

The pick up in click-a

John Lewis raised a few eyebrows in July when it revealed it would start charging £2 for click-and-collect orders under £30. None of the department store group's main rivals charge for the service, nor do they have any plans to. Marks & Spencer, House of Fraser and Next have all confirmed their services will remain free. "Nothing is changing," says a Next spokeswoman.

And yet everything is. "As UK retailers have attempted to wean consumers away from costly online home deliveries, free click-and-collect offerings have been a major selling point," explains Lee Gill, global vice-president of industry strategy at supply chain and retail solution firm JDA. "So now to ask consumers to pay for [it] certainly has its risks."

But calculated ones. The popularity of this form of fulfilment has accelerated more rapidly than many expected – consumers craving convenience and a release from the shackles of home delivery services have embraced the concept from day one. The "magic of the internet", as one logistics leader puts it, has given the illusion that it's all fast and free. It isn't.

As sales have increased so too have costs. Retailers struggling to meet demand and match expectations have even begun to lose track of profit and loss from their click-and-

What effect has John Lewis's decision to charge for some click-and-collect orders had on the market? Are the company's competitors going to follow suit? And how is click-and-collect going to evolve to become part of the multichannel future? **David Burrows** investigates

"The reason why click-and-collect is growing so fast is because the home delivery fulfilment model sucks"

Judy Blackburn, Kurt Salmon

collect offer, says one observer. It was only a matter of time before one of the big high street brands jumped. "We want to take a leadership position," said John Lewis boss Andy Street. "This market has got to be sustainable. It's illogical this can be produced at no cost."

Some retailers have already seen the sense in charging, but what's next for those that, like John Lewis, may have to backtrack? Can they afford to carry on regardless, or will others start charging as the race to shrink the gap between the clicking and the collecting intensifies?

Fulfilment battleground

In the short history of click-and-collect, shoppers have got used to paying nothing. "The growth of mobile technology and sexy apps has made online very easy and creates the illusion of 'it's all magic' and therefore has little or no cost," says Clipper Logistics chief executive Tony Mannix. "It isn't magic, it is physical, hard work."

Street is obviously confident his customers

Deliveries of the future

Hermes head of ecommerce Eoin Kenneally discusses the fulfilment innovations he believes have the potential to change the industry

A number of same-day delivery options have been tested, but consumers have not yet fully embraced them. It is worth considering what the top priority is for the majority of consumers – is it receiving products on the same day, or is it first-time delivery success?

Parcel lockers are not a new idea, but they do provide a fast and efficient way for consumers to combine collection with a previously planned journey. Another development in this area is parcel boxes, which allow consumers to have deliveries left in a secure drop box at their home address that can be attached to external fittings, such as a porch or front door.

Each delivery would have a unique code to access the box, creating the ultimate safe place. But the boxes could be considered an eyesore as well as becoming a target for vandalism.

Volvo has proposed an innovative solution to reduce missed deliveries using a car as a secure storage area. Let your delivery company know where your car is parked, and the courier can leave your parcel in your vehicle by using a one-time digital access key. A novel idea, but there are obvious concerns over security.

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will understand this. “They understand we’re a good corporate citizen and can’t give everything away for free,” he said. “There is a huge logistical operation behind this system and, quite frankly, it’s unsustainable.”

The results of a *Retail Week* and ICM poll in early July may have caused a few jitters among others tempted to follow Street’s lead. Three-quarters of respondents believe they should not have to pay for click-and-collect. This closely mirrored research by Retail Assist in February that found 63% of respondents were using the fulfilment route because it was free, compared with 21% who found it more convenient.

At M&S the free in-store collection service is “incredibly popular”, revealed David Walmsley, M&S.com director, when he announced an extension of click-and-collect to more than 100 Simply Food franchise stores. The move came just days after the John Lewis announcement – a sure sign that the battleground to offer the best fulfilment services is far from over.

But as the big high street names continue to battle it out, will the cracks begin to appear?

Earlier this year, PwC revealed that 84% of retail and consumer goods companies are unable to fulfil omnichannel demand

Expert opinions: John Lewis

“By introducing a £2 charge for this, John Lewis will still not be covering the true cost of the service, but it is flagging up an important message for customers – there is no such thing as a free lunch.”

Judy Blackburn, head of supply chain, Kurt Salmon

“There will be no hard and fast rule [for charging] as retailers will need to balance costs, lost sales and profit. I can envisage some retailers trialling this and establishing consumer response before any roll-out.”

John Pal, senior lecturer in retail at Manchester School of Business

“In the non-food space the challenge of fulfilling click-and-collect orders from store stock has been too much for many retailers. They simply don’t have sufficient stock accuracy or availability to deliver on their offer with certainty.”

Phil Streatfield, partner at LCP Consulting

profitably. The 400 chief executives surveyed said the highest costs were handling returns from online and store orders (cited by 71% of respondents), shipping directly to the customer (67%) and shipping to the store for customer pick-up (59%).

Hidden costs for retailers

The introduction of myriad delivery options has led retailers to make significant changes to their operational processes, introduce new systems and storage facilities, as well as invest heavily to keep up with both customers and

rivals. Judy Blackburn, head of supply chain at Kurt Salmon, suggests retailers don’t know the bottom line implications of all this, with many costs “hidden” in operations, stores, marketing and IT.

