



WHY PARCEL COMPANIES NEED TO MAKE EVERY DELIVERY SPECIAL

By David Schaar, Jacqueline Govers, Rodrigo Garcia-Escudero, Vladimir Lukic, Mark Zaleski, and Rob Wolleswinkel

PARCEL DELIVERY COMPANIES WERE in a tough spot even before the coronavirus pandemic struck. Then, as online shopping spiked during the lockdowns instituted to curb the pandemic, companies had to scramble to meet increased demand from shippers for residential deliveries. The transition from relatively stable demand to accelerated growth has forced some postal and parcel companies to bring on inexperienced or temporary workers. The crisis also has forced parcel players to institute stricter safety measures to protect both customers and employees. As lockdowns end and regions begin to settle into the new reality, challenges that existed prior to the crisis are likely to return in full force. These include package thefts, traffic in urban centers, and more demand to handle oversized, oddly-shaped or otherwise irregular packages. Such challenges have resulted in less-than-stellar service even as consumers have become conditioned to expect deliveries to be fast and, in many cases, free. At the same time, delivery services are being commoditized, with large shippers such as Amazon,

Walmart, and Alibaba moving closer to becoming competitors.

Parcel players must overcome this precarious position without adding to constrained budgets while simultaneously maintaining strong ties with package shippers. To succeed, we believe they must form deeper, seamless, and digitally-enabled engagement with package receivers by using technology to track where and when consumer and small-business customers want deliveries and offering receivers the flexibility to make last-minute changes as needed. Companies also must empower delivery drivers, giving them ready access to package receivers' preferences among other things, as a way to establish a better rapport. Finally, companies must offer more services, such as managing more aspects of merchandise returns and exchanges.

Taking steps to improve what we call "receiver intimacy" may sound like old news to some players. But many others have yet to start the journey. If they can, then both they and the retail partners

whose shipments they fulfill will benefit. Parcel companies that can't create this virtuous cycle could find themselves losing market share and, in the long run, watching the future of the industry pass them by.

The E-Commerce Effect

In the past decade, digitization has been the driving force behind the rise of e-commerce, the proliferation of groundbreaking technologies, and dramatic changes in customer expectations, all of which have reshaped parcel delivery services. At the same time, the delivery business has been disrupted by an onslaught of new rivals, including e-commerce giants and digital-native startups.

In many cases, performance at traditional parcel and package delivery companies has failed to keep up with consumer expectations. In an analysis of 500 online reviews of global parcel companies, we found that 219 included complaints about inaccuracies in package drop-off locations. The reviews also included 181 mentions of how complaints were handled. Such service issues threaten to tarnish the industry's image as trustworthy and reliable, two characteristics upon which parcel companies have long relied for a competitive edge.

Meanwhile, e-commerce players such as Amazon and Alibaba have used their considerable size and financial clout to establish logistics and delivery operations in order to create a seamless experience from shopping to unboxing, cutting into traditional package delivery companies' market share. E-commerce companies' superior capitalization has enabled them to spend more on strategic initiatives. Their origins as online platforms gave them a head start over incumbent parcel delivery companies as digital took on a larger role in the e-commerce supply chain.

Increased competition from e-commerce players and digital-native startups has pressured parcel companies' financials. From 2014 through 2016, total shareholder return for two-thirds of the parcel companies we analyzed outperformed

local stock market indexes. Since then, shareholder return for three out of four of those companies has fallen below the same indexes.

Parcel companies must address changing industry dynamics before conditions get worse. In their favor, they have considerable attributes that they can deploy to strengthen their relationship with receivers. The most significant of these are a substantial physical distribution network; high delivery density; efficiently run, large-scale operations; and healthy international connections that facilitate the smooth flow of goods across borders. In addition, incumbent parcel companies have solid, long-standing relationships with many small and large shippers and extensive data on order patterns and receiver preferences culled from decades of deliveries. They also benefit from being on people's doorsteps all the time, in some cases every day, giving them a solid base upon which to build a better data-enabled personal engagement with those receivers.

Creating a Virtuous Cycle of Receiver Intimacy

Traditionally, parcel companies focused on cultivating relationships with shippers and prioritized increasing density to reduce costs. This allowed them to attract new shippers, which further increased density and so on.

The fundamental economics of the business haven't changed: cost is and will be the dominant driver in the industry. But as we previously pointed out, e-commerce players have reset receivers' expectations for deliveries, and their exponential growth is driving a fundamental shift in the market. Those expectations play a substantial role when consumers choose which online retailers to patronize and what to buy. If a consumer has a bad delivery experience with an online retailer, it could lead them to shop elsewhere.

If parcel companies can broaden their operations to cultivate closer connections with receivers, it could benefit their

existing relationships with shippers and increase receiver intimacy. (See Exhibit 1.)

