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Retail economics in the era of one-day delivery

Nitin Chaturvedi, Mirko Martich, and Brian Ruwadi

Retailers can respond by harnessing existing store locations and forging relationships with outside distributors.

In the 15 years since Amazon.com's initial public offering, the expectations and behavior of consumers have changed profoundly. Many of them expect to be able to buy just about anything online and to get it overnight. Distribution economics make the latter expectation a significant challenge for many US retailers: one-day delivery requires more than a dozen strategically located distribution centers that can fulfill online orders, versus just two or three for two-day service (exhibit).

Subscale retailers do have options. For some, third-party fulfillment relationships are becoming critical—these providers not only bring the required network and distribution capabilities but can also help manage the product proliferation that is a natural consequence of rapid online growth. Other retailers, integrating existing brick-and-mortar locations to fulfill online orders, are using stores for pickup and delivery or converting underperforming stores into mini-distribution centers. Meanwhile, these retailers are enhancing the way they share information and integrate inventory across the full network of stores and distribution centers.

Nitin Chaturvedi is an associate principal in McKinsey's Dallas office, **Mirko Martich** is a principal in the Chicago office, and **Brian Ruwadi** is a principal in the Cleveland office.

To offer one-day shipping to all US customers, a retailer would need more than a dozen strategically located distribution centers.