The Need for Multispeed and Sustainability in Retail’s Last Mile

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Initiatives: Supply Chain Customer Fulfillment and Collaboration

Consumers are starting to express increased concern about the environmental impact of retailers’ shipping practices and are seeking slower, more sustainable options. This research advises retail supply chain leaders how to create a more sustainable, multispeed supply chain for order fulfillment.

Overview

Impacts

- Many retailers, swayed by the faster order fulfillment services offered by leading competitors, are exerting pressure on their supply chain operations to fulfill orders more quickly. This can cause them to measure success based on fulfillment speed rather than on meeting their own consumers’ wider customer experience demands.

- Consumer concerns about the environmental impact of faster order fulfillment, barely reported on until very recently, have gathered significant momentum and now challenge many retailers to revise their fulfillment operating model.

- Consumers crave convenience, but too often retailers have interpreted this to just mean speed of order fulfillment. Emerging insights from consumers are defining convenience as meaning order fulfillment on their terms, forcing retailers to offer services such as order consolidation and slower fulfillment speeds.

Recommendations
Supply chain leaders responsible for customer fulfillment should:

- Ensure that their consumer order fulfillment operation meets the needs of their specific consumers rather than just following market fulfillment speed trends. Work collaboratively with customer service functions by canvassing consumers to clearly understand their fulfillment requirements.

- Strengthen your brand and appeal to consumer environmental concerns by offering sustainability-related fulfillment services.

- Develop a wider range of order fulfillment services by balancing the continual shortening of order fulfillment lead times with the introduction of longer than current lead times coupled with incentives for their uptake. This allows consumers to have orders fulfilled on their terms.

**Analysis**

In recent years, the retail industry has become obsessed with reducing fulfillment lead times for orders from online shoppers. In some cases, this path has been taken by retailers that have chosen to follow market trends and actions of high-profile retailers rather than to comprehensively canvas the opinions of their consumers, around which they could build fulfillment strategies (see Figure 1).

By failing to obtain a clear signal of consumer requirements, many retailers have instead taken their lead from the activities of their competitors and the wider market.

In doing so, retailers have based the design of their fulfillment operations on an assumption that a consumer’s sole desire is to receive orders more quickly. This has created an unchallenged race toward fulfillment speed becoming the dominant barometer of retail operational excellence.

While this race has been taking place and more retailers decide to join in, consumer sentiments toward fulfillment speed have been changing. Retailers that failed to receive a clear consumer mandate and have become blinded by the need to fulfill faster and faster are now even more detached from the shifting demands of their consumers. These shifting demands have seen the emergence of two new key requirements that conflict with the current operating models of many retailers, forcing retailers to:

- be more environmentally sustainable in their fulfillment operations.
offer an extended array of slower and more convenient order fulfillment speeds, particularly if the retailer incorporates shopper incentives/benefits into these options.

The evidence for these new requirements comes from recent research publications highlighting a series of new consumer sentiments. In recent years, these sentiments have not made significant headlines, either because they failed to gain traction or because consumers were not being asked the sorts of questions that they are being asked today.

Now that consumers’ opinions about alternatives to speed and their environmental concerns are being voiced, it is clear their sentiments have been quietly building strength.

The UPS Pulse of the Online Shopper 2019 report canvassed the opinions of 18,000 consumers across 15 countries. It found that:

- 51% of shoppers will consider cheaper but slower shipping alternatives, with 38% open to being incentivized to accept slower shipping lead times.

- 35% of shoppers will consider receiving multiple orders in a single consolidated delivery.

- 22% would be open to simply being asked if the order was required right away.

Additionally, Accenture’s 2019 Annual Holiday Local Shopping Survey surveyed 1,500 consumers across 17 major U.S. cities and drew similar conclusions to the UPS report in its findings. They include:

- 50% of shoppers are willing to opt for “greener” delivery options; that is slower shipping lead times or in-store pickups in order to protect the environment, with 34% of shoppers being unaware of the negative environmental impact of today’s shipping operations.

- In order to reduce paper usage, 64% of shoppers are willing to receive nonwrapped gifts, with 50% being prepared to send nonwrapped gifts.

- When considering from which retailer to purchase, 47% of respondents stated that it is extremely important or very important for retailers to demonstrate environmental awareness.

Within the food industry, initiatives such as the GLAD (green last-mile delivery) in Europe are supporting a more sustainable way for food home delivery to be tailored to consumer needs and objectives.