How does this work? When a parcel company takes a receiver's preferences into account, the number of attempts needed to successfully deliver a package decline. Successful deliveries lead package receivers to feel more confident about making purchases online, which leads to more online purchases and, therefore, more package deliveries. And a higher volume of package deliveries can lead to lower delivery costs, as well as more data on receiver behavior that can be used to fine-tune operations and plan other services.

How to Cultivate Receiver Intimacy

Parcel companies must use their existing advantages, along with technology innovation, to create a more seamless delivery experience. We have identified five ways they can put those resources to work today. (See Exhibit 2.)

We believe that the first three steps—offering individually tailored touch points, simplifying returns, and building a personal connection—will become standard practice for all successful industry players. The last two, adopting sustainable delivery

practices and rewarding receiver loyalty, are more likely to be adopted initially by emerging companies that are digital natives and need an edge to separate themselves from the competition, but eventually they could be adopted by any companies that want to move to the head of the pack.

Offer individually tailored touch points.

Parcel companies can analyze historical orders and receiver preference data to offer flexible delivery options, including where and when a package is dropped off. For example, a parcel company could use a receiver's order history to suggest delivering a package to their office or a secure package locker during work hours, or to their home during evenings or weekends. They could also coordinate with the receiver to drop off multiple packages at the same time. During times of crisis such as the COVID-19 pandemic when many people have shifted to working from home, carriers could redirect deliveries that normally would have been made to an office.

Carriers such as UPS, DHL, and Hermes already offer such personalized service. Package receivers who sign up for the services can leave instructions for where a parcel should be left—on the back porch, for instance, or in their apartment building's

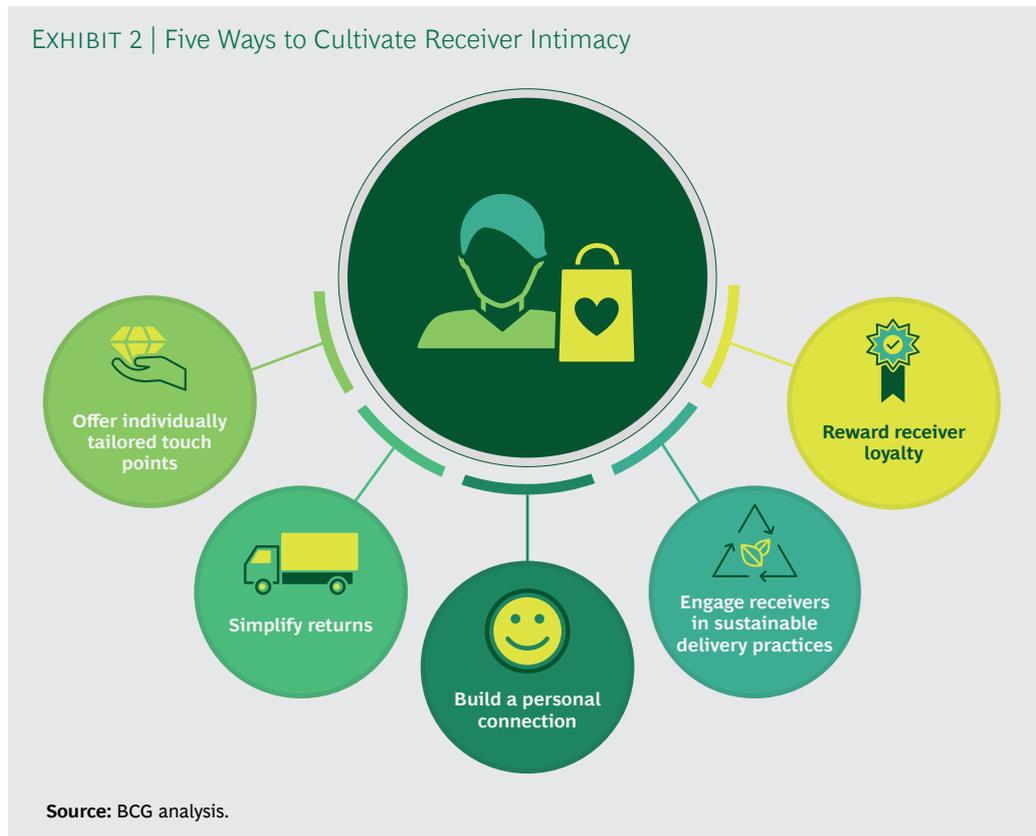
EXHIBIT 1 | Receiver Intimacy Unlocks a Virtuous Value Cycle

More efficient, individualized deliveries improve outcomes for parcel players and their shipping partners



Source: BCG analysis.

EXHIBIT 2 | Five Ways to Cultivate Receiver Intimacy



storage room. Most alerts include an estimated delivery-time window, or receivers can pay a small fee for guaranteed drop-offs within a specific period of time. If receivers know they will not be home, they can reroute a package to their office, a neighbor's home, or a designated retail location.

