7bridges

Holiday Horror?

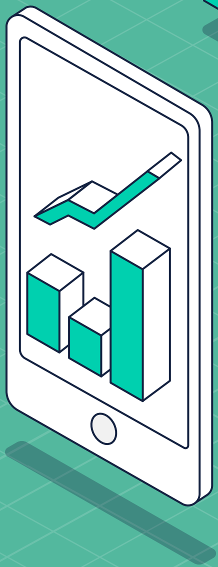
How to avoid the trading pitfalls
of a COVID Christmas

New research commissioned by 7bridges[1], together with recently published research from the ONS and BRC[2], raises the spectre of a perilous situation for businesses in the coming festive season (Black Friday, Cyber Monday, Christmas, New Year, Chinese New Year).

The opportunity of clawing back vital revenue in 'golden quarter' sales may be lost by many businesses through an inability to reach consumers and satisfy demand shifting to online shopping. After depressed trading since the beginning of 2020, this poses a real threat to the survival of brands that do not fully exploit the seasonal opportunity.

But if they act now, businesses still have time to minimise risks and even position themselves to benefit from the difficult trading conditions.

[1] Data from YouGov plc. collected between 27/8/20 and 1/9/20. Total sample size: 2,330 adults
[2] Office of National Statistics (ons.gov.uk) and British Retail Consortium (brc.org.uk)



In this white paper

Insight into:

- Changes in shopping patterns since the start of the pandemic
- Ability of businesses to fulfil demand during this period
- Preparedness of businesses for the next phase and the ‘golden quarter’
- The relationship between consumer spending and logistics experience

What businesses face in the coming quarter

August 2020 footfall in non-food stores, compared to 2019

-35%

for stores in the UK[3]

-45%

for stores in London[3]

The likely scenario for retailers:

- High-street sales plummet
- Online sales rise sharply but logistics costs hit margins
- Consumers default to the dominant platforms (like Amazon) for their shopping
- The dominant platforms suck spend away from high street brands

How can brands respond to this threat?

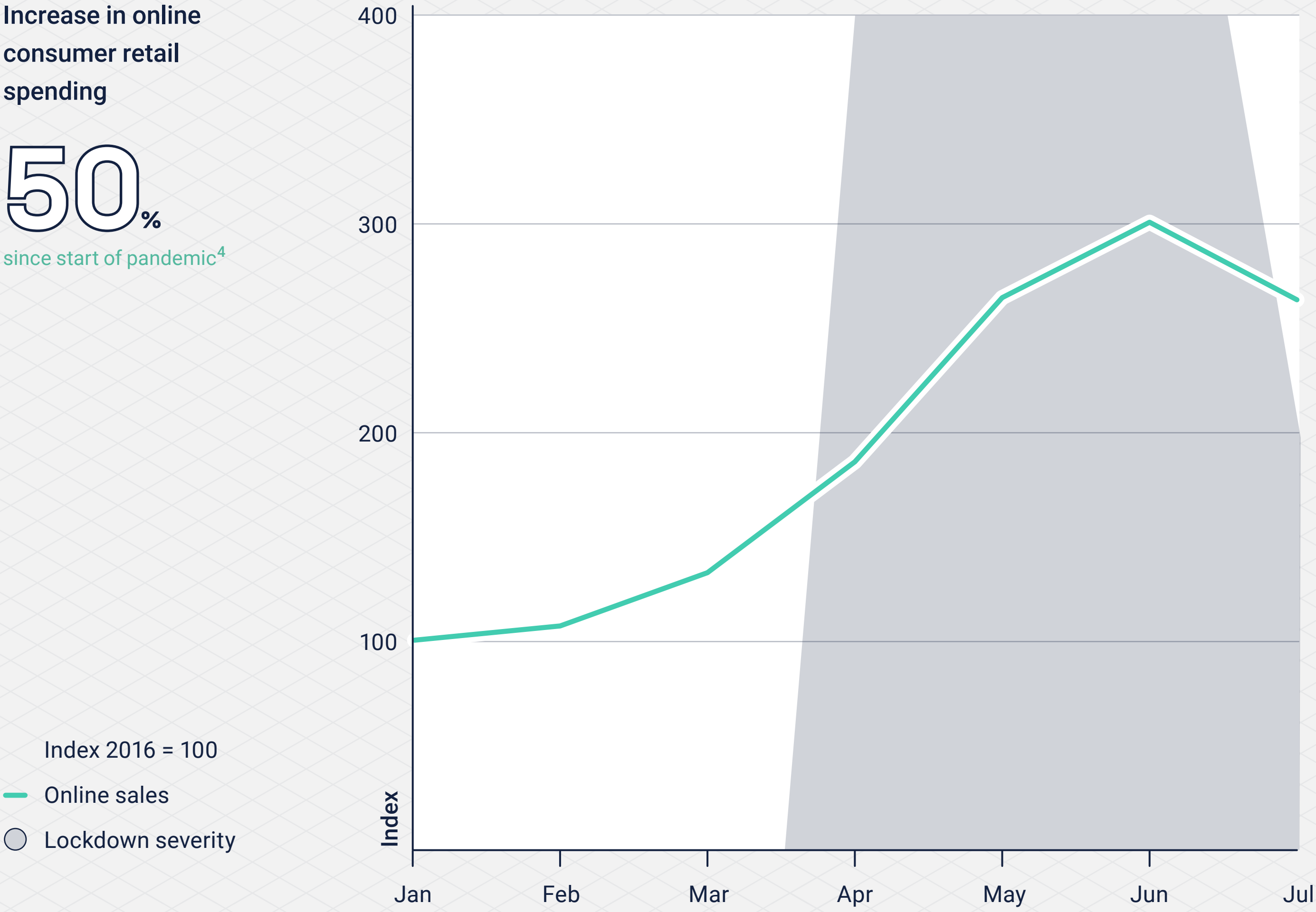
- Re-purpose high-street stores to improve online sales fulfilment and offset costs
- Gain control over profit-killing logistics costs of online sales
- Improve online consumer experience to compare favourably with dominant brands
- Diversify supply chains to protect against COVID disruption

