

Retailers face challenges with same-day delivery

October 24 2012, by Heather Somerville, San Jose Mercury News

Retailers testing same-day delivery service may soon find that giving customers what they want as fast as they want it is trickier - and costlier - than they bargained for.

In their scramble to keep pace with online giant Amazon.com Inc., Wal-Mart and eBay this month announced plans for same-day [delivery](#) in selected parts of the nation. Some analysts caution that same-day delivery - the latest holy grail for retailers - is a [financial risk](#) and logistical nightmare to almost anyone but the pizza parlor and the local florist.

"It's incredibly hard to pull off, said Fiona Dias, chief strategy officer at ShopRunner, a [Web service](#) that coordinates shipping for retailers. "We haven't found a way to economically do same-day delivery."

But a lineage of failed delivery services like Web- van, an online grocery business that became a legendary dot-com failure, hasn't deterred retailers from striving to satisfy the ever-higher demands of consumers who want instant gratification.

"That's the Internet," said Stephen Baker, vice president of industry analysis at NPD Group. "We already get instant delivery of our music, our movies."

Some purchases are still worth a stroll through the mall - luxury jeweler Tiffany & Co. isn't likely to send engagement rings same-day delivery,

nor would customers want to give up the glitzy, Champagne-filled shopping experience. But the convenience of quick home delivery appeals to shoppers like Lyshone Griffin of Oakland, Calif. Standing outside that city's Wal-Mart last week, she said she would happily pay the extra money for same-day delivery of large furniture, such as a bed, that she needed urgently and couldn't pick up from a store herself.

Amazon and Wal-Mart promise customers that for just a few dollars extra their online purchases will be dropped at their front door within hours of ordering - or in eBay's case, in less than an hour. After all, there's nothing quite as exciting as a knock at the door from UPS, holding the new flat-screen TV you ordered even before the charge appears on your credit card.

But analysts note that packages will reach customers within a day only if companies have enough merchandise and enough stores and warehouses spread throughout a delivery area. The other snare that often trips up retailers, said Dias, is that they can't control the delivery. In some cases, the delivery guy may be a college student trying to earn a few extra bucks working as a contract driver for eBay.

"It's not a same-day guarantee; it's a same-day maybe," Dias said.

EBay spokeswoman Lina Shustarovich said the company's goal is to deliver in an hour, "but we can't control for unusual circumstances." EBay does not offer concessions for late deliveries.

Wal-Mart will use its own trucks and drivers in the San Francisco Bay Area, where the mega-retailer has had an online grocery delivery service under way since 2010, and will work with UPS in the other test cities.

Then there's the cost, which may discourage both retailers and customers. Wal-Mart charges \$10 for deliveries of any size, which Dias

expects will cover less than half the cost of one order. eBay offers three free deliveries, after which customers are charged \$5. Orders must be at least \$25.

"The math doesn't make sense," Dias said. "It only makes sense if the truck is full. It doesn't make sense if there's only one package."

But for a few Wal-Mart customers in Oakland, Calif., the delivery fee is too expensive; they're watching every dollar. Unloading her bags from a cart outside the store, Maria Rivera of Alameda, Calif., said same-day delivery was "not for me." She doesn't have a computer at home to shop online, and even if she could borrow a friend's, the extra \$10 was too much.

Spokeswoman Ashley Hardie said the test would help Wal-Mart gauge where same-day delivery might work, and "learn what's better for our customers and better for our business."

Even Amazon hasn't found a way around the high cost. Chief Financial Officer Thomas Szkutak said this year that same-day delivery on a broad scale is not economically feasible. The company began same-day delivery in 2009, but the service has been limited to a handful of cities. But Amazon also has been aggressively expanding other delivery services and building more warehouses - it now has a total of 40 in the U.S. to get merchandise to customers more quickly.

Even Amazon's efforts to speed up deliveries likely won't sway Sunnyvale, Calif., resident Andrey Abutin, who canceled his Amazon account after the company began collecting sales tax in September. And he questions whether Amazon's same-day delivery - not yet available in his region - is even worth it. The \$8.99 cost of same-day delivery, plus about a \$1 per-item fee, doesn't add up for him.

"You're looking at way too much overhead for anything costing less than \$150," he said.

Abutin prefers Google Shopping, which he says allows him to compare prices across dozens of websites without leaving his computer chair.

But Amazon has raised the bar on retail delivery and competitors are running to catch up. "Everybody is assessing this - whether or not they want to pursue it, and whether or not they can," said Bruce Cohen, retailer and consumer strategist with Kurt Salmon in San Francisco. "For businesses, it's innovate or step aside."

EBay's delivery service, currently limited to San Francisco and available only through a free iTunes app called eBay Now, allows customers to get purchases hand-delivered to anywhere they want within an hour. If the customer wants to return the item, the driver will schedule a pickup and the refund appears in the customer's PayPal account.

On a call with reporters Wednesday, Chief Executive Officer John Donahoe said the app is part of eBay's expansive mobile strategy to partner with local retailers and entice more customers to sell and buy from their smartphones. The company gained about 800,000 new mobile users in the third quarter.

Company spokeswoman Shustarovich said eBay Now deliveries have included an iPhone charger to a bar and a sweater to a chilly customer in a park.

She said: "Our goal is to bring the customer the product wherever they happen to be."

THE SAME-DAY PROMISE:

EBay:

-Availability: San Francisco only, but eBay says it has plans to add cities. Drivers will deliver to just about anywhere and within an hour.

Participating retailers include Target, Finish Line, Macy's, Office Depot, RadioShack, Toys R Us, Best Buy and Walgreens.

-Cost: First three deliveries are free, and customers get a \$15 discount on the first order. After that, deliveries are \$5.

-How it works: Download the [eBay](#) Now application (free for Apple devices)

Wal-Mart:

-Availability: San Francisco, Philadelphia, northern Virginia, Minneapolis

-Cost: \$5-\$10 delivery, \$45 minimum purchase. Customers can choose from 5,000 items of general merchandise, most of them popular holiday gifts, and groceries. Orders must be placed by 7 a.m. and are delivered in a two-hour window between 2 p.m. and 10 p.m.

-Cost: \$10 for orders of any size, no minimum purchase. No grocery service.

-How it works: Create an account at the Walmart To Go website; walmart.com/togo

Amazon.com:

-Availability: Baltimore, Boston, Chicago, Indianapolis, Las Vegas, New York City and the surrounding area, Philadelphia, Phoenix, Seattle and Washington, D.C.

-Cost: \$8.99 per delivery, or \$3.99 for Amazon Prime members. Everyone pays a 99 cent per-item fee.

-How it works: Select Local Express Delivery when making a purchase on amazon.com. The cutoff time for same-day delivery is as early as 7 a.m. and as late as noon in some cities. Not all merchandise is eligible. Details: www.amazon.com

(c)2012 San Jose Mercury News (San Jose, Calif.)
Distributed by MCT Information Services

Citation: Retailers face challenges with same-day delivery (2012, October 24) retrieved 25 April 2024 from <https://phys.org/news/2012-10-retailers-same-day-delivery.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.