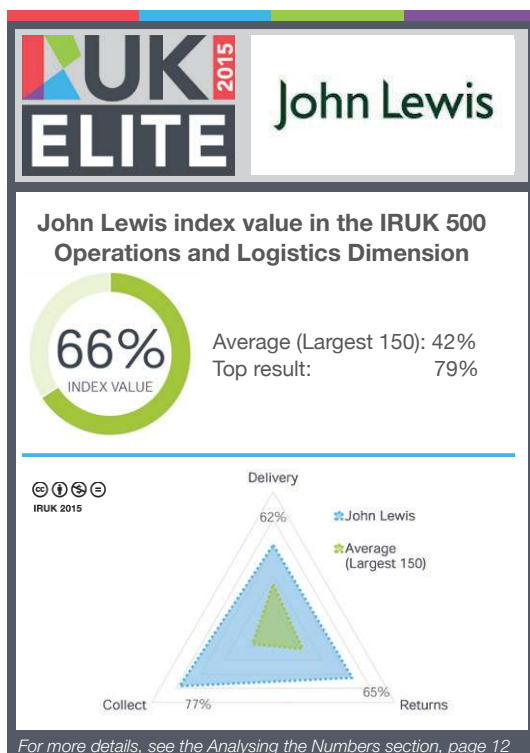


the following day. The CollectPlus service for next-day collection or standard, five-day delivery both cost £3. Three premium services, named Saturday UK delivery, or named-day UK delivery before 10.30am, cost £6.95 and £9.95 respectively. Free-of-charge returns can be made for up to 90 days through four channels including stores.

Information is clearly signposted on the johnlewis.com website, with front-page banners signposting comprehensive information on both returns and deliveries. Details are also clearly visible on the product page, so that shoppers can see how much a delivery will cost before they click to buy.

It's a performance that wins John Lewis a place among the Elite in the IRUK Operations and Logistics Performance Dimension. But, says Munnely, there are still plenty of challenges. Among them, the profitability challenge: it costs around three times as much to get a product to a customer than onto a shelf in the store. That's an issue when more than 30% of the business is now online. Munnely predicts "huge opportunities" to be made through marginal gain changes that might be as small yet significant as where bar codes are positioned on packaging.

Speaking at IRX, he said that while many people thought John Lewis was ahead in the omnichannel race, "We actually don't know if there is a finishing line and we will undoubtedly find there are many, many more hurdles ahead." ●

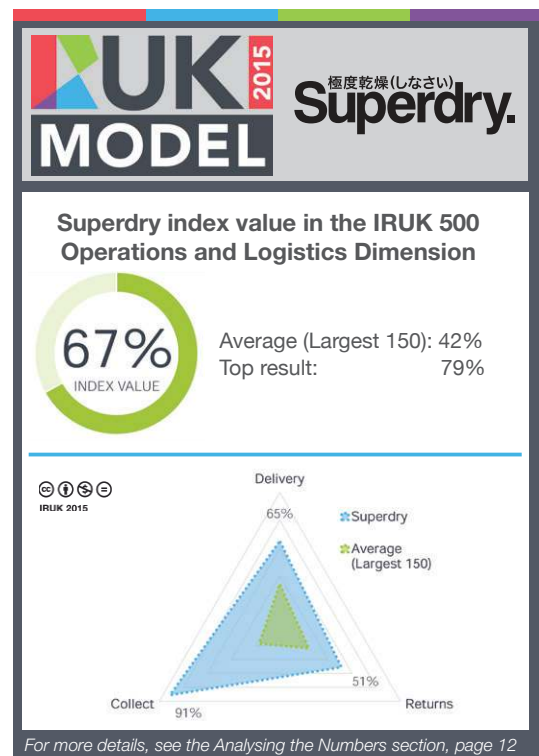


Superdry: shipping all over the world

SUPERDRY, SAYS ITS ecommerce and marketing director Jon Wragg, could ship to any country in the world bar one, until Sudan split in half in 2011. Now it can ship to any country bar two. In 2014, Superdry sent goods ordered online to no fewer than 189 countries. Through its 17 fully localised sites, in 21 languages, says Wragg, shoppers can “buy anywhere and ship anywhere”.