Online sales spiked sharply during the first lockdown

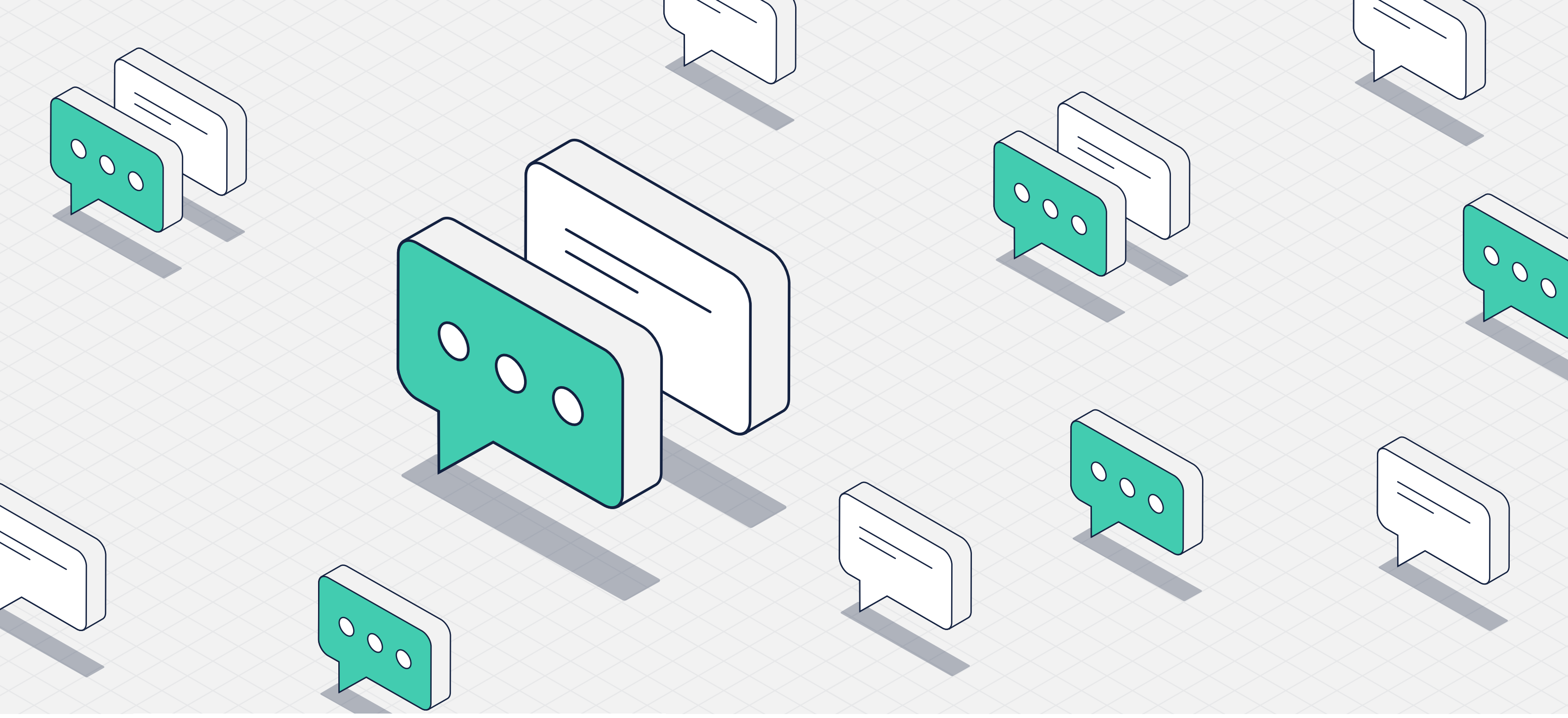
Increase in online consumer retail spending

50%

since start of pandemic[4]



[3] BRC data [4] ONS data



What consumers expect from online shopping

Consumers surveyed indicated strong preferences for a high quality delivery and returns experience and are averse to using brands that do not provide this. Expectations are set by the dominant platforms (especially, by Amazon) and consumers want other brands to offer a similar service. In particular, our research found that:

What influences consumer choice of online brand?