The concept behind GLAD is to develop both a strategy and a platform that helps make the last mile in food e-commerce sustainable and adapted to consumer needs while taking into account
the economic reality of retailers’ competitive goals. The platform offers last-mile delivery as a service where consumer demand is matched with the offering of different transport means — collection points, e-trucks, bikes and even delivery by other consumers. The platform will use an algorithm that optimizes the mode of last-mile delivery taking into account the ecological footprint, cost to serve, available capacity, traffic data and consumer preferences. Dynamic pricing will be tested at consumer level to increase sustainable behavior.

**Figure 1. Impacts and Top Recommendations for Retail Supply Chain Leaders**

<table>
<thead>
<tr>
<th>Impacts</th>
<th>Top Recommendations</th>
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<tbody>
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Source: Gartner (November 2019)
ID: 402777

**Impacts and Recommendations**

**Many Retailers Are Pressuring Their Supply Chain Operations to Fulfill Orders More Quickly**

It seems that all retailers are looking over their shoulder at Amazon. Analyzing their service offerings, noting their latest shorter order fulfillment option and generally feeling that unless they
can somehow match Amazon, their success, and in some cases their existence, is at risk.

The largest retailers are already rolling out rapid fulfillment offerings to compete head-on with Amazon — companies such as Walmart, Target and Best Buy. For everyone else, the concerning aspect of strategies and tactics being aimed primarily at competing with Amazon is that the opinion, views and voice of the consumer can get lost in the noise of the battle with these giant competitors.

At Gartner, we witness this retailer versus Amazon battle firsthand and up close. Fielding hundreds of inquiry calls from our clients, the question of “how can I go as fast as Amazon?” dominates our discussions about supply chain fulfillment operations. The underlying assumption being made by retailers in these discussions is that all consumers care about are fast fulfillment speeds and Amazon already offers these.

Another outcome of these client calls is that only about one in five retailers we speak with have the required level of insight into their consumer fulfillment desires. Obtaining a clear mandate from their consumers provides a more valuable input into a retailer’s strategy than one based too strongly on market trends and competitor activity. Simply copying a competitor’s activities in the area of last-mile fulfillment speed runs the risk of copying retailers that have also not obtained the required clarity of a consumer mandate.

Such a mandate needs to be captured through formal consumer engagements, such as focus groups, online forums, questionnaires and ongoing and open dialogue across store and digital channels. Many retail organizations already have data on these requirements in their personas and respondents to Gartner’s 2017 Customer Experience in Marketing Survey indicated that 94% have personas and 88% have journey maps in place in their organizations; these tools are a great place to start.  

It is crucial for a retailer to strategically develop a range of consumer experiences and to deliver them into the shopping experience in a sequence related to their importance to consumers.

Recommendations:

- Ensure that your consumer order fulfillment operation meets the needs of the specific consumer — rather than following market trends — by canvassing consumers to clearly understand their fulfillment requirements.

- Obtain a mandate from your consumers by engaging with them to understand their priorities and demands from your company. Use this insight as the bedrock of your strategy.
Consumer Concerns About the Environmental Impact of Faster Order Fulfillment Have Gathered Significant Strength

Thanks to high-profile awareness campaigns, consumers today are increasingly concerned about global society’s use of plastics, paper and landfill-destined materials. Consequently, many have a clear perception of their responsibilities to take action to reduce their use of these materials and are becoming more selective and measured in the choices they make. They are also placing demands on retail organizations to be transparent about their environmental objectives and to demonstrate progress toward this achievement.

This pressure is forcing the retail industry to do more than just offer competitive products, an acceptable consumer experience and fast order fulfillment. It compels retailers to view their consumers as having different emerging reasons to be loyal and to recognize that consumer beliefs and obligations toward environmental sustainability must be met.

Packaging materials and solutions provider, stated that 64% of global consumers would consider changing brands to one that provides a more sustainable packaging choice. ⁵

The survey also revealed that 72% of consumers would be prepared to pay more for a product that is packaged in a sustainable way. Additionally, 44% of all European e-commerce shoppers stated their willingness to pay an extra fee to get packaging that fulfills their wishes: easy to recycle, easy to return unwanted goods in and easy to reuse.

Creating sustainable packaging requires retailers, their manufacturers, suppliers and logistics providers to collaborate across the supply chain to achieve common sustainability goals.

