

## **“Back to the Future: The Revival of Home Delivery”**

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The nation's leading package and freight delivery service companies are in the nascent stages of reinventing themselves as home delivery specialists; and we are not just talking package delivery.

Spurred by the growth of e-commerce, a number of “dot-com” companies are currently spending hundreds of millions of dollars to build new residential delivery networks for goods and services purchased over the Internet. The home delivery company is moving beyond the delivery of packaged goods to your doorstep, to delivering perishable items to your kitchen counter. Home delivery, which once was an almost abandoned method of doing business, now seems to be the rage, and “dot-com” delivery companies such as Webvan, Peapod, and Streamline.com are busy building the infrastructure that could change the way Americans shop and receive services. Not to be out-distanced, major package carriers including United Parcel Service (UPS), FedEx Corp. and the U.S. Postal Service are also busy reinventing their delivery networks to meet the demands of residential delivery.

Whether these two groups, the emerging “dot-com” delivery companies and the established parcel carriers, collide or compliment each other is yet to be seen. The home delivery market is evolving, and delivery companies' strategies are evolving right along with it.

### ***Welcome Back the Milkman***

The home delivery of milk was once affordable and profitable because the costs of delivery were shared by an entire neighborhood. Many up-start “dot-com” companies now believe the economies of scale found in the milkman model have returned as a result of the power of the Internet and the breadth of e-commerce. These companies are betting that on-line customers, driven by the convenience and empowerment provided by the Internet, will emerge as a powerful and influential force that will expect and demand goods delivered at home and on their terms. Among the home delivery companies, there are a handful willing to meet this consumer challenge by promising a customized residential delivery experience. However, to really make it profitable, these dot-coms do not want to deliver just milk and eggs.

E-grocers, online pharmacies and general online merchants are all attempting to capture the fast-paced and convenience-driven consumer and fully convert their recurring buying and errand running habits from the brick-and-mortar world to online. According to Forrester Research, online grocery sales totaled \$235 million in 1998 and are expected to grow to \$10.8 billion in 2003. Although that is only about a third of the total online replenishables market, companies like Webvan, Peapod, Streamline.com, and HomeGrocer.com are strategically targeting the home grocery delivery market. These companies believe that if they are successful in establishing themselves in this market they can “own” the entire household replenishment process, which Forrester defines as the “consumers' use of the Internet to automatically reorder small-ticket items.” What is

at stake is the privilege of being considered a family's "one-stop-shop" of home-delivery and errand services. These products and services include not only groceries but also prepared meals, prescription drugs, dry cleaning, postage stamps, video rentals, film processing and package pickup and delivery. What is emerging is a new competitive space for B2C players who are able to provide for this "on-demand" customer experience, virtually eliminating a consumer's need to run errands.

To tackle the economic challenge of making "on-demand" delivery profitable, Webvan, Peapod, Streamline.com and HomeGrocer.com have all built their first delivery networks in major cities targeting upper-middle class families in high-density geographies. A busy, well-to-do household tends to make an average order in excess of \$100 recurring forty times a year versus singles who tend to spend half that approximately ten times a year. According to many of the companies, the former rather than the latter is the only way to make it work.

The companies are also building and operating very efficient warehouses to reduce handling costs. Webvan has contracted Bechtel, a leading engineering and construction firm, to assist in the design and construction of its regional warehouses, which are estimated to cost a billion dollars. Controlling costs is important, however all agree the major key to success will be "delivering" a nearly perfect customer service experience.

### ***Reinvention and the Battle for the "Last-Mile"***

Although online consumer commerce is heating up and creating the need for a direct B2C fulfillment model for both products and services, no company has established itself as the dominant residential provider. The battle for the "last mile" has only just begun and the field is wide open to any and all providers who have a relationship with the online consumer. Still one question remains: Can anyone really make any money catering to the home delivery of goods and services? The nation's largest package carriers think so.

Long associated with B2B next day delivery, Federal Express has a small share of the booming B2C e-commerce market, well behind UPS and the U.S. Postal Service (who according to Zona Research controlled close to 90% of on-line shipments during the 1998 Christmas season). Federal Express recently unveiled new initiatives aimed at entering the ground residential delivery market. The most significant move is the re-branding of the RPS products and services as FedEx Ground and the introduction of a new residential delivery service under the name FedEx Home Delivery. This is a significant move for FedEx since previously it focused on the B2B air overnight market while RPS focused on the B2B ground market.

The FedEx Home Delivery service will reach approximately 50 percent of the U.S. population and is intended to make FedEx Corp. a major player in delivering goods ordered online. FedEx Corp. should be successful in leveraging the reliability of its Federal Express brand to win a share of the home-delivery market. Perception alone, however, is not what its going to take to win in this new B2C market. Driving costs down while at the same time offering competitive and customized delivery options are what it will take for FedEx Corp. to grab marketshare and it appears their recent initiatives are in direct response to the market demand for this. Focusing their service on delivery and

meeting the distinct and unique customer interface requirements of residential customers may propel FedEx into the spotlight of today's home delivery market.