93%
Free delivery

80%
Easy returns

62%
Eco packaging
(25-34 age group)

58%
Green delivery
(25-34 age group)

- 93% of consumers say the availability of free delivery will influence their choice of retailer
- 80% of consumers say that a simple and satisfactory returns service is influential too (with a free returns process being the most attractive)
- Environmentally-friendly options are most valued by Gen Z and young millennials, and influence their purchase decisions: 58% of 25-34 year olds look for green and/or carbon-neutral delivery options; 62% say minimal and eco-friendly packaging influences their choice of retailer
- Consumers who will do most or all of their holiday shopping online, are likely to spend 169% more than those who will shop mainly or entirely in store.
- Online shoppers across the UK would spend 225% more with less-favoured brands if they provided a high-quality delivery and returns service; among the highest-spending group (35-44) this figure rises to 340%
- Online shoppers are willing to pay higher charges for guaranteed last-minute deliveries as holiday dates approach

How much more will those that prefer online shopping spend this season?

The heart of the challenge – and the opportunity

These key figures dramatically illustrate both the opportunity and the challenge for retail businesses this season.

Shoppers who have a preference for online are high spenders. With a spend nearly 169% greater than the highstreet counterpart, they are worth serving well. The evidence elsewhere in our survey is that many businesses are not addressing that challenge and opportunity.

The threat posed by the dominant platforms is revealed in what people say they'd spend with other brands if they provided a delivery/returns service as good as Amazon. This is a clear warning signal to businesses trying to boost revenue through online sales but not paying due attention to the logistics and fulfilment component.

The generational variations show further opportunities – or warnings, depending on your perspective.

The differential in the projected spend of shoppers who prefer online shopping is remarkable enough. But these data were collected at the end of August 2020, when most of the restrictions introduced during lockdown had been eased. At the time of publication (late September 2020), many restrictions are returning, and further measures are likely to follow, making high-street shopping in the holiday season much more limited than was envisaged in August. So the proportion of shoppers switching to online as their preference is certain to rise sharply. It might be reasonable to conjecture that as more shoppers switch their preference to online, they too will begin to spend more than they had previously done in the high street.

How much more would consumers spend on less-favoured brands if they provided a high quality experience?

225%
UK Average

340%
35-44 age group

156%
Northern England and Midlands

Retail prices for standard delivery are out of line with consumer expectations

The price that retailers are charging consumers for standard delivery (3 - 5 business days), is significantly more than what consumers say is reasonable – £0.77.

Some comparisons with well-known brands: GAP charges more than 5x the 'reasonable price'; Boots charges 4.5x the 'reasonable price', but does offer free standard delivery on orders over £30 and Sports Direct charges more than 6x the 'reasonable price' for standard delivery (reference table below in appendix).

How much are consumers willing to pay for different types of delivery?

	Same day delivery	Next day delivery	A specific 1-hour delivery window	'Green' or 'carbon-neutral'	Standard delivery (2-4 business days)
Purchases under £50	£2.95	£2.36	£2.50	£1.54	£0.77
Purchases over £50	£3.08	£2.68	£2.71	£1.72	£0.98

Retailers can profit from next day delivery – a seasonal opportunity

Despite this price-sensitivity, consumers say they are willing to pay nearly £2.70 for next day delivery in the UK, and in the unprecedented conditions in the coming holiday season, we can anticipate that this will be a much-used option.

Building brand loyalty through a greener supply chain

The accelerating shift to online shopping emphasises the importance for brands of attracting and building brand loyalty in the younger demographic: Gen Z and younger Millennials. The respondents in our survey from these age groups indicated strong preferences for environmentally-responsible delivery and returns services, and eco-friendly packaging.

Retailers offering greener purchase options are likely to generate more revenue and brand loyalty from these generations of consumers.

What influences consumer choice of online brand?

62%

Eco packaging
(25-34 age group)

58%

Green delivery
(25-34 age group)

There are many ways to reduce the environmental footprint of every order you send

Packaging is an obvious place to start. How can you reduce waste, and replace non-recyclable materials with eco-friendly ones? There are many businesses that specialise in these changes, and can support you in transitioning to a greener offering.

You can also reduce waste by using smart technology to optimise packaging and pallet configuration so every millimetre of space and every gram of weight is used effectively.

When it comes to carbon-neutral deliveries, these become possible by a combination of smart routing and logistics provider selection. It's not enough for an order to be collected in an electric vehicle, if the last mile delivery is made using polluting vehicles on routes that are jammed and waste fuel.

Optimised stock redistribution and ship-from-store not only increases resilience but also brings the built-in benefit of holding stock closer to the customer, making it possible to reduce the environmental impact and cost of delivery.

Most conventional logistics systems cannot give a business control over these details, but the 7bridges smart logistics platform continuously analyses the data from logistics providers and uses AI to model and predict best outcomes – including improved supply chain sustainability.

Impact of the pandemic on logistics and sales

During early 2020, businesses reported:

50%
ran out of stock

40%
of larger businesses couldn't fulfil orders

28%
experienced logistics carrier failures

Our research into trading conditions since the beginning of the pandemic indicates that businesses suffered badly from logistics weaknesses during the early months, and are very vulnerable to the effects of the second phase of COVID-19, widely expected in the coming winter. They are therefore likely to be even more disadvantaged during the 'golden quarter', because they risk missing out on a peak sales period; this in turn will have a disproportionately serious effect on their yearly revenue figures.

