



Retail and Consumer Packaged Goods

Retail optimization

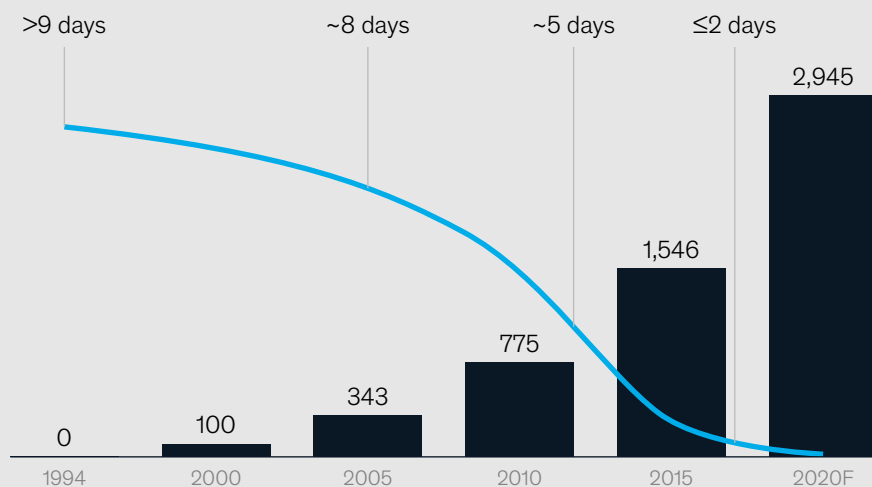
By Manik Aryapadi, Tim Ecker, and Julia Spielvogel

A “new normal” has emerged when it comes to the delivery speed that customers expect in ordering online. The standards have been re-set by the likes of Amazon and several other market leaders, placing increasingly more pressure on incumbent players to respond accordingly. We conducted a broad effort in which we took stock of the current situation, focusing on Europe and particularly, Germany, from both a market and consumer perspective. Our analyses show that although the pressure on incumbent players may appear to be overwhelming, we believe that retailers have a strategic asset they can leverage in the future: their dense store network, which provides them proximity and (potentially) quick access to their customers. But to fully benefit from their network, omnichannel retailers will need to consider changing gears in four areas: the local fulfillment network, quick and integrated IT systems, new store layouts and processes, and a rethink of business economics.

Same-day delivery: Ready for takeoff

In the past 20 years there has hardly been any business success story like e-commerce. And as online sales have surged, shipping durations have gone down.

Amazon's free delivery time



US e-commerce market size
Index (2000=100)

Today, people expect to receive their parcels by the next day. And their shopping decisions increasingly depend on shipping time.

46%

abandoned a shopping cart due to a shipping time that was too long or not provided

Source: UPS

Long delivery times are named one of the key reasons to shop in stores instead of online by

34%

of respondents

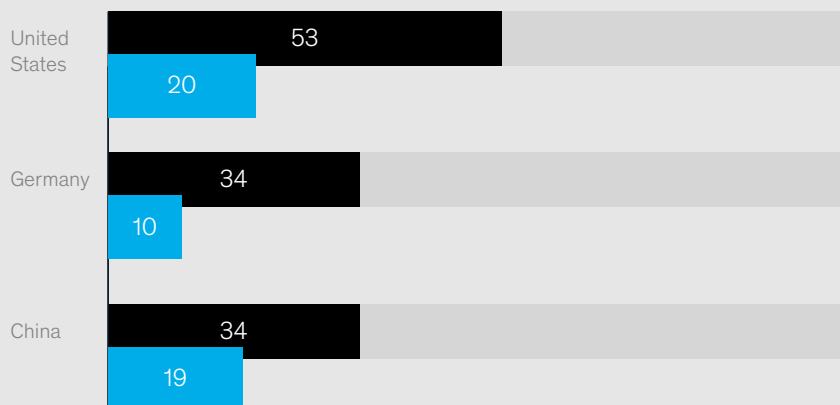
Source: KPMG

But consumers are still not satisfied. Up to half state a general interest in same-day delivery, despite limited willingness to pay > €1 surcharge for that service.

