The delivery dilemma

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In a year that has been completely turned upside down by the covid outbreak, it is hard to look for silver linings. However, while the pandemic has taken a toll on certain industries, others have flourished; for instance, shopping online. From the heart of the developed West in a street in central London, to a suburb in Jakarta in emerging Asia, the sight of a courier carrying a package has become a daily occurrence in most neighbourhoods. But with the volume of deliveries now growing so quickly, we must implement a system to mitigate the effect of these deliveries on the environment. This piece details how we think such a system should be set up.

Even prior to the pandemic, there was an inevitable shift to online purchasing. Globally, individuals have become more tech-savvy and have discovered the convenience of the online channel. Meanwhile, sellers have become more equipped to venture into e-commerce. However, this structural shift has been brought forward by at least a year by the current pandemic. Categories that were previously slow to get on the bandwagon, such as online groceries, have also seen a step up as people across the world embraced the safety (limited human interaction) and convenience (delivered to your door) of online purchasing. This trend is here to stay, and the question then is how do we ensure this widening acceptance of online buying does not backfire on the planet in the form of unsustainable delivery levels?

Daily deliveries have become a norm for many of us

According to a proprietary survey carried out by Deutsche Bank’s dbDIG Primary Research team, consumers all over are purchasing more than they ever have online and they are likely to keep spending at above-average levels going forward (Chart 1). In categories such as fashion, where online penetration has reached nearly 20% pre-pandemic, growth has reached double-digit rates for even the most mature players in the last two quarters.

In online grocery, where online penetration levels were previously around two per cent in developed markets, growth for some players has been in the triple digit range. Our recent survey also tells us that spending is on the upswing as consumers across the globe attempt to return to a more normal lifestyle (Chart 2). However, their spending in online channels does not appear to be abating looking at the third quarter results of several e-commerce players. As a result, the sight of a daily delivery person at your apartment doorstep or in the neighbourhood is a scenario that is unlikely to change; in fact it is only likely to be more prevalent.
Can we think of a better way of structuring this going forward?

For the longest time, there has been a race among several of the larger online players to stay ahead of the competition with the fastest delivery solutions. This was driven by Amazon’s ambition to win customers with almost instant gratification and same-day or next day deliveries with Amazon Prime. It was an inevitable development in order to stay relevant in the eyes of the consumer. However, with the volume of deliveries expanding at such a rate, as consumers, we need to ask ourselves a question: Is this the best solution given the impact on the environment and cities?

According to a study done by the World Economic Forum, published in January 2020 prior to the covid outbreak, the demand for online purchasing would result in the number of delivery vehicles in the top 100 global cities increasing by 36 per cent until 2030. As a result, emissions from delivery traffic is expected to increase by 32 per cent with congestion rising by 21 per cent leading to 11 minutes of extra commuting time for passengers. On the flipside, some studies say online shopping is better for the environment compared with physical retail given, for instance, the emissions you save with fewer trips to the store or accounting for the optimised routes that the larger logistics companies can take. However, there is a very real opportunity presenting itself at this point in time, where we can figure out a better way to ensure that, while online shopping continues to grow, the impact it has on the environment could be made less detrimental.

Funnily, it is the company that created the race to be the fastest deliverer in the market that has inadvertently also created a potential solution. Amazon offers rewards to customers who are willing to be patient and are willing to take the “No Rush” delivery solution in some markets. The reward could be a coupon for a future purchase or reward points. This gives Amazon the flexibility to structure its deliveries in the most cost-efficient manner. In other words, having the highest volumes clubbed together to be delivered to one location. The opportunity is to create a system where the vendors, e-commerce companies and their logistics partners, constantly communicate. Then, consumers can be incentivised to accept a delivery date where the efficiencies are greatest and the emissions are lowest. This would be a win-win for the entire industry.

Incentivise customers to order on a specific date?
How could this work? We imagine a world where, for non-essential items, deliveries are done on certain days for certain postcodes. We imagine a three-way system where the key
stakeholders in the environmental debate and the economic debate communicate, that is the government, e-commerce companies, and the logistics providers in this scenario. For instance, there should ideally be a platform which tracks emissions in cities and communicates on a real-time basis what the ideal dates should be for deliveries to certain postcodes from a municipality’s perspective. This should be communicated to the logistics companies, who could also double check the anticipated volumes on certain dates. This could then be communicated to e-commerce companies which in real-time show consumers options for delivery.

There could be positive or negative incentives to ensure a specific date is chosen. For instance, if Friday is the best date for delivery to the borough of Southwark in London, a positive incentive is a reward for picking that date. If Thursday is the second best date, there could be a smaller reward. Grading rewards in such a way could ensure more volume is sent to a certain postcode in one go by each major delivery provider. We are aware that sometimes the last mile is done by city carriers, but the system we envision has all parties involved. A negative incentive could be charging more for dates where the environmental impact is more detrimental, or there are lower volumes travelling to a particular postcode.

There could be a virtuous cycle in the making

This system makes economic, as well as environmental, sense. If logistics providers can optimise their deliveries (for example with fuller trucks travelling to a certain destination fewer times), it means lower costs which they can pass on to their e-commerce customers who, in turn, can pass it on to their end customers. Ideally, there is a virtuous cycle waiting to be unlocked.

This is by no means a perfect system, and there are certain items that are essential or required urgently which may mean bypassing this system. However, if the objective is to think of how the world could be structured given the new realities we face, we must deal with the inevitable step up in deliveries. We have learnt this year that our behaviour can be changed if the pros and cons are outlined well enough. The move away from instant gratification with our online purchases to a more rational delivery system for the benefit of the environment could be one change in behaviour that could be beneficial for all players involved.

Consumers have started to pick up spending again

Source: dbDIG Primary Research