This vulnerability arises from these major causes:

- Tightened purse strings (economic conditions resulting in reduced spend)
- Difficult trading conditions due to social distancing mandates and staff shortages
- Logistics and supply chain inflexibility and limitations

How Logistics Disruptions Depress Sales

During the early months of 2020, at the beginning of the pandemic and lockdowns in the UK, businesses experienced serious disruptions:

- 29% were unable to fulfil orders during the first wave. Large businesses fared worse, 40% reported being unable to meet client demands
- 50% of retail businesses ran out of stock items
- Over 25% were unable to fulfil sales because of logistics carrier failures

If a second wave restricted warehouse access:

29%
would take several weeks or months to adapt

22%
could not operate without primary warehouse

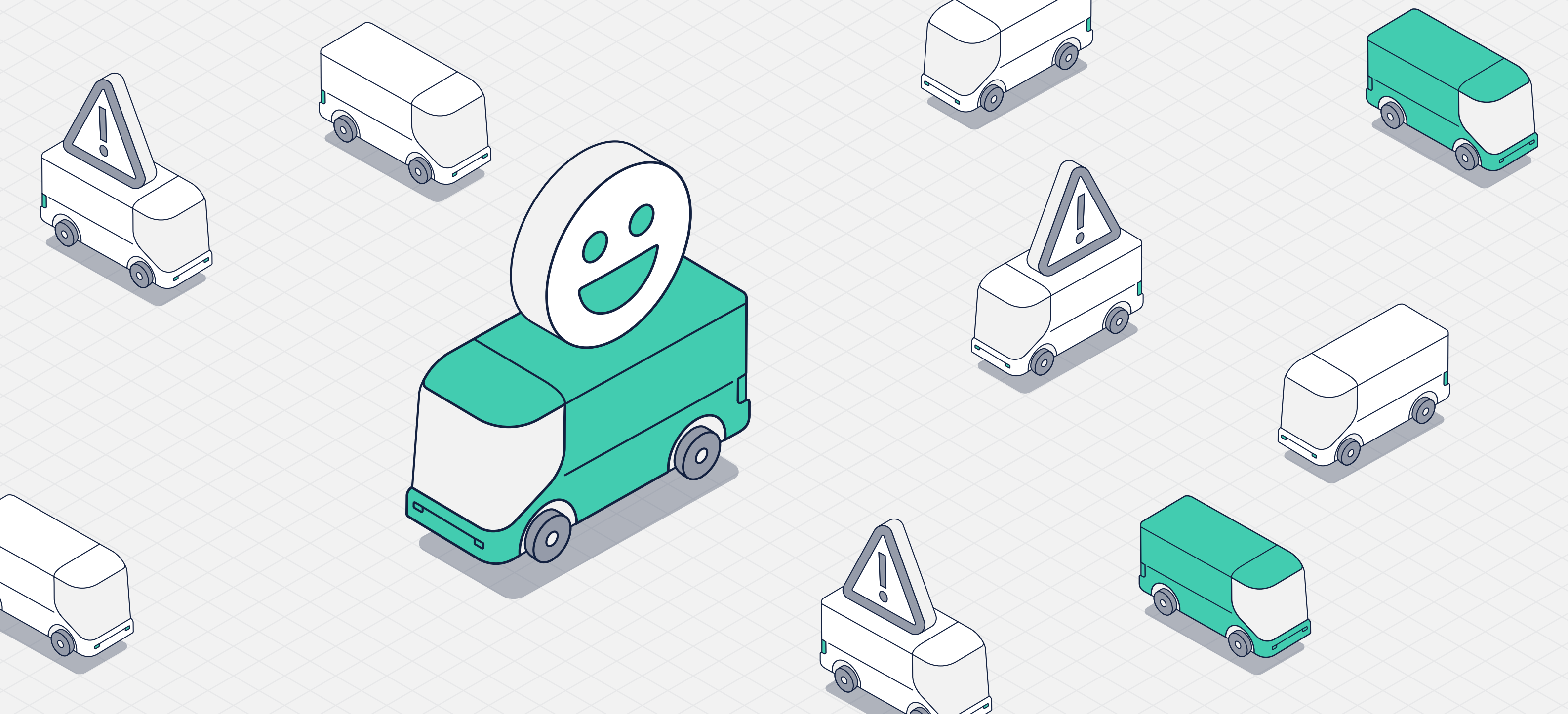
Looking forward to the likely impact of pandemic disruption during the festive season, businesses raised these concerns :

- Just 30% of retail businesses would be able to adapt their logistics quickly (< than a week) if their primary warehouse shut down
- 22% would not be able to operate at all without their primary warehouse

These figures highlight an immediate and widespread danger for businesses in the UK in the coming peak sales period and likely second wave of the pandemic.

Opportunities from the rise in online sales are being missed

It's clear from the experience in the first months of the pandemic that even if businesses can develop an increased volume of online sales, revenue from this is not safe unless the logistics operation is efficient. The costs and processes have not been implemented and managed well by many businesses. Consumers have come to expect Amazon-grade service as part of their online shopping experience and the data shows that they disfavour brands that fail to deliver it.



Measures businesses can take to survive and compete

Pre-pandemic, the shift towards online sales at Christmas was already marked, with 10%+ increases in the UK in both 2018 and 2019[5], while high-street sales declined by 1.5% in 2019[6].