Although UPS distanced itself from residential delivery just a few years ago, the company is believed to be considering a new residential delivery service tailored to the needs of dot-com companies. After delivering 55% of all online Christmas purchases in 1998 (1999 figures have not yet been reported), Big Brown realized the significant upward growth of this market and the corresponding demand for capable carriers. Spending close to a billion dollars annually on their technology infrastructure, UPS is focused on creating efficiencies in the logistics management of their parcel shipping and supply chain management business. Success in the home delivery market necessitates a precise and meticulous operating environment, an environment common to UPS who perfected the usefulness of the time-and-motion study. And what about groceries? UPS has not revealed any plans to consider local same-day delivery of perishables in its big brown "cars", but they are not letting this opportunity go unaddressed either. Through Roadnet Technologies, Inc., a UPS Logistics Group unit, online grocers Albertson's.com, GroceryWorks.com, HomeGrocer.com, and Streamline.com, have each licensed Roadnet's software and hardware systems for delivery routing, vehicle fleet optimization and customer service. Based on their ability to successfully leverage the appropriate technologies, if UPS were to enter into the delivery of "on demand" goods and services, they would pose a significant threat to many new and existing providers.

As the exclusive delivery company of residential letters in the U.S., the U.S. Postal Service has the infrastructure and delivery density to be well-positioned to dominate the B2C space. Under the recently created Expedited/Package Service unit, the USPS has stated it will seek to become the "gateway to the household" in the residential delivery of packages as well. In January 1999 the USPS launched Parcel Select which offers "last mile" residential delivery services to high volume shippers. The product has reportedly been extremely successful and one of the key customers is Airborne Express, which entered into a partnership with the USPS utilizing the Postal Services "last mile" delivery capabilities to launch its own residential product called Airborne@Home. To remain competitive and create a "gateway to the household" for residential delivery of packages the USPS may need to move fast. Competition for the "last mile" is increasing and the Postal Service may need to consider such things as operating dedicated package delivery routes that serve major delivery areas on a schedule consistent with market demands for package delivery.

### **Returns**

E-commerce companies seem to have provided the online shopper the ultimate in convenience and consumer empowerment, until they have to handle those pesky merchandise returns. Forrester reports in a survey of 40 vice presidents of operations from retail, dot-com and manufacturing companies that have an online commerce presence that "shipping out is okay, but returns cause headaches." Forrester cites that nearly half of the respondents can not calculate the cost of returns because many customers attempt to return merchandise to brick-and-mortar stores and that by 2001, only a third anticipate a returns decrease.

E-commerce sites provide little information regarding policies and procedures for returns giving customers little confidence. E-commerce sites often outsource both the

fulfillment and returns process to outside companies creating a series of “hand-offs.” The “hand-offs” result in a series of gaps between the various parties where critical information as well as physical goods can be lost.

As Internet consumers get their feet wet with increased online purchases, they will expect the same dedication to returns that they received in the fulfillment process. The USPS recently introduced its Electronic Merchandise Return Service called [Returns@ease](#), which enables customers to return Internet purchased merchandise quickly and conveniently. The service is simple. After a customer alerts an online retailer of the need to return an item the retailer then provides the customer, via the Web, a merchandise return label. The customer prints and applies the label to the package being returned and the package can is then given to a letter carrier, dropped in a collection box, or taken to the nearest post office. Home delivery companies, as the “hand-off” to the doorstep, will have to manage their customers’ returns otherwise they risk losing the privilege of being considered a family’s “one-stop-shop” of home-delivery and errand services.

### ***Final Thoughts***

E-commerce companies have provided the online shopper the ultimate in convenience and consumer empowerment. Now the race is on to see which residential delivery companies can meet their home delivery and merchandise returns expectations, bringing full circle the complete e-commerce experience. It’s a race to see who provides the best service in “the last mile” as well as in “the “long run.”

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### ***SIDEBAR (if there's room -- I hope there is)***

#### ***The Home Delivery Portal***

Obviously the home delivery of goods and services is a tremendous e-commerce target market, but receipt of those goods and services also presents one of the biggest challenges. While many of “dot-com” companies schedule home delivery around the needs of the customer, other clients may require goods to be left when they are not at home. However, the millions of Americans who use the latest technology to buy and receive over the Internet typically do not have a technologically advanced “mailbox” capable of receiving those purchases. With this market in mind, companies like [Deliverybox.com](#) and [mentalPhysics.com](#) (formerly Smart Box) have moved beyond the concept stage and have experimented with “receptacle” designs and some are seeking design patents.

To meet the diverse containerization needs of home delivered goods, the designs vary in size and may be temperature controlled. For security purposes, some designs have access codes that only the owner and approved delivery company know.

Streamline.com provides its customers with free refrigerators and fits their garages with a keypad entry system for delivery when the customer is not home. An independent receptacle, however, may be required if carriers are unwilling to commingle their delivered goods with another carriers.

There are, however, several physical challenges with these new mailboxes including the size, which is about the size of a small hotel honor-bar refrigerator, and placement. Placement of the receptacle will be relatively easy if you live in a house with a two-car garage, however, it becomes a problem if you are an apartment dweller.

Regardless of the physical challenges associated with these receptacles, this new age of Internet home shopping presents the case for an apparent need for the "home delivery portal." Consumers have computer access to place orders day or night and package carriers like FedEx and UPS as well as the new "dot-com" delivery companies could drive efficiencies further if they have the opportunity to leverage their network and infrastructure to operate 24/7, utilizing current unused capacity.