This level of service, he says, counts. “Doing it properly,” he told InternetRetailing Expo 2015, “has been the key to unlocking value in this market. I don’t think you can go into globalisation on a half-hearted basis – and if you do, you get no return.”

The multichannel fashion retailer’s move into international markets has built on the delivery and returns it offers to domestic customers from its Cheltenham headquarters. From its home page, Superdry promises free delivery and free returns. Customers who investigate the offer in detail find that standard home delivery is not only free but also tracked, with orders placed before 8pm UK time sent the same day. Those placed after 8pm are sent on the next working day. Also free are click and collect to a Superdry store or to a CollectPlus point. These standard



services are bolstered still further by three premium, paid-for options: next-day or specific day delivery, or, still more specific, delivery before 12 noon the next day.

All of these details are flagged up clearly on the Superdry.com website, from order cut-off times through to the names of the carriers that the retailer uses – among them, Royal Mail, Hermes, DPD and Yodel.

When customers return goods ordered online, they can do so for free when doing so through a CollectPlus outlet for a refund, or through a UK branch of Superdry store, for an exchange.

All of these add up to the reasons why Superdry scored an index value of 67% in the IRUK 500 research into operations and logistics, coming third in the six-strong Elite group of retailers in this Dimension. ●

12 approaches that work

Retailers that find a balance between convenience, speed and cost in delivering online orders win loyalty and repeat orders from customers. **Chloe Rigby** rounds up current approaches to logistics

1 Deliver to shoppers on the go

Giving consumers the opportunity to pick up their online orders during the course of a busy day will save them a trip to the shop – or the parcel depot – while saving the sale for the retailer. In the last year, retailers of all stripes have recognised that they can gain a competitive edge simply by being more available, and often that means on the transport network.

John Lewis opened a dedicated shop in London St Pancras station to serve the time-pressed commuter, while Argos has positioned a digital store in Cannon Street Tube station. Both use public transport to enable shoppers to pick up while they're on their way around London. Argos shoppers can also order from tablet computers in the store for home delivery or collection as soon as later the same day, and from the most convenient point. The service is powered by Argos' innovative hub-and-spoke fulfilment system.

John Walden, chief executive of Argos parent company the Home Retail Group, said at the time the Cannon Street shop was launched that the move answered demand from digital shoppers for more choice, convenience and speed in the fulfilment of online orders. "Argos has been a click-and-collect leader, and we continue to innovate our offer with our new digital stores," he said. "They represent what we believe will be the role of the Argos store in an emerging digital future – modern and energetic, with larger ranges available within hours, tablets for easy browsing and ordering, streamlined in-store customer journeys, including 60-second fast track collection of online purchases, and a friendly human face to provide personalised customer service."



2 Get it there same day

Sometimes only the fastest service will do. Retailers that give the option of speedy delivery win when customers need something fast. Ao.com, which scores highly in this Performance Dimension for its wide range of delivery options, delivers items ordered before midday between 4.30pm and 10pm the same day. Next-day delivery is free for those ordering before 8pm as is standard delivery. The service is enabled through a network of local hubs, and trades on the fact that many householders will simply want a replacement, and quickly, when their dishwasher or washing machine breaks. That sense of urgency is answered by a tracking service that promises to update information every five minutes of the journey, telling customers how near their item is. When chief executive and founder John Roberts unveiled same-day delivery back in 2013, he said: "We like to push the boundaries at ao.com, redefining retailing by providing a better way which we believe our customers deserve."

In our interview with Sean McKee, head of ecommerce and customer services at Schuh, (page 18) he explains how customers in London and the south-east are more likely to opt for Shutl delivery so they can get their footwear delivered to them within minutes or at a time that they choose. The ability to deliver quickly is enabled by holding stock locally – and having a real-time view of stock. "We know what we have now, so we can do Shutl," says McKee. "There are others out there who just can't, because they don't have that view of inventory."

3 Turn returns into an opportunity

Dealing with returns is both inevitable and mandatory by law. When customers are unsure about buying a product, they're more likely to buy from a retailer that offers free and easy returns. Those traders that enable shoppers to return items to their stores as well as through the post make it still more likely that shoppers will buy from the company. Thus Clarks, a Leading retailer in this Dimension, enables shoppers to return items to store within 28 days of purchase for an immediate refund; returns through the Post Office and CollectPlus are also free.

