Same-Day Delivery: Surviving and Thriving in a World Where Instant Gratification Rules

To excel amid consumers’ rising expectations for on-demand fulfillment, retailers require a holistic supply chain strategy and omnichannel fulfillment centers that turn same-day delivery challenges into competitive advantages.

Executive Summary

Online retail sales continue to grow by leaps and bounds — enabling retailers to increase their wallet share and strengthen customer loyalty. In 2011, U.S. online retail sales (transactions completed when shoppers pay for items via the Web) exceeded US$200 billion, a figure that is expected to reach US$327 billion by 2016. It’s also important to remember that e-commerce is no longer restricted to developed markets such as the U.S. and the UK; it is a global phenomenon. Accordingly, online sales across North America, Asia Pacific, Europe and Latin America will approach US$1 trillion by 2016 — representing approximately 1% of the world’s GDP.

As a result of this trend, speed of delivery has emerged as a key success factor for e-tailers that are seeking differentiation and a leg up on pure-play brick-and-mortar shops. In fact, ever-increasing customer expectations have raised the bar high; same-day delivery in many retail segments is now table stakes. With many retailers exploring various innovative methods, the issue has moved from “how” to “when” to “same-day.” Ignoring this retail imperative, or failing to execute same-day delivery well, can potentially weaken a retailer’s competitive position and/or label it a laggard. In this white paper, we will identify the key strategic enablers that retailers should build on to convert this challenge into true competitive advantage.

The Same-Day Delivery Imperative

Digital natives and those with millennial mindsets expect instant gratification and fulfillment speeds comparable to what they anticipate from brick and mortar retail stores — at minimal delivery cost. This in spite of the fact that e-commerce fulfillment centers (EFCs) are often located a significant distance away from customers. Nonetheless, media reports, industry executives and analysts predict that same-day delivery will become a competitive differentiator for e-commerce fulfillment in certain markets. For example:

- Nearly 24% of online customers believe that same-day shipping is important.
- The 2013 Shopper Experience Study conducted by Cognizant and RIS found that delivery cost and delivery time are among the top factors that influence purchase decisions. (See Figure 1).
Over the last decade, consumers have become increasingly comfortable purchasing more product categories online — pharmacy, new gadget releases and gift items, for instance. Many can’t wait, and purchase from brick-and-mortar stores instead of ordering online. This gives retailers the opportunity to further increase their online sales of popular product categories by developing the ability to economically execute same-day delivery.

The Competitive Landscape
The battle for same-day delivery has already begun. Be it giants like eBay, Walmart or Amazon, or niche players such as KuaiShubAo.com, retailers are raising the bar by reducing the fulfillment time and pushing the cut-off time for same-day delivery. The sidebar on page 3 provides a snapshot of leading player strategies.

Key Challenges
• **Distance:** Traditional retailers do not stock inventory that can be fulfilled within hours to all customers. And typically, most EFCs are not located near buyers, making it impossible to deliver goods to customers on the same day that orders are received. Since moving inventory closer to customers often involves storing it in multiple locations, the trade-off in storage/capital costs must be weighed against the service/sales impact. This has forced many retailers to re-think their network strategy and adopt an omnichannel fulfillment strategy.

• **Cost:** Traditionally, the final mile of delivery was completed by the customer, who picked the product from the brick-and-mortar store and carried it home. In online fulfillment, this process can be costly, and is usually performed by the retailer. As shown in Figure 1, our research confirms that online customers consider the delivery cost, along with delivery time, among the top factors that influence their purchasing decisions. This presents a challenge to retailers to increase the speed of fulfillment with little additional cost to buyers.

• **Volume:** Today, retailers that provide same-day delivery service offer it at a premium cost. The reason? Most of these companies are struggling to find the same-day “sweet spot” — the perfect combination of the right number of orders in a common region and the right carriers to make the economics of same-day delivery work. These retailers must also increase the volume of products they ship for same-day delivery in order to make the entire strategy economically viable.

The Strategic Enablers
We believe that retailers will need a holistic supply-chain strategy to address the challenge of same-day delivery. (See Figure 2, page 4 for a topographic illustration).