General willingness to pay extra for same-day delivery

Share of consumers in percent, n=4,700 respondents

100%



Willingness to pay > €1 surcharge for same-day delivery

Especially attractive segments that are young, urban, and time-constrained are demanding same-day delivery.

Younger
+13 p.p.¹

base delivery choice mainly on speed and reliability

Urban
+4 p.p.

willing to pay €3 extra for same-day delivery

More time-constrained
+5 p.p.

willing to pay €3 to €5 extra for same-day delivery



¹ Percentage point difference vs overall sample of 4,700 survey respondents across the United States, China, and Germany.

For this reason, e-commerce supergiants Alibaba, JD.com, and Amazon are committed to pushing same-day delivery into the mass market now.

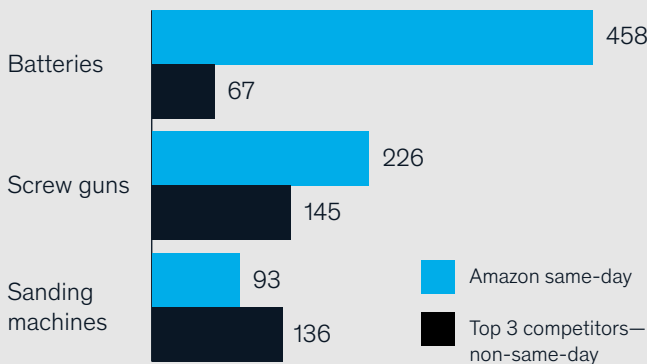
● Testing ● Scaling ● Market standard

		Same-day delivery promise					
		2014	2015	2016	2017	2018	2019
China	Alibaba	●	●	●	●	●	●
	JD.com	●	●	●	●	●	●
Western Europe	Amazon		●	●	●	●	●
United States	Amazon	●	●	●	●	●	●

It is the next building block in their bid to win consumers on selection, price, and convenience.