Other footwear retailers extend return times still further: while shoppers at Schuh are not likely to send unworn shoes back a full year after they bought them, the knowledge that they can provides important reassurance.

Fashion retailer Next explained in its latest results that using its store network for customer returns had boosted profitability.

4 Plan for flexibility

Busy, complicated lives mean that plans can change – and shoppers may not always be at home to take delivery when they thought they would be. Retailers and delivery companies that can be flexible when the situation changes gain an advantage. Fashion pureplay Asos and carrier DPD originally worked together in 2013 to develop the Follow My Parcel service, which enabled customers to track their parcel on its way to them, and change their minds mid-journey about where it should be delivered.

Last year the companies improved that service, with a night-before early warning by text or email of the time the parcel was due to arrive. Customers can then choose between five options, including delivery to a safe place, a nearby depot, to a neighbour or to upgrade delivery to a service that delivers before 10am or on Saturday morning, making changes to the delivery destination from their smartphone, tablet or desktop computer.

“We know a lot of customers can make arrangements the night before if they know exactly when a parcel is coming,” said Matt Rogers, director of delivery solutions for Asos, at the time the early warning system launched. “Equally, things can change so to be able to offer five different real-time delivery options right up until 15 minutes before the driver arrives at your door is a fantastic advantage too.”

5 Offer the largest network, via own stores...

The nearer a retailer is to the end customer, the more convenient it is to collect from its branches. Boots appears in the Elite grouping in this Dimension for its choice of collection and delivery options. It offers a market-beating choice of branches where customers can pick up their online orders. For shoppers using its Order & Collect service, the health and beauty retailer boasts no fewer than 2,400 pick-up points among its extensive store network – more than any other retailer in the IRUK 500 – where shoppers can pick up goods ordered by 6pm from 12pm the next day, and free of charge. The service is also available on Sundays in many of those stores.

Boots makes its collection service as attractive as it can – this is its only completely free fulfilment option – but for those who can't get to a store, its home delivery options start with a four-day standard service that's free for orders of £45 or more, and also include named day, Saturday morning and next-day delivery during the week. Shoppers can also place pre-orders for out-of-stock goods; these are delivered within four working days of the item being received at the warehouse.



6 ...or through parcel collection shops

In 2015, shoppers from across much of the country can pick up or return the goods they ordered online at thousands of collection points. Which shop they go to visit will generally depend not only on where they live, but on whether they have ordered from a retailer that works with UPS Access Points, the Royal Mail, myHermes, CollectPlus or others. They may also collect from banks of locker boxes operated by companies including InPost, ByBox and Amazon.co.uk.

These companies between them offer a vast amount of choice, whether it's collection from more than 10,000 Post Offices, corner shops, local convenience stores or petrol stations, as well as picking up from Tube, coach or railway stations. Elite retailers, such as Schuh and Amazon, work with a variety of collection companies, while others from Asos to Warehouse are also working with carrier-agnostic company Duddle for pick-ups and returns at railway stations and, starting this year, university campuses. Paddy Earnshaw, Duddle's chief marketing officer, says it represents a way to hand power back to the customer. "Historically, the retailer had the stock, chose the carrier and delivered it to the customer – and the customer was the last to get the decision-making opportunity about how they might want their parcels to fit in and around them.

"The reality is that this model has to change because consumers drive everybody to change their models to fit in and around them. From our perspective, that's why the agnostic positioning works so well – it's a customer-driven model for the business."

7 Deliver from an extended range

Many retailers offer a far wider range online than stocked in-store or, indeed, in warehouses. Instead, these companies use drop shipping to get items to customers. Home Retail Group, for example, now sells more than 90,000 products through Argos, Homebase and Habitat.