Geographic and SKU/Product Segmentation
Retailers should first identify the markets in which they want to provide same-day delivery. This is a critical decision, given that the level of demand will play a key role in determining the economic feasibility of same-day delivery service. We recommend a step-by-step strategy, starting with...
Quick Take

Selling Same-Day Delivery

Amazon.com

Amazon Locker: Delivery made easy
Availability: Launched in September, 2011 in New York, Seattle and London. Amazon Locker continues to expand its network nationally throughout the U.S. and the UK.
Cost: Free.
How it works: Amazon customers can select any Locker location as their delivery address and retrieve their orders at that location by entering a unique pickup code on the Locker touch screen.
Amazon has also partnered with USPS to deliver packages on Sunday in metropolitan areas. In December, 2013, Amazon announced its 2015 plan to provide 30-minute delivery via drone-like “octocopters.”
Amazon Fresh is another initiative that allows customers to purchase fresh groceries at Amazon.com and have them delivered within the hour.

eBay

eBay Now: Deliver within an hour
Availability: San Francisco, Chicago and New York at present, but eBay indicates it has plans to add 25 cities in 2014, including London. Drivers will deliver to almost anywhere, within an hour.
Participating retailers include Target, Finish Line, Office Depot, RadioShack, Toys R Us, Best Buy and Walgreens.
eBay Now customers can also order clothes from brands like Armani Exchange, Ann Taylor Loft and Macy’s, for example.
Cost: First three deliveries are free; customers receive a US$15 discount on their first order. After that, deliveries are US$5.

Google

Google Express Shopping
Availability: San Francisco and the wider Bay Area, from San Francisco to the Peninsula.
Cost: Users purchase and sign up for a six-month free trial.
How it works: Allows consumers to shop for everyday items from a range of national, regional and local stores, then have products delivered to their doorstep the same day.

Deliver Tonight
Canada Post's new Delivered Tonight service will offer online consumers in the Toronto area the ability to receive same-day deliveries of items ordered via the Canadian e-commerce sites of Wal-Mart Stores, Inc., Best Buy Co., Indigo Books & Music Inc. and Future Shop.

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Retailers will have to analyze their product offerings and determine the SKU categories that will be the best contenders for same-day delivery. The next step is to identify the products the retailer wants to offer for same-day delivery. Since same-day/next-day shipping is in the early stages, there is not much industry data to help determine which SKU categories will be in highest demand. Retailers will have to analyze their product offerings and determine the SKU categories that will be the best contenders for same-day delivery. The attributes to consider when identifying product categories include:

- **Urgency** (i.e., DVD new releases, gift categories, etc.); high-tech items (i.e., smartphones/tablets).
- **Seasonality of items** (i.e., toys, gift-wrap, etc.).
- **High-margin items** that enable retailers to absorb higher shipping costs and still realize reasonable/competitive profitability.

### The level of customization

required before shipment.

### Network Design

Same-day delivery starts with the network; network design plays a very important role in speed of fulfillment. Once a retailer has identified the geographies where it wants to offer same-day delivery, the next step is to create a fast, flexible and financially viable network. Retailers should implement one or a combination of the following strategies for designing a same-day network that is fast, flexible and financially viable.

- **Hub-and-spoke distribution model:** Retailers can adopt a hub-and-spoke distribution model by building smaller e-commerce fulfillment centers (EFCs) located closer to customers. This model can be leveraged to achieve same-day shipping in markets where population density supports it (i.e., major metropolitan areas).
- **Locating EFCs near logistics clusters:** Retailers should locate EFCs near logistics clusters – ports, airports, carrier terminals, competitor/non-competitor facilities and the like – to take advantage of the availability of labor and collaborative transportation, increase the speed of getting goods into stock and reduce the time...
it takes to deliver products to end customers. This network model supports the low-volume, cost-effective and high-speed delivery that is required to execute same-day service.

- **Third-party logistics (3PL) provider and offsite storage:** Retailers should utilize 3PL providers and offsite storage to help minimize capital investments in plant, property and equipment (PP&E) while expanding distribution reach and speed.