64% of seasonal consumers in 2019 preferred to shop in-store. In the last months of 2020, with the likely re-introduction of restrictions on shopping in the high-street, we can expect much of that 64% to switch to online. The rise in the proportion of online sales is therefore likely to be even steeper than it was during the first lockdown.

Businesses are aware of this trend, but often do not know how to benefit from it. It is not enough to shore up sales with increased online business if profits from those sales are reduced or wiped out altogether.

Kyle Monk, director of retail insights and analytics at the BRC notes: ‘Stores are profitable whereas online isn’t in the same way, so even moving stuff online can mean a hammering for profitability.’

To benefit from the shift to online sales, businesses should:

- Gain control over, and minimise, profit-killing logistics costs of online sales
- Improve online consumer experience to compare favourably with dominant brands (delivery options, returns, communication, delivery costs)
- Diversify supply chains to protect against COVID disruption
- Re-purpose high-street stores to improve online sales fulfilment and resilience, whilst offsetting costs

[5] The 2019 shift to online is greater in some EU countries; 12.5% in France, 12.6% in Germany [6] figures from Centre for Retail Research

High-street brands such as John Lewis, Next and others have been evolving along these lines in recent years, but for others that have not yet addressed the issues, how is it possible to do anything in time for this festive season's commerce?

The emergence of new logistics optimisation technology now makes it far easier to achieve a profitable online sales operation - within days - and to meet the other key objectives above.

Gain control over profit-killing logistics costs of online sales

During the early months of the pandemic, logistics carriers raised surcharges without notice, and businesses were suddenly forced to absorb far higher costs when fulfilling orders. In many cases these extra charges were enough to wipe out the margin on a sale, but most businesses were not in a position to avoid this.

Carrier surcharges during April-June 2020

Fuel surcharge:

18%

(DPD, international April 2020)

Freight surcharge:

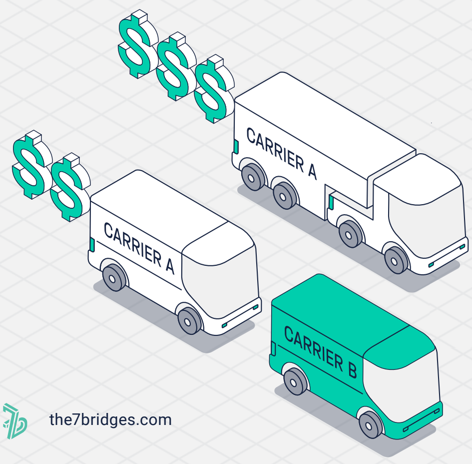
£0.61/kg

(UPS, April 2020)

In April 2020, as the pandemic was reaching its peak, surcharges rose sharply for both domestic and cross-border deliveries. However, the rise was not uniform across logistics carriers. While DPD levied almost 18% in Fuel Surcharges for international deliveries, FedEx charged 9.5%. Additional Parcel Surcharges for shipments within Europe could be £2.25 per shipment for parcels with DPD, but £0.20 per kilo with UPS (while UPS added a greater Freight Surcharge of £0.61, but FedEx charged £0.18).

Businesses relying on a single logistics carrier or a small number of carriers were most exposed to charges like these, and unable to benefit from the considerable variance in charges raised by different carriers. A similar – and probably worse – scenario is likely in the coming holiday season with the twin pressures of 'golden quarter' trading and a resurgence in COVID-19 will create unprecedented strain on carriers and supply chains.

Exposure to these surcharges can be minimised by expanding the portfolio of carriers used, and adopting new technology to optimise the selection of carrier for each despatch. With easy to use, continuously-adaptive automated carrier-switching, a business can ensure that its shipments are always being routed via the carrier that offers the best value and performance balance. This functionality is part of the 7bridges platform, and typically reduces logistics costs even in normal business conditions by 30% or more. In the rapidly-changing logistics landscape seen in the early months of the pandemic, businesses that could switch carriers instantly and continually to avoid the highest surcharges experienced a considerable competitive advantage.



Continuously-adaptive automated carrier-switching ensures the best carrier value and performance: logistics costs are typically reduced by 30% or more in normal conditions, and the effect of pandemic surcharges can be mitigated

Improve online consumer experience to compare favourably with dominant brands

Consumers surveyed indicated strong preferences for a high quality delivery and returns experience and are averse to using brands that do not provide this. Expectations are set by the dominant platforms (especially, by Amazon) and consumers want other brands to offer similar service. In particular, consumers expect the free standard delivery offered by the dominant platforms, together with a simple – and preferably free – returns process.

Consumers also expressed a perception that delivery charges are too high, indicating that a 'reasonable' charge for next-day delivery would be about 75% of the average actual charge.

When optimised, next-day deliveries can be made for

£2.30 to £3.50

(depending on the weight and size)

Particularly in the holiday season, where some consumers will shop early and choose low-cost delivery options, while many purchases will also be made at the last minute, it's important for businesses to offer a range of delivery options: free, low-cost standard, and last-minute premium. Consumers indicated a willingness to pay more for guaranteed last-minute deliveries.

7bridges analysis proves it's possible to make next-day deliveries in the UK at a cost of between £2.30 to £3.50 (depending on the weight and size of products shipped) if businesses optimise their logistics operations with smart technology and dynamic carrier selection. As consumers are willing to spend almost £2.70 for next-day delivery, this means that retailers can recover 75% to 100+% of their shipping spend – if they optimise their logistics.