The extended range is delivered to customers either from the store's own warehouses or, in a space-saving move, direct from the supplier through drop shipping. The fact that retailers can sell online items not in stock in-store is having a knock-on effect on store sizes, enabling retailers to offer more products from smaller branches. John Lewis, House of Fraser and Argos have all opened smaller-format stores where customers can browse and order a wider online range for home or store delivery, while at the same time getting advice from knowledgeable staff. Retailers including Debenhams offer in-store kiosks where shoppers can browse and order the stock from the extended range for home delivery or store collection. In its Kalverstraat store in Amsterdam, M&S pioneered a virtual rail where shoppers can see items from a capsule clothing range for themselves, and use screens to order those items in colours and sizes that are not in stock.



8 Deliver to the airport

Some leading retailers are now offering collection at the airport to ease the tribulations of long-distance travel. Holidaymakers and business travellers can pick up their essential items from the retailer's airport shop or locker when they're already on their way, rather than needing to make a special trip. Such services are a great example of how traders can use fulfilment in a way that simply makes it easier for customers to buy what they need.

One of the most wide-ranging services in this niche is from Boots, which offers collection from 14 airport shops, including those at London Heathrow and Gatwick, as well as Birmingham, Manchester, Glasgow and Edinburgh airports.

A smaller-scale service comes from Amazon, which has a locker bank at Birmingham International airport. When that service launched, Amazon.co.uk managing director Christopher North said: "Amazon Lockers at travel terminals are among the most popular, so it made perfect sense to us that the next step would be to install them at a leading UK airport."

Birmingham Airport sees nine million visitors a year, and the lockers are located to be accessible to both arriving and departing passengers. The airport's head of commercial, Richard Gill, said the lockers were "great news for people passing through the airport who can now pick up their items purchased online while on the move".



Ritu Manoj, Jethani / Shutterstock.com

9 Develop new logistics models

Argos has developed a new 'hub and spoke' logistics model that enables it to stock smaller stores from larger central stores, to promise same-day delivery of 20,000 products to all Argos stores for same-day collection. The model has enabled Argos to offer that basic range through small digital format stores, including that opened at Cannon Street Tube station in 2014.

Now that hub and spoke has rolled out nationwide, the company is now trialling a hub-to-home distribution model through which it aims to give same-day or next-day delivery. This in turn is set to go national next year. "Although store-based collection is a growing method for fulfilling digital orders," the company said in its results for the year to 28 February 2015, "Home delivery is also a critical channel for customers and one in which Home Retail Group has generally under-participated. We expect that our successful trial of 'hub to home' delivery will conclude in full year 2016 and enable Argos to offer a market-leading home delivery service – more convenient delivery times, at a lower cost."

10 Deliver to another retailer's store

Retailers are widening pick-up point networks through partnerships with complementary third-party retailers. In the year to 28 February 2015, eBay shoppers collected a million parcels from Argos' high street stores. The tie-up has both boosted footfall for the high street retailer and given eBay, a pureplay, a presence on the thoroughfares where a significant proportion of UK shopping still takes place. In its full-year results Argos said it believed it could generate "additional sales over the long-term through the additional footfall that this partnership creates".

House of Fraser teamed up with a coffee shop chain to similar ends. Caffè Nero customers in its Fitzroy Street, Cambridge coffee shop can browse and order from House of Fraser through on-table tablets downstairs. When orders arrive, they can collect, try on and, potentially, return their orders from a pick-up point upstairs. Both expected to gain new customers and boost sales as a result of the partnership.

Andy Harding, chief customer officer at House of Fraser, said as the service launched: "This new concept will not only act as a hub for our online shoppers wishing to collect their orders but will also become a destination for new and existing customers who want to shop their favourite brands, which may not be available in the area."

Simon Thomas, head of business development at Caffè Nero, said: "The opportunity to provide added value and convenience by enabling them to shop online, and collect their items in store appeals and the evolution of our existing partnership with House of Fraser is an exciting one."



11 Deliver from stores

Stores are not only a useful way to organise stock for customers to come and choose what they want, but a useful place from which to organise home deliveries. Retailer Schuh fulfils about a quarter of its online orders from its store network, with stock picks taking place four times a day. "We really do have very substantial access to inventory around the business," says Schuh's Sean McKee, "and we couldn't generate some of our ecommerce volumes if our store colleagues weren't picking the product for us." This is enabled because the retailer has a single view of its stock, which also enables fast from-store delivery services such as Shutl.