Simplify returns. To solidify their relationship with receivers, companies should assume more responsibility for aspects of merchandise returns. Those activities could include sending alerts to receivers when the return period for something they ordered is about to expire, offering return labels and packaging, and inspecting merchandise to make sure that it fits the shippers' return policies. Parcel companies could consider offering such a service themselves or through a third-party partner.

Build personal connections. Parcel companies can use technology to optimize the connection with receivers at a competitive cost. To create a seamless experience, they can assign delivery personnel to regular routes so receivers recognize them. They also can use technology to give

receivers real-time information about a package's delivery status, and provide drivers with data on receivers' preferences so that when they're making a delivery to new parents, for instance, they know not to ring the doorbell.

At the same time, companies can take a cue from ride-hailing services and offer receivers mobile apps that provide information about the driver who'll be delivering a package. Companies might consider empowering drivers to take the initiative when something about a delivery isn't right, for example, authorizing them to waive a delivery charge if a package doesn't arrive within the guaranteed window.

To incentivize delivery personnel to provide the best possible service, companies should compensate them on parameters such as receiver experience and not just on the quantity of packages delivered. Companies and regulators must also ensure that delivery personnel are treated fairly, including offering competitive compensation, a safe work environment, and training on relevant skills, whether those personnel are full-time

employees or contractors. This could reduce turnover, which in turn would lower hiring and training costs, and retaining experienced personnel could help manage increases in package flow.

Engage receivers in sustainable delivery practices. Parcel companies that want to set themselves further apart from the competition could take additional steps to appeal to package receivers while also enhancing their bottom line. One way to accomplish this would be by taking advantage of consumers' growing interest in sustainability. Parcel companies could, for example, offer receivers the option of grouping deliveries together to minimize fuel consumption, which would also cut delivery costs. To do this, they would need to secure receivers' permission to deliver orders from multiple senders at the same time or to deliver orders to a drop-off location in their neighborhood.

Depending on where they operate, parcel players could also offer receivers the option of paying a small surcharge to have orders delivered on an energy-efficient vehicle. Companies could also reduce packaging or use packaging that can be reused or recycled. SF Express, a Chinese parcel delivery company, offers a recyclable delivery box that can be used up to 50 times, with a carbon footprint that is less than 10% of that of single-use cardboard boxes.

Reward receiver loyalty. To make themselves more appealing, companies should consider finding new ways to cater to receivers. One option: loyalty programs that reward receivers for behaviors that benefit both themselves and the delivery company, such as opting to have packages delivered to a package locker, or being home when a package is due to be delivered.

Market conditions vary considerably by geography, so the steps a company takes to improve receiver intimacy will depend on where they operate. In some parts of the world, homes don't have assigned street addresses, while in other areas deliveries are made to specific GPS coordinates. In some areas, making deliveries to parcel

lockers is common practice, while in other places packages are routinely dropped at a consumer's home or a business office. Whatever steps companies take to improve receiver intimacy must take into consideration what is possible, acceptable, or attractive in the markets they serve.

Taking Other Actions Across the Organization

As e-commerce giants expand and late-stage startups attract investments for digital innovations, parcel companies can't wait. They must strengthen receiver intimacy and support that effort through related actions, including upgrading their supply chain, building digital capabilities, and solidifying partnerships in their delivery ecosystem.

Future-proof the supply chain. To provide the delivery experience that receivers want, companies need to build out or improve their existing supply chain and the technology architecture that supports it. They need to move away from running experiments around the fringes of their supply chain, and ramp up services that are relevant to specific geographies or customer segments. They also need to use existing resources more efficiently, including leveraging scale in order to combine multiple parcel orders into a single delivery point, thereby increasing package-delivery density.

Build and deploy digital capabilities. To bolster their core business, companies need to adopt digital innovations for functions such as finance and human resources. They may need to outsource noncore functions, such as implementing a new CRM system, to free up internal resources for supply-chain capabilities that are specific to parcel delivery, such as research and development of dynamic-routing algorithms and autonomous delivery vehicles.

Team up. Parcel delivery companies may need to expand their delivery ecosystem through partnerships with other businesses to provide a more seamless e-commerce and shipping experience for

receivers than they could generate on their own. Parcel companies need to strategize in advance with retailers and other existing shipping partners on the steps that they can take together to boost receiver intimacy. In addition, parcel players could partner with tech startups, which could provide the latest digital platforms and know-how to help them scale their digital capabilities. Finally, parcel companies could team up with international partners for help untangling cross-border issues. These partners could also share in investments, such as in last-mile delivery technologies.

THE FUTURE OF the parcel industry is being shaped today. Many companies with a vested interest in deliveries are taking action, including long-time retailers, e-commerce giants, startups, and grocery chains with large online footprints. Parcel players must make sure that they are driving the future, rather than being led. If not, they could find themselves relegated to serving as mere delivery mechanisms, which could further depress revenue and margins. By taking the steps we've outlined to build receiver intimacy they give themselves a better chance for success. But they need to act now.

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