

# Differentiating Your Retail Store with New Delivery Options



## Introduction

In today's rapidly changing retail environment, stores are continuously looking for new ways to differentiate themselves. With online shopping predicted to grow to \$370 billion by 2017<sup>1</sup> and an increased focus on creating a seamless omnichannel customer experience, the ability to offer online order fulfillment and returns options is a key battleground opportunity for differentiation.

According to a recent customer experience study, 62 percent want to buy items online and make returns in-store, while 44 percent want to buy online and pick up their purchases in a store.<sup>2</sup> However, recent research shows that the overall level of customer satisfaction with online shopping drops below 50 percent when shoppers are asked about:

- Flexibility to choose the date and time for delivery
- Flexibility to reroute packages
- A green shipping option<sup>3</sup>

## eCommerce: The Approaching Tidal Wave

According to Morgan Stanley research, eCommerce accounts for about 10% of global retail sales today, and will double to 20% over the next few years. When Morgan Stanley analyzed other disrupters from the recent past (such as notebooks, mobile phones, and digital music), they found growth rates actually accelerate when penetration rates reach 20 percent.<sup>4</sup> Consequently, we expect the volume of online orders destined for in-store pick-up to grow at similar rates, giving retailers little time to prepare for this change in the market.

Given this data and the related trends, what is the right strategy for delivering new fulfillment options (and returns), enabling new cross-sell and upsell opportunities, enhancing brand awareness and loyalty, and driving revenue?

## Experiments in Delivery Models

As we are seeing, stores are increasingly realizing that they must transform their current online order delivery and returns handling or be left behind. With customer convenience now a critical competitive strategy—indeed, a basic requirement—retailers are testing a mix of delivery models for both perishables and general merchandise. Some of the more common models being considered include:

- In-store pickup using manual labor or automated locker systems
- Online-only retailers with their own delivery fleet which offer scheduled delivery services, even on weekends
- Brick-and-mortar stores that provide personal shopping and delivery services for a fee
- Third-party delivery companies and regional couriers that contract out to retailers
- Taxi-based and crowdsourced services (similar to Uber) for ad hoc deliveries
- Aggregators who find and broker purchases from major online retailers, providing delivery through their own or third-party delivery vendors
- Cooperative last-mile delivery services offered through the U.S. Postal Service (e.g., Sunday delivery)
- Future technologies such as drone-based delivery

We now see retailers using a combination of local stores, existing distribution and logistics networks, and partners in each coverage area to assure timely delivery. Some online retailers are going further: They are taking the counter-intuitive step of launching brick-and-mortar storefronts to handle distribution, dispatch, and another key area of concern—returns.

## The Unintended Consequence: Returns

eCommerce and the associated growth of online orders has brought into the limelight another critical customer experience issue—returns handling, perhaps the second most frustrating customer satisfaction issue.

The convenience of ordering online has spawned an overall increase in return rates, particularly for apparel, home goods, furniture, and other items best experienced in person. Studies show some consumers will in fact buy several similar items with the intention of keeping only the one they like best, returning the rest.<sup>5</sup>

As a result, a Kurt Salmon study showed that online shoppers return as much as 20 to 30 percent of orders of apparel and

other soft goods. Hard goods (such as gifts, home products, and toys) see a return rate of approximately 10 percent.<sup>6</sup> This substantial volume of goods is being returned to a variety of destinations within the retail system,<sup>7</sup> creating a complex, costly, and time-consuming process.

Returns are one of the greatest sources of frustration and inconvenience for online shoppers, who must repack, resend, and often pay for mailing the purchase back to the retailer. While these new fulfillment and delivery models address one aspect of customer convenience (delivery), retailers are finding their customers demanding the same ease and convenience for handling returns as for placing the original order.

## Balancing Convenience with Cost

To understand the cost model for getting an online order into a customer's hand, let's borrow an analogy from the logistics industry. Moving a package from its source to the "edge" (the store) carries a small incremental cost, as the retailer can use their existing distribution and logistics network: The package simply piggybacks on the existing systems used for merchandise replenishment. The most expensive part of the journey is getting it from the edge to the customer—what logistics experts refer to as the "last mile."

Currently, customer cost for truck-based delivery approaches is all over the map. Same-day service may carry a delivery fee ranging from \$2.00 up to \$20.00. Some retailers require customers to purchase a membership, or impose a sliding fee schedule based on the size of the order. Other retailers and brokers charge up to \$70.00 per year for access to delivery services. As an example, one major online retailer charges an annual delivery subscription fee of \$299.00, plus an additional fee for orders under \$35.00.



However, the evidence suggests that customers resist delivery fees and tend to choose online products based to some degree on shipping charges. We see this in the rising popularity of online orders shipped to the customer's local store for pickup, rather than to their home or office. For non-perishables, more than 50 percent of online orders are directed to stores for customer pickup. In fact, one large U.S. retailer is currently sending 70 percent of orders to a store for the customer to pick up at their convenience. The underlying reasons for this popularity: No shipping charges, and the option to select the pickup point based on the convenience of its location.