Supermarkets pick out most online orders from stores, but as demand has increased Tesco has led the way in picking stock from so-called dark stores where goods are laid out similarly to supermarkets but where automated solutions help make picking and packing faster, and goods are more likely to be available since there are no customers to take items off the shelves. Tesco opened its sixth dark store in 2014, while Asda and Waitrose also have dark stores and Sainsbury's is to open one next year.

12 Extend the deadline for next-day orders

Merchants that make the cut-off time for next-day orders as late as possible can enjoy a substantial uplift in business. Fashion retailer Next has led the way and currently promises free next-day delivery to stores for orders placed by midnight, while shoppers can order by 11pm for next-day home delivery. That order deadline for home delivery is set to move to midnight by August. Next says the move makes sound economic sense for it. In its results for the year to January 2015, it said 9% of orders were placed between 10pm and midnight.

Other fashion retailers are also racing to make cut-off times as late as possible. Asos offers next-day delivery for orders placed by 10pm, or evening next-day delivery for orders placed by midnight. Both are free for orders worth more than £100. ●

Right back at you...

How do retailers best deal with returns? Dr Jonathan Gorst of Sheffield Hallam University, an expert in this area, shares his insights with **Jonathan Wright**

IF YOU WANT to know when an issue is coming closer to the top of the retail industry's agenda, it can be instructive to look for key staff announcements. Over the past two or three years, points out Sheffield Hallam University's Dr Jonathan Gorst, a number of major retailers have appointed returns managers, responsible for overseeing what gets done with the goods that customers, for whatever reason, send back or return via a branch.

So what's happening here? Why are companies, if appointment news is to be believed, taking the issue of returns more seriously? One answer, as you might expect, is the rise of digitally driven retail, which has changed many consumers' shopping habits. "As omnichannel has increased, depending on the product line, this has increased returns," says Gorst, who's done extensive research in what's come to be known as 'reverse logistics'. "With apparel, there's double the amount of returns online, whichever channel of online we're talking about, as opposed to in-store purchases."

This in turn leads to a problem for retailers: how best to deal with these returns as they flow back into the business, both via mail or courier and via the high street? Adding extra layers of complexity, this is by no means all that's going on here. Concerns around corporate social responsibility and sustainability play in. Then there's the cost of disposing of unsold goods. Leaving aside the bottom-line loss of writing off items, changes in legislation mean items can't be sent easily and cheaply to landfill, as they were in the past.

Against this backdrop, what policies should retailers adopt when dealing with returns? What's the emerging best practice here?

THE WAY WE WERE

One starting point when approaching these questions is to look at how retailers used to deal with unwanted goods. Essentially, says Gorst, his research revealed that many companies didn't used to worry overmuch about returns: "We'd get scenarios coming up where companies were saying that, 'We just leave it in the yard, and when somebody gets around to it, it's got no value because it's got wet through. So we just landfill it.' It wasn't an issue."

// At many retailers, the backroom office and the logistics haven't caught up with the you-can-buy-any-which-way-you-want front end //



It became an issue in great part because of a combination of the introduction of landfill tax, now charged at a standard rate of £80 per tonne; and the WEEE Directive, which underpins European Union efforts to ensure that, by 2016, at least 85% of waste electrical and electronic equipment is recycled.

Faced with such a landscape, retailers were forced to look anew at issues around returns. Once people had finished grumbling, it turned out there might be an upside here. In particular, says Gorst, there was a growing realisation that dealing with returns more efficiently might save money. Key to this insight was getting the accountants involved because, previously, many retailers had little clear idea about how much returns might be costing.

"It started to become one of those areas where people said, 'Well, if we can reduce the costs, potentially we can increase our profits because we're taking the cost out,'" says Gorst. "We started to get companies that were looking at their returns processes and starting to say, 'Can we actually get some income from these products that nobody wants anymore?' And while they might not be covering the total costs of buying the products in the first place, it was at least starting to generate an income stream to offset some of those costs. Rather than being a 100% loss, they've started to reduce it."



GNARLY DETAILS

That's the recent historical context, but we shouldn't assume that recognising and grappling with a problem is the same as solving it. While some companies – and here we're particularly talking about pureplays and catalogue retailers that have long been aware, for example, of the way younger shoppers tend to send back more items than older customers – have business models that lend themselves to dealing with returns, that's not true across the board.