**Omnichannel Fulfillment Centers**

Retailers that sell products through both brick-and-mortar and e-commerce channels can benefit from an integrated strategy. Until recently, most companies created dedicated e-commerce fulfillment centers to satisfy online demands — reasoning that online sales constituted a small proportion of their total sales. Moreover, online fulfillment centers required different processes, like picking, cartonization and custom packing, that are not found in traditional distribution centers. However, since online sales now represent a significant portion of their total revenue, retailers must re-think this strategy, and analyze the benefits of having omnichannel fulfillment centers (i.e., single fulfillment centers serving all the channels). These benefits can include lower investment costs over the long run (due to smaller footprints), reduced operational costs (due to lower inventory-carrying expenses) and increased customer satisfaction (due to faster service).

The development of an omnichannel fulfillment center requires retailers to:

- **Select the fulfillment centers:** Retailers should identify the locations where they want to create omnichannel distribution centers, taking into account in-store and online demand. Since there are initial costs involved in setting up omnichannel fulfillment centers, retailers should evaluate if it makes more sense to establish these operations in prime locations.

- **Omnichannel warehouse management systems:** Retailers should invest in a warehouse management system (WMS) that can support omnichannel fulfillment. There are off-the-shelf WMS packages that can do this with minimal enhancements. Given that all retailers have unique requirements, companies should conduct a detailed evaluation of applicable packages before making their selection.

- **Automation:** Retailers can utilize automation solutions to improve the speed of order fulfillment. A fulfillment center can be fully automated or semi-automated. How much automation is right for a fulfillment center depends on various attributes, like SKU count, SKU types, SKU size and order profile. Retailers can apply automation to:
  - Accelerate various processes such as goods-to-person picking and packing.
  - Utilize in-line scales to audit the weight of outbound shipments without manual intervention.
  - Employ dimensioning and cubing systems to reduce human error when capturing item weight/dimensions and achieve seamless picking and packing operations.
  - Use robotics or automated guided vehicles (AGVs) to fully automate order fulfillment and deliver goods faster.

- **Accurate data:** Retailers should have the capability to accurately capture critical data, such as item dimensions and weight. Accurate item data, along with seamless cartonization, can help ensure that cartons flow without delay and without manual intervention through the packing process.

**Tightly Integrated Systems**

Real-time synchronization of all systems managing online order placement and delivery to end customers is key to accomplishing same-day delivery. Any delay in transferring data between systems can lead to an avoidable time lag in executing the order. A tightly integrated system infrastructure can help ensure that retailers leverage all product information and on-hand inventory, and eliminate gaps between when an order is entered, fulfilled and transported to the end customer. More specifically, this level of synchronization gives retailers the ability to:

- **Have real-time visibility and accessibility to data:** Retailers should have real-time accessibility to data residing on all systems involved in order fulfillment, including online customer-facing systems, distributed order management (DOM), warehouse management (WMS), store inventory, store sales and transportation management systems.
• **Know the exact location of SKUs:** Inventory visibility must extend beyond EFC/store locations where the SKU is stored to the exact aisle/location/slot where the SKU is kept. This can be achieved by implementing WMS and store systems that track products at the slot/shelf level, and investing in embedding GPS/RFID capabilities into critical products. In this way, retailers can improve visibility throughout the supply chain and allow the diversion/re-routing of critical items to execute consistent fulfillment speed. The cost of investment can be controlled by performing geographic and product segmentation to identify the products that should be embedded with GPS/RFID.

• **Optimize order fulfillment:** In order to successfully execute same-day delivery, it is critical for retailers to utilize all nodes and fulfill the order from the one(s) best equipped to do so – be it an EFC, multiple EFCs, a vendor or a store. This can be achieved by having real-time visibility into inventory across the network, and using a distributed order management (DOM) system with a robust cost and delivery optimization algorithm. This helps assure fulfillment from the best location, at the best cost, and at the fastest speed, based on customer expectations.

Retailers should focus on improving store inventory management so they can understand which SKUs are in store, maintain perpetual inventory for the SKUs, and track the exact location of the SKU – be it in the store’s backroom or on a front shelf.