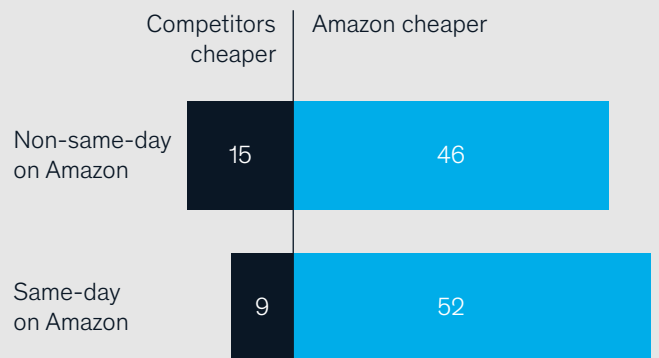
Product selection by delivery speed

Number of SKUs for 3 exemplary product categories



Relative pricing

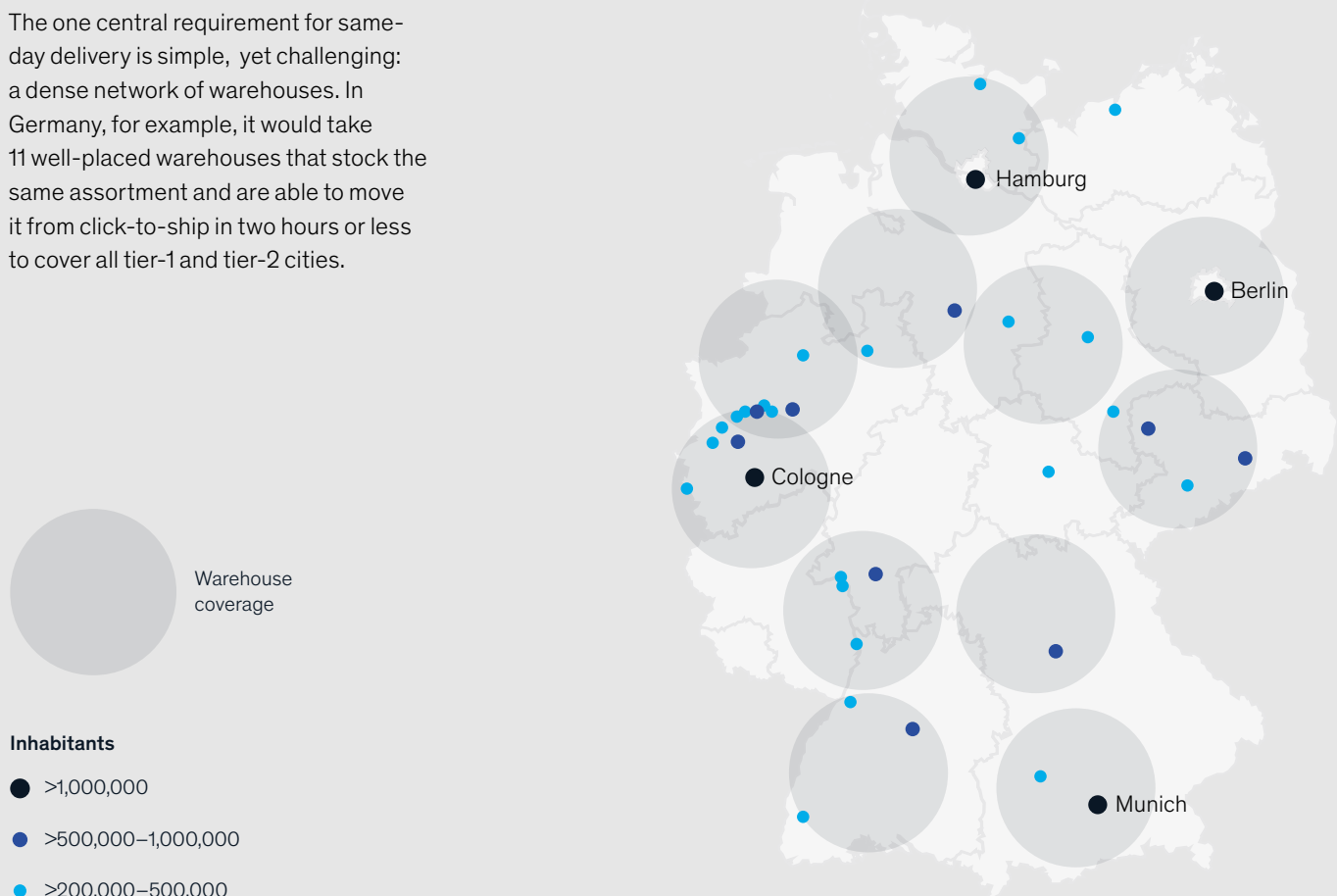
Out of 122 products analyzed



Source: Amazon; McKinsey analysis

Retail stores: The return of a strategic key asset

The one central requirement for same-day delivery is simple, yet challenging: a dense network of warehouses. In Germany, for example, it would take 11 well-placed warehouses that stock the same assortment and are able to move it from click-to-ship in two hours or less to cover all tier-1 and tier-2 cities.

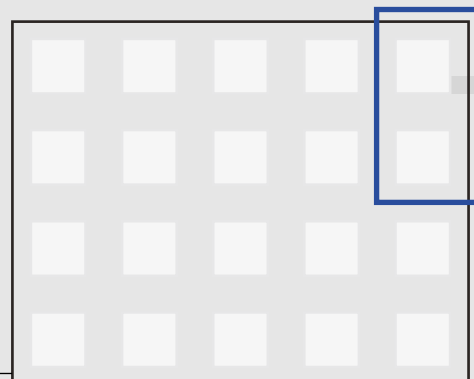


Amazon has a very dense delivery network, putting the industry leader far ahead of almost all other major Western retailers with their same-day offering. For these retailers to catch up, the obvious option would be to invest hundreds of millions of euros or dollars to match Amazon's footprint one to one.

Retailer same-day offering in top 20 cities

Amazon vs top 20 non-food and top 13 grocery retailers

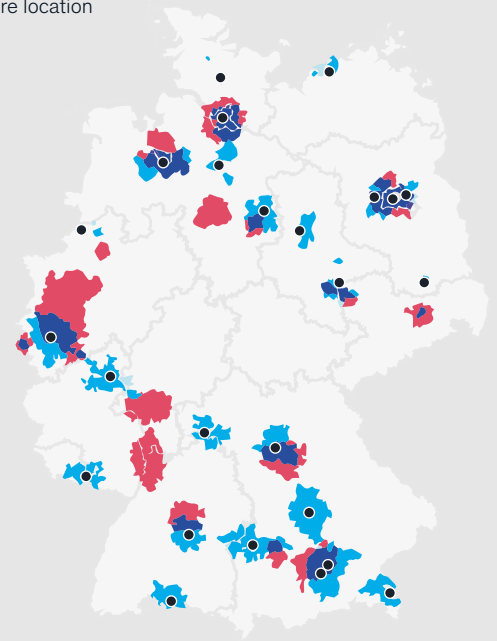
Amazon's same-day shipping promise covers all 20 of Germany's largest cities