Worse, from the perspective of retailers with a high street heritage, this need to deal with returns more efficiently has arrived at the same time as companies also need to adjust existing business models to reflect consumers' appetite for cross-channel retail. New patterns of customer behaviour in this changing picture can cause huge headaches.

To take one commonplace example, what happens when a customer buys an item online but returns it via the high street? "If you look at John Lewis, for example, their online offering is larger than their largest flagship store on Oxford Street," says Gorst, "and so [omnichannel] starts to introduce other problems. From a customer perspective, if you've got anything to take back, brilliant, you've got a high street store, you take it back to the store. But then, all of a sudden from the retailer's perspective, 'Right it's come back to the store but we don't sell them so what do we do with it?'"

Compounding the problem, what if the item is of high value and still in mint condition, yet not usually sold in the branch? Should the store send the item back to a central warehouse, or does it become "a manager's clearance type of item", heavily discounted because it's an "oddball offering"? Even a click-and-collect item that's still in its box might cause an issue. If it's delivered to a store but not picked up by the customer, should the store send it back to go out again later, which incurs a cost, or sell off the item?

There are other issues here too. From an accounting perspective, should the store take the loss on returned items? If so, this can lead to stores going into the red by issuing refunds for goods bought online. "At least one high street store" has encountered "staff morale problems" as a result of this scenario, says Gorst.

SEARCHING FOR SOLUTIONS

Lest this seem like a litany of gloom, it's worth emphasising there are technological fixes here. As companies upgrade IT systems, for instance, it becomes far easier to track where items are purchased and returned. Moreover, at many retailers, the switch to digitally driven retail has been accompanied by recognition of the need to tackle silos, so that store and online teams are far more closely integrated.

Nevertheless, it's worth injecting a note of caution here. Often, retailers' grand visions of a digitally driven omnichannel future butt up against reality. "One of the comments we got on the recent research we did was a company said a comment to the effect of, 'We're omnichannel to the outside world, but in terms of our delivery networks we're probably multichannel,'" says Gorst. "It's the backroom office, the logistics and so on that haven't necessarily caught up with the nice, slick, you-can-buy-any-which-way-you-want front end. They've got the systems at the front end but not necessarily at the back end."

We might add that retailers, understandably looking to drive sales and revenue, often prioritise customer-facing technologies.

THE HUMAN FACTOR

Even the slickest system for dealing with returns can never entirely negate the need for staff sometimes to look over items, to decide what should be done with unwanted goods. (Should it be discounted? Sold again as new? Could it be sold via an auction site or to a discounter?) Here, the approach of one of the companies that Gorst has been working with is instructive – especially, when it comes to those attempting to use the returns process for dishonest purposes.

“They have training for their staff from companies such as Ray-Ban or Ugg boots on how to spot the fakes,” says Gorst. “It’s obviously something that is taken very seriously and it’s something that companies recognise they have to deal with – from a fraud point of view so they don’t give a full refund for something the customer hasn’t paid for, but the other side is the potential that you send to a genuine customer a fake. And where does that leave our reputation as a retailer?”

Training is only part of the equation. Retailers also need to think about how staff will react to dealing with returns. What incentive, for example, do high street staff, on commission and perhaps comparatively poorly paid, have for dealing with returns when the shop is busy on a Saturday afternoon? Yet not dealing with a return efficiently, especially on a high-value item, might be a costly error for the retailer.

“[In the past] if you returned a television, companies would take it back and maybe not worry about whether the batteries were in or the remote control in,” says Gorst. “Obviously now, when they’re looking at selling on that item, if it’s not got a remote control, it’s not worth as much as if it’s got a remote control. Or a digital camera: has it got all the different components? Has it got the charger? Has it got the carrying strap? Has it got the instructions? Has it got the memory card?”

To deal with these kinds of scenarios, Gorst says, forward-looking retailers now provide staff with scripts to use at the till.

Returns policy

Looking at the bottom line and seeing what returns cost, it can be tempting for companies to become more draconian in terms of how long customers have to return items. This may be a mistake. In 2009, Marks & Spencer changed its returns policy from 90 days to 35 days.