But cost is only one factor in the consumer experience. Clear, consistent information on the delivery, easy tracking, a simple returns process and a single point of contact are all important. The dominant platforms set the standard here, and businesses that offer an inferior experience are at a disadvantage.

Retailers can recover

75%+

of next-day delivery charges with optimised logistics

With a clear and optimised logistics strategy, businesses can offer these options while keeping logistics costs low and margins high – even during the very difficult conditions likely this season. Automated carrier-switching and despatch processing is a key enabler, dynamically selecting the optimal logistics provider for each shipment, based on a number of factors, including cost. With the efficiencies of automated despatch and return workflow, integrated tracking and customer updates, it's possible for a brand to offer a quality experience to the consumer – one that meets the standards set by the dominant platforms.

Diversify supply chains to protect against COVID disruption

Businesses are most vulnerable in the current situation if they have a limited number of carrier contracts: they are unable to avoid the surcharges the carrier raises, and highly exposed to the risk of poor carrier performance caused by the stresses of the pandemic combined with an unprecedented increase in online sales volumes.

Many businesses choose to work with a single carrier or a with a small number of carriers because they do not have systems and processes that are designed for multi-carrier operations. New technology now makes it easy to use a large carrier portfolio to achieve the benefits of lower logistics costs and greater resilience in the supply chain.

Since each business has its own characteristics there is no one-size-fits-all way of building resilience, but the common features are:

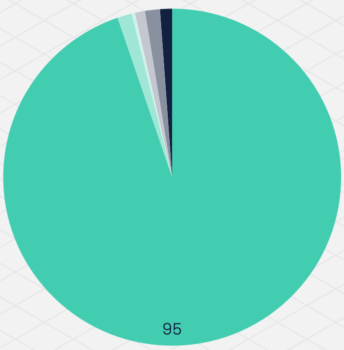
- The ability to use a large portfolio of carriers, and switch carriers instantly between them to continuously achieve best available value/performance and reduce exposure to variable carrier standards
- The ability to continuously maintain complete control of processes
- A highly automated workflow that allows efficient error free operation even with reduced staffing
- Distributed stock hubs to avoid bottlenecks and warehouse lockdowns
- A purpose-designed intelligent logistics platform
- The use of live data to automatically adapt to disruptions

The cost and time required for businesses to set up alternative warehouse facilities makes that option unavailable to many in the short time remaining before the holiday season, but for those that have bricks and mortar stores, these can be used to distribute stock and reduce the risk in the event of a warehouse becoming unavailable. Re-distribution of stock can also be a useful tool in a strategy of reducing fulfilment costs, and passing lower delivery charges on to the customer.

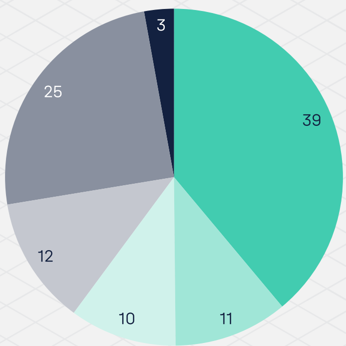
By implementing an intelligent automated logistics system, businesses can quickly achieve all the objectives above even when setting up additional warehousing is not possible in the short term. The 7bridges system gives a business immediate access to a large portfolio of carriers for UK and international logistics, so that businesses can introduce diversification (and ship-from-store technology) within a matter of days.

Redistributing stock for resilience and economy

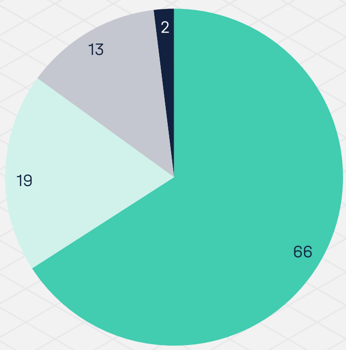
Early in 2020 7bridges used its AI-powered technology to optimise stock distribution across Europe for a global luxury brand. Moving away from centralised warehousing that was vulnerable to lockdowns, the brand gained a resilient, adaptable supply chain and reduced fulfilment costs by dynamically redistributing stock items closer to the consumers buying them.



2019 centralised warehousing (%)



2020 optimal stock spread (%)



2020 optimal stock spread w/o Italy & France (%)