The average large retailer covers only 2

But there is a better and much cheaper option for today's fast-growing but still moderate market volumes: retailers should shift the rules of the game and use their existing store networks for same-day shipping.

● Store location



Same-day coverage of relevant population,¹ Amazon vs disguised omnichannel fashion retailer by type of competition, %

28 stores across Germany, covering 5 of Germany's 20 biggest cities

Ongoing testing and buildup of ship-from-store capabilities

	Competition area (Amazon and retailer)	Area at risk (Amazon only)	Retailer monopoly area (retailer only)
Population	22	16	7
Purchasing power coverage	23	17	7

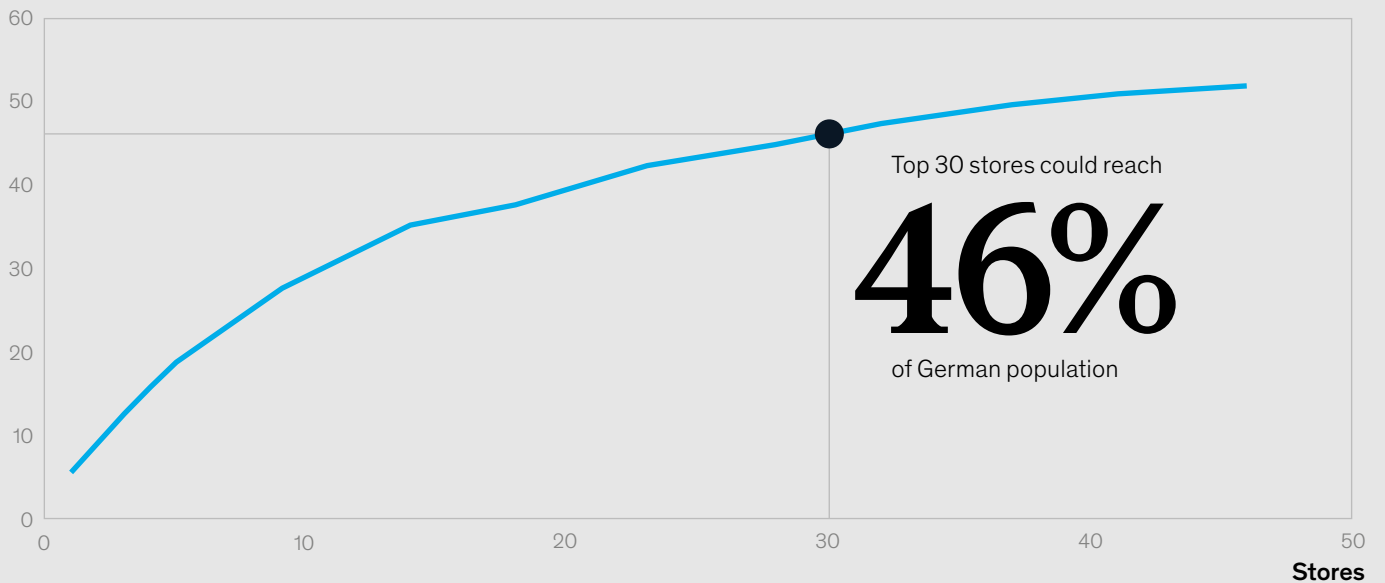
¹ Relevant population areas defined as high density (>750 inhabitants/km²) and/or high income (purchasing power >€21,900 per capita); viable market coverage defined as area within 30 minutes driving time from respective retail location.

Source: Alteryx; BKG; ESRI ArcGIS; MB-Research; McKinsey analysis

Viable market coverage for same-day delivery via ship from store¹

%

In Germany, connecting 30 stores to the grid would be enough to reach almost half the population and come close to matching Amazon's current service offer.



