

COLUMNS

## Rise of point-to-point delivery and why Amazon is right to be worried

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By **Tom Allason**

Ecommerce has come a long way since 1994, with today's online shopper able to find and buy pretty much anything from anywhere in seconds. Delivery, however, has hardly changed. Consumers must still wait a day or many days for their orders, which are then delivered at a time that suits the courier, not necessarily the customer.

This is a problem since delivery is the last interaction a retailer has with their customer. Beyond the product itself, the delivery experience is the single greatest influencer as to whether a customer will shop more or less with a retailer in the future.

Delivery has also been shown to be the single greatest inhibitor to conversion within a retailer's Web site, with up to 90 percent of shoppers citing it as their top frustration with online shopping, according to Royal Mail's Delivery Matters.

Delivery failure is costing retailers billions in lost sales and redeliveries. It is no overstatement to say that delivery is the single greatest challenge facing ecommerce today. Now, after 18 years, it is finally being brought up to speed. Literally.

Consumer expectation is driven by experience, which has hardly changed due to the homogeneity of delivery services over the last two decades.

However, for the first time now, consumers are starting to be offered much faster and more convenient delivery options.

The thing about consumer expectation is that it only increases. Once shoppers become aware that they do not have to wait, they will not tolerate it. Consumers today cannot live without what things they did not know existed yesterday.

### Evolution of delivery

For the last two decades, whether you have been buying from Best Buy or Amazon, your online orders have been delivered using the hub-and-spoke logistics model. This was pioneered by Delta Air Lines in the 1950s for passengers, and then in the 1970s adopted for packages by FedEx.

Today, hub-and-spoke accounts for 99 percent-plus of all deliveries worldwide.

With ecommerce, orders are collected from a retailer's warehouse and brought back to a hub where they are sorted, before being distributed onto multiple vehicles running delivery routes the next day.

Hub-and-spoke is the dominant logistics model because it is the only cost-effective way of sending a package over 10 miles. The downside of hub-and-spoke is that it is not very flexible. Delivery times are determined by other

deliveries within the network and on a delivery route.

Things get interesting when deliver distance is less than 10 miles.

Over short distances it can be cost-effective, often even more cost-effective, to send a courier straight from collection to delivery, point to point.

Unlike the hub-and-spoke market which is dominated by UPS and FedEx, the point-to-point market is highly fragmented with thousands of local operators.

Since pure-play online retailers such as Amazon tend not to locate their warehouses in densely populated areas for cost considerations, very few orders would be sub-10 miles and therefore relevant for point to point. Multichannel retailers, however, already have very local warehouses: their stores.

#### Multichannel weapon

Amazon fights and wins on product range and price battlegrounds that multichannel retailers have no hope of competing on in the long-term.

Multichannel retailers are structurally disadvantaged by their stores, which limit the SKUs they can stock and are a significant cost base that must be paid for out of margin.

Even with the investment Amazon is making in local infrastructure to enable faster delivery, it will never be able to use point-to-point to offer extremely fast or flexible delivery times at a reasonable cost.

Local infrastructure for Amazon means depots in every state, not every town. Immediate and convenient delivery can be the multichannel retailers' competitive advantage.

Using store networks as a weapon against Amazon is nothing new for today's successful multichannel retailer. These are the merchants that have already invested in their bricks-and-mortar presence within strategic markets and integrated systems that link Web, mobile and stores, pushing the boundaries of customer experience.

Click-and-collect has been the greatest driver of multichannel growth over the last five years, which for me begs the question: how much of its popularity comes down to dissatisfaction with delivery? Surely shoppers would prefer to get their orders delivered to them where they want, when they want it?

If you believe so, it gives you a sense of the opportunity. The U.S. business-to-consumer delivery market, driven by online and now mobile commerce, is set to top \$26 billion by 2016. Expect 20 percent-plus to come from point-to-point.

#### Point-to-point checklist

To take advantage of point-to-point delivery from store, a multichannel retailer requires:

*Systems that provide accurate visibility of in-store stock:* Made available on the Web site and provided the capability to send online orders to stores.

*A flexible store operations team:* Who can pick and pack orders throughout the day on an ad hoc basis.

*A strategic store network:* One with a sufficient number of stores in close enough proximity to a high enough proportion of customers so as to make a meaningful impact on the business.

*A fulfillment partner:* Who can integrate with existing systems and provide a consistent quality of service that wows customers.

Not all retailers will be able to overcome the challenges, but those who do will reap the rewards.

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