Across the board, the challenge retailers face in this environment is reducing customer friction in both online order receipt and returns handling while balancing the cost of any last mile solution.

## Cisco's Vision for In-Store Deliveries and Returns

Cisco® believes that delivery and returns offer an exciting opportunity to not only drive a new level of customer service, but to turn these services into a new channel to drive more retail business. The innovative use of technologies, including Cisco Smart Lockers based on our Interactive Experience Platform and wireless, security, and collaboration solutions, helps to resolve these problems both cost-effectively and efficiently.

The Cisco Smart Locker solution is the industry's first cloud-managed, scalable delivery system designed to provide an optimal solution for unattended package delivery (UPD). Going far beyond traditional locker systems, this solution provides a kiosk-based capability designed to interact with customers as part of the omnichannel store. It is also available as a managed service and as-a-service.

Smart Lockers provide a solution to all the issues raised in consumer surveys:

- Customers can pick up their purchase at the time and day it is convenient to them, regardless of store hours
- They do not need to reroute packages in order to receive them
- They can rest easy, knowing that their single delivery to the store site is more environmentally responsible
- Customers can buy online but inspect their purchase at the store, in case the product should be the wrong size, damaged, or otherwise unacceptable
- Stores save significantly on the cost of shipping and delivery, labor, and management of deliveries

- Lockers solve the problems of returns by enabling an easy drop-off to the store or a designated third-party location without extra shipping costs
- Customers are more satisfied with the result of their shopping experience

Cisco's solution is not the only locker system available. However, it is the first to offer the great benefit of next-generation technologies that make smart lockers into a new retail channel. Cisco's locker includes a built-in video capability that allows customers to speak face-to-face directly with centralized store service agents for real-time support. It also supports a wide variety of peripheral technologies, such as cameras, printers, scanners, security codes, and metrics-gathering, to support the interaction with the customer.

At the same time, stores learn more about their shoppers by observing and responding to these interactions, gathering valuable metrics. Using data analyzed in real time, the store can broadcast targeted ads and coupons to the touchscreen to encourage upsell and cross-sell, now that the consumer is actually at the store. In doing so, retailers can boost brand awareness while helping to drive a new source of revenue.

## Cisco's Other Delivery Solutions

Note that Cisco's networking solutions also enable same-day delivery systems including:

- Cloud-based wide area networking to serve and optimize networking for large regional areas and beyond
- Service Exchanges to extend logistics applications across internal fleets, external delivery contractors, suppliers, and other partners
- Instant Connect to serve as a centralized dispatch that connects systems of ad hoc drivers, unifying taxi radio systems, cell phones, and Wi-Fi devices such as smartphones and tablets
- Mobile networking software and hardware to support and develop custom applications for mobile networks
- Collaboration capabilities that provide video and web conferencing, remote expert, and connectivity services

Based on these and other capabilities, Cisco continues to support a variety of delivery options, helping stores make their way through our current period of experimentation to find the delivery and returns solutions that are right—and cost-beneficial—for them.

## Conclusion

eCommerce and the convenience of its delivery systems are changing the way we live. An increasing number of products are available to shoppers online, from food and services to household goods, gifts, stamps, and clothing. The added convenience and flexibility of today's delivery means that customers can live life much more on their own terms—whether elderly or disabled, ill or limited by small children, busy with jobs, or travelling a great deal of the time.

Same-day delivery is currently still non-existent in many areas, but this will change very soon. However, as we have discussed, many shoppers remain reluctant to pay more for the convenience of buying online. In such a case, locker systems provide a benefit in cutting delivery and return costs. They are also far more secure than dropping a package off on a front porch.

Cisco provides the networked technologies that combine devices, people, processes, and data to make possible new delivery services to support the rapidly changing retail industry.

## For More Information

Please contact your Cisco representative, and visit our webpage at [www.cisco.com/go/smartlocker](http://www.cisco.com/go/smartlocker).

1 *15 Mind-Blowing Stats About Online Shopping*, by Giselle Abramovich, CMO.com (May 7, 2014)

2 2013 UPS Pulse of the Online Shopper: A Customer Experience Study, comScore (2013)

3 Ibid.

4 *eCommerce Hits Its Stride*, Morgan Stanley AlphaWise (Jan. 20, 2015)

5 *Managing Retail Returns: The Good, the Bad, and the Ugly*, by Lisa Terry, Inbound Logistics (Feb. 2014)

6 *Reducing the Rate of Returns*, by Mark Brohan, Internet Retailer (May 29, 2013)

7 *Managing Retail Returns*, Inbound Logistics



**Americas Headquarters**  
Cisco Systems, Inc.  
San Jose, CA

**Asia Pacific Headquarters**  
Cisco Systems (USA) Pte. Ltd.  
Singapore

**Europe Headquarters**  
Cisco Systems International BV Amsterdam,  
The Netherlands

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