“It went from being really, really generous down to just being generous, and it probably brought them in line with others anyway, but there was quite a bit of a backlash against them,” says Jonathan Gorst. “There was a lot made of it in the press, share price fell, etc, and I remember at the time we had discussions not with M&S but with other retailers, and they were all quite dumbfounded by what M&S had done because, and they all agreed on this one, if somebody is going to return something, they will do it within two weeks – end of.”

In contrast, John Lewis has in recent years taken an alternative approach, offering more generous terms. This may have resulted in the odd loss, but it’s arguably paid dividends in terms of the company’s image.

LOOKING AHEAD

Improved IT systems, the appointment of key staff, better training, and learning from catalogue and pureplay retailers. Taking all these factors together, it’s clear cross-channel retailers are paying far more attention to dealing with returns. Nonetheless, it’s worth emphasising that simply reacting to current scenarios isn’t enough in itself.

Retailers also need to look at what lies ahead, to consider the effects new developments will have. For a recent example of the way things can suddenly change, consider the enthusiastic adoption in Britain of Black Friday. It’s been well documented that many retailers and courier companies, even when primed for a peak in demand, struggled to cope with the sheer number of orders in November 2015.

What’s been less commented upon is how an increase in the volume of sales also leads to more returns down the line. If retailers are to make the most of such peaks without reputational damage because of delays in dealing with returns, while simultaneously ensuring that returned items are dealt with effectively rather than merely being written off, there’s a need to plan ahead.

As Gorst says, “If we have a big peak on the forward side and a big promotion, are we giving the right warning out?” It’s communication within the company: we’re having this big promotion so the returns team probably needs to be geared up for the week after.” ●

What shoppers want

Martin Shaw analyses the data to compare the delivery services customers say they would like with those retailers currently offer

IT'S HARD TO predict which of the many competing delivery methods and technologies now available in the retail logistics industry will be taken up by consumers. In an effort to shed new light we've combined the findings of two separate studies by UPS and Barclays, both asking customers what they think of the delivery options on offer and which they'd like to use, with our own IRUK research in order to understand the differences between what consumers say they want, against what retailers offer.

Our findings illustrate the disruptive influence of new technologies, and the way consumers respond to them. The chart below plots on the vertical axis the services that the largest 100 IRUK 500 retailers offer against, on the horizontal axis, those that consumers say they'd

prefer. Green dots show delivery channels and blue dots represent other services that some consumers consider important to making a purchase.

THE POWER OF HOME DELIVERY

Our findings are perhaps surprising. Maybe click and collect or drone delivery will take off in coming years – after all, it only takes an annual growth rate of 7% to double in 10 years – but the era of mass acceptance is not yet here. As yet, it seems, the benefits to be gained by offering collection services are still marginal, since consumers right now prefer home delivery and overwhelmingly vote for this option. The survey data implies that shoppers either don't know about alternatives to home delivery, or they don't believe they would make a difference to their lives.

Some 74% of consumers prefer direct delivery to other options, the UPS study found, while, according to Barclays, 70% want Sunday delivery. This latter is perhaps wishful thinking: IRUK 500 research shows only 9% of the largest 100 UK retailers currently offer delivery on Sundays.

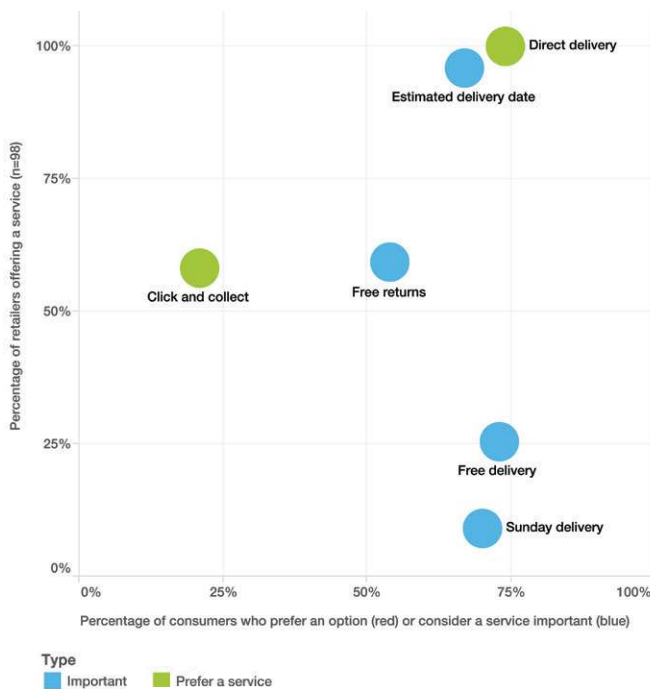
The importance of free returns also comes through from the research. More than half (54%) of UK respondents to the UPS survey said they check returns policies before they buy – and are more likely to buy when returns are offered. In all, some 59% of the largest 100 actually offer free returns. Perhaps the policy of free returns has more of an impact on the initial decision to buy than some companies expect.