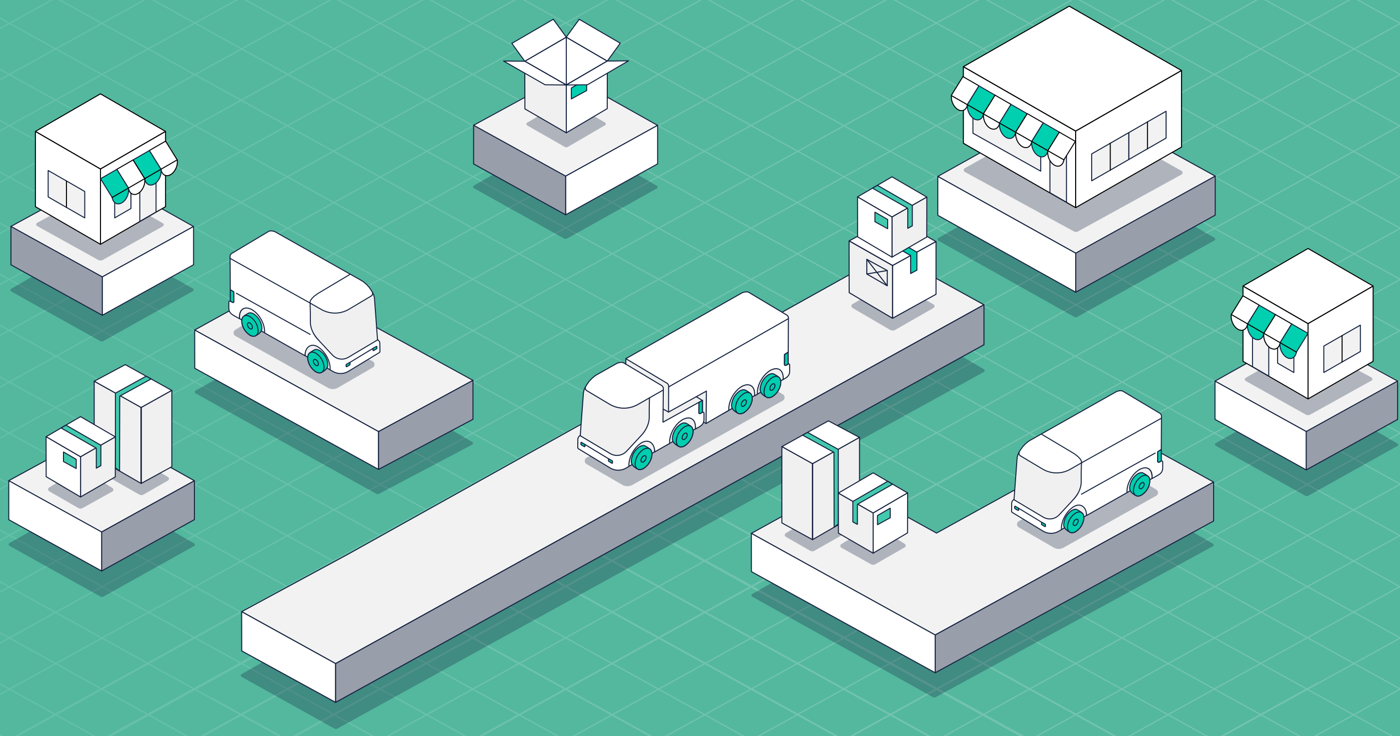
Re-purpose high-street stores to improve online sales fulfilment and offset costs

Retail analyst Natalie Berg says: ‘The future of online is stores.’ In other words, retailers with existing stores can use them as a valuable asset in their online sales effort. In the current situation where the pandemic is sharply reducing footfall in stores, retailers can use stores as part of the infrastructure for fulfilment of online sales, and offset the costs of keeping stores by developing their contribution to the online component of total sales. According to research carried out by CACI, brands experience online sales 106% higher within the catchment of a bricks and mortar store.

There are several ways that retailers can use their stores to boost online revenue:

- **By letting customers pick-up online purchases from the store.**
  Advantages: Customers save delivery charges and avoid the health risk of time spent shopping in-store; stores may be able to satisfy higher sales volumes in the holiday season without higher staffing levels
- **By re-distributing stock away from warehouses and into stores.**
  Advantages: stores become part of the resilience strategy as nodes in a distributed ‘virtual warehouse’ network; the cost and delay of setting up additional warehouses is avoided; if local lockdowns, staff sickness or carrier disruption put one or more nodes out of action, stock is still accessible from other nodes in the network
- **By shipping online orders from stores.**
  Advantages: online orders can be fulfilled from any store that has stock and is linked into the sales fulfilment system; stores can continue to contribute strongly to revenue even when footfall is limited or even when the store is closed to walk-in customers; the high degree of automation and coordination provided by the fulfilment system makes it possible to operate with reduced staff and social distancing measures

For an example of an international brand using the 7bridges platform to reduce risk with distributed warehousing, see ‘Converting to Ship-from-Store’



Case study:

Converting to ship-from-store

In the first months of this year 7bridges helped a global luxury brand with over 100 stores worldwide to rapidly re-invent its operational model, protecting revenue from the effects of high-street shutdown and possible warehouse outages.

Its bricks-and-mortar outlets now function in a dual role: as walk-in stores where possible, and as nodes in a disaster-resilient global 'virtual warehouse' fulfilling online orders with optimal cost-efficiency.

By carefully re-allocating stock away from its warehouses and amongst its stores, the brand is ensuring that online orders will still be fulfilled efficiently even if one or more countries become inoperable due to the public health crisis.

To add additional disaster-resilience in the current situation, 7bridges' technology provides the company with rapid-turnaround modelling of the optimum stock redistribution in Europe.