“It really is difficult for any retailer to make an informed decision about whether click-and-collect is profitable with, or without, charging for the service,” she explains. And the more it grows, the worse it becomes. “The rapid growth in click-and-collect has resulted in a corresponding growth in costs, which had been hidden when the click-and-collect ↘

proportion was low. Now that most retailers offer a free service, there's less ability to grow market share purely from offering a differentiated service," she adds.

Some retailers rely on their delivery companies to stay ahead of fulfilment developments at an operational and technological level. "Outsourcing fulfilment also provides retailers with the ability to scale up and down in response to changes within the retail market, both quickly and cost effectively," says iForce group sales director Geoff Taylor.

"This helps retailers to seize opportunities for growth without significant investment and with very limited risk, especially when exceptional retail events occur, such as Black Friday or one off promotional activity."

This could put home delivery back in play, but not until the service improves. Blackburn explains: "The reason why click-and-collect is growing so fast is because the home delivery fulfilment model sucks. Instead of investing behind click-and-collect, retailers should be investing behind home delivery."

The chance to side-step unreliable home delivery is one factor, but convenience is undoubtedly another. "Fifty per cent of our web orders and 80% of our mobile are now through [free] click-and-collect," says Screwfix chief executive Andrew Livingston.

"We are all about helping our customers to get jobs done quickly, affordably and right the first time...so this is clearly a service our customers want and we have set ourselves up to deliver it in a sustainable, cost-effective way."

For Livingston, simplicity has been key. "We keep the same range in every one of our 410 stores and live stock feeds through all our channels mean there is never disappointment in the process. I suspect that for some [in the sector], as sales have increased so too have costs."

Others have undoubtedly been relying on additional sales to offset rising costs. Several retailers have posted double-digit upsells among customers collecting in store. The average across the clothing sector is a shade under 10%, according to Verdict.

There are some notable outliers, however. Among the 28% of New Look customers using click-and-collect, one in four now buys something else. According to chief executive Anders Kristiansen there's no subtle alchemy involved: a competitive price and a smooth service is what it takes.

Joules managing director Colin Porter says. "For us upselling is an aspiration. But if I'm honest a lot of our [click-and-collect] customers are time hungry. We do particularly well in places like London Waterloo and King's Cross St Pancras, where people are definitely on a mission. The service must be quick and easy."

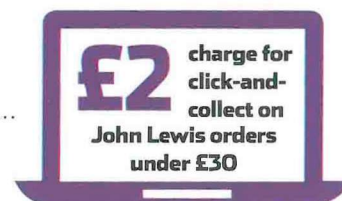
In numbers

75%

of UK grocery shoppers are satisfied or very satisfied with the click-and-collect experience (Market Force Information, April 2015).

31%

of shoppers spending less than £30 buy something else on collection (Verdict, March 2015)



75%

of consumers feel they shouldn't have to pay for click-and-collect (Retail Week/ICM, July 2015)

34%

of shoppers spending more than £30 buy something else on collection (Verdict, March 2015)

Making the numbers add up

In Verdict's March 2015 survey of 10,000 online shoppers, 32% said they purchased something else on the last occasion they used click-and-collect, up from 29% a year earlier.

The problem, as Verdict retail analyst Patrick O'Brien explained in a blog for *Retail Week*, is that as more people adopt click-and-collect the average additional spend is falling. In March this year it sank to just £17.81, from £21.37 the previous year.

Also notable from this research is the fact that 31% of those spending less than £30 – John Lewis's threshold – would buy additional items on collection, compared with 34% with orders above £30. What's more, extra spend is also 28% less for the lower-value baskets (£13.79 versus £19.28).

Looking at John Lewis's recent figures, in which click-and-collect hit 54% of all online orders, the key growth areas were in fashion, nursery and childrenswear at 8.3%, 16.3% and 8.2% respectively, all of which suggest basket sizes of above £30.

Mannix at Clipper feels the move is simply a "nudge" to try to reset the balance of order size and value. "The order size-value has a tremendous impact on the viability

of service offerings and therefore considered multiple item purchases rather than frequent single item orders are a good practice to try to instil within a retailer's customer base," he explains.

The competition will certainly be keeping a close eye on how things evolve. Some see it as a game-changing moment, but others are not so sure. "Their decision will not change the game," says Nigel Doust, chief executive of logistics solutions provider Blackbay. "Demographically and propositionally, John Lewis offers distinct products and services to a clientele that will ultimately accept the change."

Whether customers more widely will, is a moot point. Consumer insight expert Instantly's research paints a different picture to that in the *Retail Week/ICM* poll.

Of the 1,054 UK shoppers it surveyed in late July, less than 30% agreed that click-and-collect should be free, while 42% said they would pay up to £5.

Saving time was the most popular reason for choosing the service (72%), followed by the fact that other options for delivery are more expensive (57%).

Jon Gibson, principal at supply chain consultancy Crimson & Co, says that if retailers are going to move, now is a good time. "There's a growing population shopping online and their habits won't change after a small charge. There might be some noise and it needs to be a sensible amount but...on an order of £30-£50, £2-£3 is not going to change a purchaser's buy or not-to-buy decision."

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Andrew Livingston, Screwfix