Time Is Money: Short Delivery Leads Are Crucial in Online Retailing

Whether on your smartphone during your commute or on a tablet while watching TV, shopping anytime, anywhere is the reality of today. The offers online are big, and competition is even bigger. So, which online retailers are managing to stay ahead of the game with customers? A recent study from Kühne Logistics University in Hamburg shows that low prices, short delivery leads and convenient home delivery are the main selling points for online shoppers. And, for the first time ever, there are numbers to prove that consumers are willing to pay more for better service.

A recent study conducted by KLU graduate Tobias Gawor (Manager Last Mile, Hermes Germany) and Kai Hoberg, Professor of Supply Chain and Operations Strategy at KLU, concluded that the total price including shipping fees has been and continues to be the most important criterion for online retail customers. What is more, if prices from competing retailers are comparable, consumers overwhelmingly choose the option that provides the best service, even if this option costs more. The study determined that American consumers spend on average an extra US$3.61 (3€) a day for expedited delivery, and personal travel time for pick-up is valued at US$10.62 (9€) per hour. Thus, the delivery method remains a financially viable service factor, though home delivery is by far the most popular option.

Would reducing delivery time by one day despite higher costs due to the need for local warehouses, larger stocks and express deliveries really be worth it? Would this increase profits? Managers can find answers to these questions for the first time in the KLU study which has presented quantitative consumer valuations of delivery services. “Whoever wants to be a competitive player must be aware of the value any given service has to their customers. Reduced delivery times and increased convenience provide a significant profit potential. Up until now there have been no numbers indicating this,” explains Hoberg.

Four different segments of online consumers

The study identifies four different consumer segments, each with a variety of online shopping demands. They are characterized by similar demographics and a number of variables, e.g. age, education, urbanity and access to transportation. “Ideally, every target group will be able to employ a customized and profitable strategy for all sales channels, e.g. a brick and mortar location or online store. There is no one sales model for every business or customer,” concludes Hoberg.

“Budgeters” make up the largest segment with nearly 50% of the study’s participants falling under this label. Budgeters purchase the most inexpensive option and are willing to endure longer delivery times. “Lead time shoppers”, at roughly a quarter of those represented, seek out short delivery times as well as low prices. The vast majority of “convenience shoppers”, the third largest segment, go for the home delivery option, and “balanced buyers”, the final 10%, appreciate price, lead times and home deliveries equally.
One example from the study shows that online retailers with a large number of lead time shoppers make a profitable competitive gain by offering same-day delivery versus the standard three-to-four-day option. Shoppers from this segment are prepared to pay an extra US$8.08 (7€) per each day saved. This is more than double the amount average customers pay, yet requires a supply chain with huge stocks and decentralized warehouses.

The buying behaviors of 550 representatives from the US online retail market were analyzed in carrying out this study. They were tasked with deciding on which digital cameras, laptops and smartphones to buy from several different online retailers based on a wide range of prices and services. Electronics make up the most important product group in online retail in the United States.

About KLU
Kühne Logistics University – Wissenschaftliche Hochschule für Logistik und Unternehmensführung (KLU) is a private university located in Hamburg's HafenCity. The independent, state-certified university focuses on the areas of logistics and management. With one BSc and three MSc degree programs, a PhD program, and a part-time Executive MBA, KLU offers its 350 full-time students a high level of specialization and excellent learning conditions. In open, customized management seminar series, industry specialists and managers benefit from the application of academic findings to practical issues.

KLU has an international team of 23 professors who teach in English. The programs are oriented toward students from Germany and abroad. Research at KLU is concentrated on the Key Competence Areas of Digital Transformation, Creating Value, and Sustainability for the benefit of transportation, global logistics, and supply chain management.

In 2017, KLU was granted the right to confer PhD degrees, making it one of only 15 among the 117 private universities in Germany permitted to confer their own PhDs. In the newest CHE university rankings, KLU obtained the highest ranking in all major criteria.

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