In September 2019, online fashion retailer Zalando launched a pilot to test reusable packaging for the delivery of customer orders with RePack, an enterprise that gained traction following a successful stint in Fashion for Good accelerator program. All told, 10,000 customers in Finland, Norway, Sweden and Denmark will receive their Zalando orders in reusable shipping bags. This reduces packaging waste by using the same packaging repeatedly for shipping and returns. ⁶

Forward-thinking retailers must look beyond survey report outcomes to gauge consumer sentiment about sustainable packaging and put in place their own trials to test and validate consumer behavior in this area.

Recent Gartner research “Engaging With Sustainability-Minded Consumers”
stated that while 71% of consumers consider the environmental impact of their purchases, 30% of consumers surveyed in 2018 couldn’t name a socially responsible company. This suggests the payoff for prioritizing green with the general market remains a long-term strategy. For now, smart companies would be wise to stay focused on consumers who truly value the environment and are already loyal green customers. We identify them as green-driven consumers. They represent 37% of U.S. consumers and make protecting the planet the center of their purchasing decisions.

The research note also stated that unlike most consumers, green-driven consumers are more likely to support efforts aligned to environmental programs and they’re nearly three times more likely to do business with brands committed to the environment. They are also willing to share their knowledge when talking with family and friends about the state of the environment or contributing their opinions on social media. And they are more likely to take the time to look for labels establishing environmental impact (see Figure 2).

**Figure 2. Percentage of Consumers Who Say They Have Participated in the Following Behaviors**

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**Percentage of Consumers Who Say They Have Participated in the Following Behaviors**

- **Donated goods or money to an organization with a social cause or environmental programs**
  - Green-Driven Consumers: 44%
  - Rest of Population: 26%

- **Purchased from companies that are committed to positive social or environmental impact**
  - Green-Driven Consumers: 34%
  - Rest of Population: 13%

- **Promoted social or environmental causes among family and friends**
  - Green-Driven Consumers: 33%
  - Rest of Population: 12%

- **Checked packaging labels to ensure the product or service has positive social or environmental impact**
  - Green-Driven Consumers: 31%
  - Rest of Population: 11%

*Base: U.S. consumers 15+
Source: Gartner Consumer Values and Lifestyle Survey, October 2018
ID: 402777*
The 2030 Agenda for Sustainable Development, adopted by all United Nations member states in 2015, provides a shared blueprint for peace and prosperity for people and the planet, now and into the future. This initiative incorporates 17 sustainable development goals (SDG) covering issues such as poverty, protecting the planet and ensuring social and economic prosperity. The objective of one specific goal is to achieve sustainable consumption and production patterns. Managing the use of packaging within supply chains is a key activity toward supporting the realization of this goal.

This increased focus on sustainability leads regulators, consumers and investors to consider transportation changes that drive a reduction in the carbon footprint. There are numerous ways to achieve this. However, limiting harmful emissions from diesel trucks provides the most impactful and immediate opportunity. Canadian grocery retailer Loblaw is already working toward this goal by committing to fully removing diesel in favor of an electric fleet by 2030. Removing diesel from its transport trucks and refrigerated diesel trailers could reduce more than 94,000 tons of carbon dioxide emissions annually, the equivalent of removing 20,000 cars from the road.

Growing global sentiment to reduce the use of trucks that run on diesel fuel puts a stronger focus on the use of alternative fuel vehicles. California, for example, has set a goal of having 100,000 zero-emissions freight vehicles in operation by 2035. While not a mandate, it does factor into the state's mandated clean energy laws.

Trucks powered by diesel fuel move approximately 90% of the 10.4 billion tons of freight transported in the U.S. each year. Nearly all highway freight trucks are powered by diesel fuel. Diesel trucks are also the primary method for transporting goods in Europe. However, that is set to change over the next several years.

Globally, discussions to reduce the use of diesel trucks are underway in China, Germany, the Netherlands and India. With a goal to increase clean air standards, separate initiatives to ban all diesel vehicles by 2025 are also underway in Paris, Madrid, Athens and Mexico City. Politicians in London face pressure from environmental groups to implement similar action. The global model is Tokyo, which banned diesel vehicles in 2003.

Recommendation:

- Strengthen your order fulfillment process to appeal to consumers’ environmental concerns by offering sustainability-related fulfillment services.

Emerging Insights From Consumers Are Defining Convenience as Meaning Order Fulfillment on Their Terms

The link between speed and cost of fulfillment has been universally followed by the majority of
retailers in the shipping policies they offer to consumers. Consumers wishing to avoid fees typically have to either order up to a certain value or accept the longest available lead time to qualify for free shipping. Even retailers that do not offer free shipping still offer a reduction in shipping fees as their range of order fulfillment lead times increases.