The graph also raises questions about consumer expectations and preferences. One of Steve Jobs' favourite sayings is said to have been the (perhaps apocryphal) Henry Ford quotation: "If I'd asked people what they wanted, they would have said a faster horse." Perhaps consumers don't know what they want from new technology because they don't yet know what it could do for them.

The same could be said of emerging delivery methods: locker collection at train stations might suddenly become popular as shoppers better understand that it's available and how it works. It's hard to predict the pace of change, and consumer polls are likely to underplay the potential.

This is a snapshot. But where is the market going? What technologies or services could usurp the current way of doing things?

Consumer preference vs. retailer offering



Services offered by retailers were researched in collaboration with Oracle-Micros for the IRUK 500 Index. Consumer preference data is taken from *The Pulse of the Online Shopper*, a March 2015 report by UPS, and *The Last Mile*, a September 2014 report by Barclays.



LOOKING TO THE FUTURE

Personalisation is already a big theme in ecommerce but it promises to become still more important, especially for multichannel retailers. Our most recent IRUK 500 Dimension Report, on Mobile and Cross-channel, explored how retailers are using mobile apps, RFID, beacons, geo-fencing, tie-ups between store loyalty cards and online accounts, and predictive analytics to personalise the customer experience.

Stores that know more about customers can send out reminders when customers haven't bought something they usually do, and notify app users when they are walking past a sale. This is relevant to fulfilment: by better tracking products and more accurately predicting buying habits, retailers can maintain lower inventories in the store.

This, together with the growing popularity of click and collect, could continue to drive the high street's

out-performance of shopping centres, a trend seen in recent years.

Advocates of 3D printing promise a return to cottage industries, with customised consumer goods being produced in the local store or even the customer's own home. Retailers that previously specialised in selling small quantities of a large number of goods will manufacture on-site, or sell digital schematics to make at home. Traditional delivery, at least for these products, will fade away.

Although the technology is unproven for many commonly sold products, should it succeed it does seem likely that a part of the current logistics supply chain would become redundant. ●

Conclusion

THE RISE IN omnichannel retail is sure to put more onus on getting the retail craft around operations and logistics *right*. It's no good having a state-of-the-art website, if the promises that it sells are not delivered. To use an analogy from the airline industry, we're moving from a world of hub-to-hub journeys to point-to-point.

This is intriguing in itself. Omnichannel may often be portrayed as a front-end world of whizzy digital technologies, but for all Amazon is promising parcels delivered by drone, it currently sends out its parcels via the mail and its network of local van drivers. It's a reminder that much of digitally driven commerce doesn't take place in cyberspace, but out in the real world.

This requires real shifts in thinking on the part of retailers. No longer can companies send big boxes of goods to stores on the high street, safe in the knowledge that it's the job of sales staff to shift this merchandise. Instead, retailers send items direct, to lockers, to stores set up for click and collect. Furthermore, as we've seen, companies have to deal with demands not just for next-day delivery but, within metropolitan areas, next-hour delivery – and companies need to do this while turning a profit.

Our research suggests retailers are rising to the challenges here, but there's certainly no room for complacency. Customers aren't going to become less demanding, and retailers need to ensure that back-end systems are robust and support the business. Otherwise, no amount of marketing pizzazz will hide the fact that promises are going undelivered. ●





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