**Fulfilling from the Store**
Retailers with brick-and-mortar stores should be able to fulfill online orders from those locations. This provides the opportunity for physical stores to turn customer proximity into an advantage over pure-play e-retailers. Since it is very capital-intensive to have EFCs near every target market, this strategy can help retailers reduce the capital required to build EFCs and shorten fulfillment times. In order to execute e-commerce orders from physical stores, retailers will need to invest in the following:

• **Inventory accuracy:** Accurately determining store inventory is often a challenge when fulfilling customer orders from the store. Retailers should focus on improving store inventory management so they can understand which SKUs are in store, maintain perpetual inventory for the SKUs, and track the exact location of an SKU – be it in the store’s backroom or on a front shelf. This can be achieved by implementing a store inventory management system and enabling real-time integration between inventory management and point-of-sale systems.

• **Order fulfillment:** Retailers should implement an order fulfillment system that provides the capability to execute this function in stores – receiving and acknowledging orders, picking the order, packing the order (compliant with fully regulated and limited quantity SKUs) and shipping.

• **Workforce:** The typical store has a significant percentage of part-time, lower-wage employees, most of whom are less efficient in packing orders than their counterparts in fulfillment centers. Consequently, retailers will need to invest in hiring store associates who can be cross-trained in multiple tasks. The ability to pick e-commerce orders while still serving store customers is critical for long-term omnichannel success.

• **Dark stores:** These locations are dedicated dot.com store fronts that operate like typical retail stores but are only used for e-commerce fulfillment. Rather than serving customers, associates pick the orders for e-commerce fulfillment. While these units require larger volume to justify investment, they are considered more efficient than traditional retail stores in fulfilling dot.com orders and increasing the capacity of e-commerce fulfillment.

**Last-Mile Delivery**
The last mile – getting the product to the customer – is the most important factor in executing same-day delivery. Traditionally, brick-and-mortar retail customers have taken care of this task themselves by purchasing products in physical stores. Until recently, e-tailers were constrained by in-house pick-and-pack and carrier-delivery schedules. The rules are different for same-day delivery; retailers have to cover the last mile of delivery and, as a result, be able to ship products in small volumes, at frequent intervals and at odd times. The following strategies should
be considered separately or in combination to effectively meet the last-mile requirements of same-day delivery.

- **Private fleet or partner with couriers:** Large retailers can utilize their own fleets to ship orders. This gives them the flexibility to push cut-off times and deliver even on weekends. Retailers that do not have the scale or a private fleet will have to partner with a carrier, or carriers. They can select a national courier like USPS, UPS and FedEx, or regional couriers. If the retailer is able to provide the volume, carriers will be willing to accommodate exceptions, such as odd pick timings or weekend deliveries.

- **Pick from store/lockers/drop boxes:** Retailers can leverage pick capabilities from stores/lockers/dropboxes to execute same-day delivery. This strategy can be more cost-effective, since it will reduce the distance/time to travel to individual customers. Also, lockers/dropboxes can provide retailers with the volume needed to ship the order economically. The lockers/dropboxes can be located in the retailer’s own brick and mortar store, or leased from a third party.

- **Local messengers:** Retailers can leverage a team of local messengers to deliver packages. These messengers can utilize less expensive and more flexible modes of transport – mass transit, bikes, etc. – to make deliveries. Retailers can build a team of their own local messengers (eBay Now is one example), or can join with a third party that offers the service. This strategy will work for retailers that do not have enough volume to make shipping with trucks/couriers economically feasible.

- **Crowd sourcing:** Although in a nascent stage, crowd sourcing is a real possibility. This will provide retailers with an economic, environment-friendly option to deliver goods to their customers.

- **Newer modes of delivery:** Retailers can also leverage new technology-enabled modes of delivery in order to achieve same-day delivery. The recent announcement from Amazon to employ drones for delivering freight at home is an example.

**Looking Ahead**

In today’s hyper-competitive retail environment, consumer demands have never been higher. Same-day delivery will be a critical component for competing with brick-and-mortar retailers and differentiating from pure-play e-tailers. Early adopters will have the advantage of experience, so the time to act is now.

The approaches outlined in this white paper can help your organization develop the strategies, tools and technologies needed to survive and thrive in the “new normal” world of faster delivery, more selection, better service and tighter cost containment. We agree with Darwin that it is not necessarily the strongest who survive, it is those who can challenge themselves to successfully adapt to the environment and conditions around them.

**Footnotes**


2. Ibid


About Cognizant

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