Weaned on programs such as Amazon Prime, consumer expectations of order fulfillment speed continue to grow. Even though not expecting to receive an order the same day, 61% of American and 55% of European shoppers expect that order placed by noon will be eligible to be shipped by the retailer that day. In Asia, expectations are even higher, with 64% expecting that an order placed as late as 9 p.m. would still be eligible for shipping before the end of that day. 12

For many retailers, meeting such expectations at scale on an ongoing basis is not easily achievable without significant supply chain development. This would involve their network of distribution centers and stores to have same-day or overnight shipping capabilities and a transportation infrastructure to support the delivery of orders. Even if limited to urban areas, only a minority of retailers could profitably establish this kind of service today.

Until very recently, retailers that could not orchestrate their supply chain operations to meet consumer expectations for faster deliveries without increasing their costs would have considered themselves to be uncompetitive. However, with consumer desires for fast fulfillment now shifting to some degree toward alternatives, retailers adding slower lead times to their portfolio of services can actually gain a competitive advantage over others in the market.

As consumers increasingly factor in the environmental impact of fast fulfillment and being open to slower alternative fulfillment speeds, new opportunities are emerging for retailers to offer consumers greater convenience of delivery on their terms, rather than the retailer’s.

One possible solution could be to incentivize consumers to wait longer than they are accustomed to by offering them services that are not prevalent today:

- Tiered price discounts on the value of the order being placed in return for consumers choosing slower delivery lead times than typically offered today. This would mean consumers agreeing a specific delivery date in the next two or three weeks rather than accepting the current norm of 4-7 days and then receiving confirmation of the actual delivery date perhaps the day before delivery.

- Discounts on future purchases or loyalty card points in return for choosing slower deliveries.

- Offering a free delivery service based on the consumer selecting a nominated delivery date further in the future than a retailer’s current delivery window.
Adding complementary items to the consumer’s order as a recognition for choosing an extended delivery date. This could mean free socks with a shoe order, a free camera bag or discounts on photography lessons or books with a digital camera purchase, for example.

Consolidation of multiple orders into a single delivery. This would appeal to consumers who purchase very frequently from the same retailer, providing the added sustainability benefit of reduced delivery transportation, reduced packaging and the greater convenience of a single rather than multiple deliveries.

All of the above redefine convenience and value away from fulfillment speed and toward a service of which the consumer has greater control. In doing so, retailers will adopt the definition of convenience that is shared with the consumer — order fulfillment on their terms.

Recommendations:

- Develop order fulfillment services that have the widest appeal to all consumers by balancing the continual shortening of order fulfillment lead times with the introduction of longer than current lead times for consumers requiring greater choice and convenience.

- Challenge those in your organization to test such concepts if they feel that they are going against the direction of the market or a perception about consumer desires. The concept of slower fulfillment is an addition to current speed offerings. Therefore, take the opportunity in a controlled trial to determine the consumer reaction in some markets.
Evidence

1. "UPS Pulse of the Online Shopper," UPS.

2. "Most U.S. Shoppers Expect to Spend as Much or More This Holiday Season Than Last Year, With Many Turning to Physical Stores for Inspiration, Accenture Survey Reveals," Accenture.


4. Gartner's 2017 Customer Experience in Marketing Survey. This study was conducted using a mixed methodology — online and computer-assisted telephone interviewing (CATI) during June and July 2017 among 280 respondents in North America. Respondents were required to have involvement in customer experience (CX) programs and initiatives.


# Recommended by the Author

- How to Pursue Green Transportation Options to Satisfy Corporate Social Responsibility Goals
- How Offering Consumer Discounts Could Transform Retail Last-Mile Fulfillment
- Engaging With Sustainability-Minded Consumers
- Supply Chain Brief: Identify Strategic Risks and Opportunities With the U.N. Sustainable Development Goals

# Recommended For You

- How Retailers Can Master Buy Online, Pickup in Store
- Supply Chain Brief: Grocery Retail Microfulfillment Centers Are Emerging and Are More Than Just Hype
- How Offering Consumer Discounts Could Transform Retail Last-Mile Fulfillment
- The Customer Fulfillment and Collaboration Director's First 100 Days
- Fulfillment Forecasting: The Key to Optimizing Retail Inventory Positioning

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