¹ Relevant population areas defined as high density (>750 inhabitants/km²) and/or high income (purchasing power >€21,900 per capita); viable market coverage defined as area within 30 minutes driving time from respective retail location.

Source: Alteryx; BKG; ESRI ArcGIS; MB-Research; McKinsey analysis

This strategy—using existing stores rather than new warehouses—could be the entry gate to same-day delivery for aspiring retailers.

Innovation road map: Four areas for shifting gears

Omnichannel retailers who follow this strategy will need an upgrade in terms of not only fulfillment but also IT and store design, as well as a fundamentally different mind-set in terms of economics.

1. Local fulfillment networks

- Urban fulfillment locations within 90 minutes drive time from customer
- Optimized E2E click-to-ship in two hours or less
- Strong set of last-mile partners that allow for seamless processes

2. Fast, integrated IT systems

- Full inventory transparency across all warehouses and stores
- Direct transfer of order data between web shop and (in-store) fulfillment
- Prioritized picking logic to allow fast-tracking of same-day orders

3. New store layouts and processes

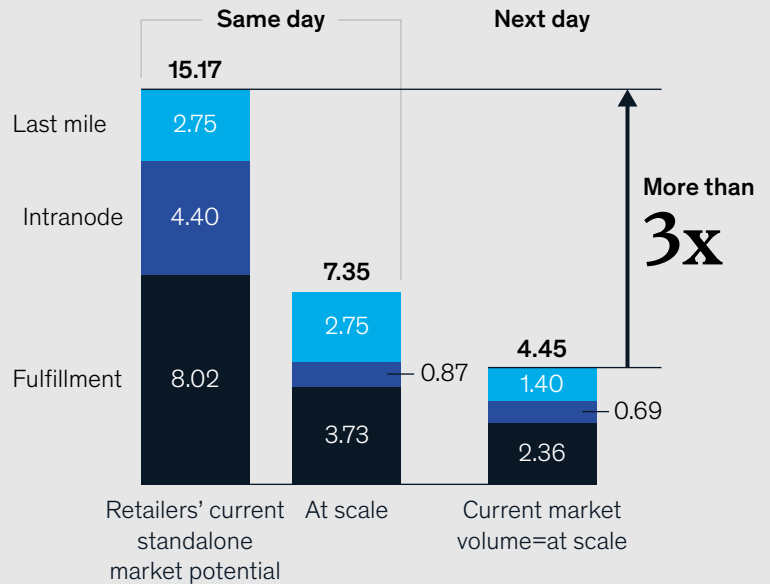
- Dedicated and clearly signed collection and return areas
- Easy-to-navigate back room set up in line with product demand and characteristics
- Sufficiently trained, equipped, and incentivized store staff

4. Rethought economics

- Willingness to bear initial extra costs that can exceed €10 per shipment
- Pressure-tested make vs buy logic along the entire supply chain
- Clear upside aspiration, eg, CLV increase and/or subscription income

Entering the race for same-day delivery can be hard. Most retailers would initially fall way short of the volumes required for at-scale operations and more than triple their delivery bill when compared to today's next-day standard.

Estimated same-day vs next-day delivery costs
EUR/shipment, non-food retail example, Berlin area¹



¹ Includes costs of own warehousing and fulfillment and third-party transport and delivery.

Subscription models can cross-finance shipping costs but require high customer relevance and a broad set of benefits. Retailers that adopt same-day delivery need to explore various paths to monetize their convenience leadership.

	Amazon ¹		Zalando		Other retailers	
Customer GMV EUR p.a.	~550	>1,200	~250	?	~120	?
	Non-prime	Prime	Non-plus	Plus	Regular	Subscribers
Customer orders p.a.	10–15	>25	4–5	?	1–3	?
Membership fee EUR p.a.		110		19		?
Member benefits Selected examples	Same-day shipping ² Video streaming Music streaming Online data storage		Same-day shipping ² Early promotion access Return pickups Personal style advice			?

¹ US market example. All values converted from USD to EUR at FX \$1=€0.91 (rounded).

² In selected regions. Otherwise premium next-day shipping.

Source: annual reports; press research; Statista

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