December 2019
Legacy distribution

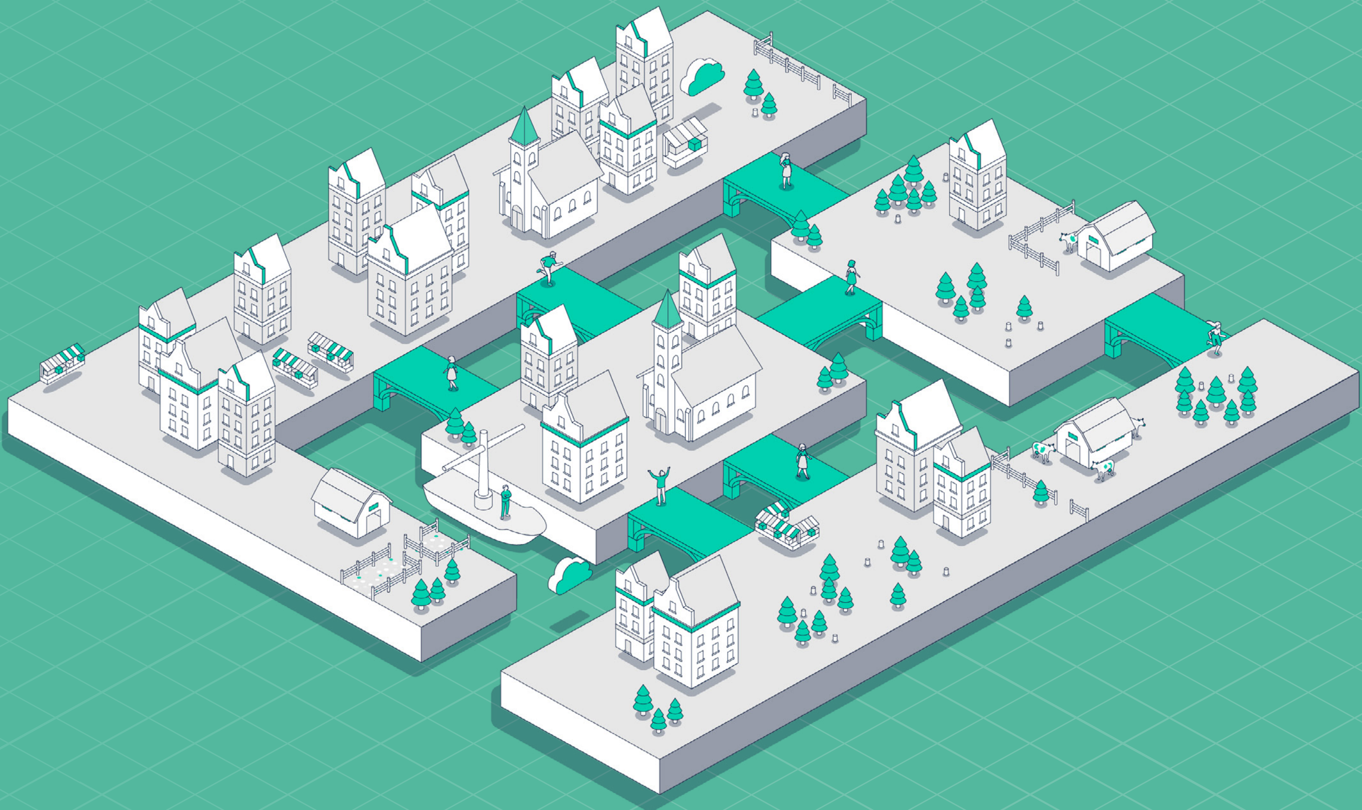
Online sales were fulfilled from warehouses in the EU and USA until late 2019, when the company introduced optimised ship-from-store with the aid of 7bridges technology. The previous distribution model saw 95% of the brand's European market stock held in a single warehouse in Germany.

January 2020
Distributed stock allocation for optimised costs

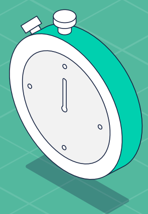
With its multi-dimensional analysis capability, 7bridges technology modelled optimised dynamic stock distribution to achieve lower logistics cost-per-sale, assuming unimpeded operation in all countries.

March 2020
Resilient global virtual warehousing and ship-from-store

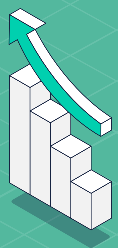
In response to the coronavirus pandemic, the brand moved to create a super-resilient virtual warehouse with nodes in all of its 100 bricks and mortar stores. Warehouse and in-store staff use the 7bridges platform to process and despatch orders, returns and stock reallocation. The speed of 7bridges AI-powered modelling enables the company to adapt instantly to spikes in demand, local and regional variations, national lockdowns, warehouse outages and other factors that might otherwise impede sales and raise costs.



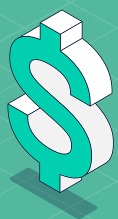
About 7bridges



2 weeks to integrate



50% savings on direct costs



4 weeks to reach ROI

7bridges is a smart logistics platform, used by retailers and other high-growth businesses to offer exceptional delivery experiences at the lowest costs.

Smart logistics technology for year-round resilience

The platform connects businesses to an open ecosystem of transportation carriers and logistics suppliers, and uses real-time AI technology to dynamically select the best route, carrier and packaging for every shipment. This ensures the best outcome for every order that's sent, and can reduce logistics costs by up to 50%.

At a strategic level, the technology offers businesses a significant advantage over their competitors. The platform is inherently flexible and adaptable, and instantly responds to shock changes in supply or demand, such as the COVID-19 crisis.

Company history

The company's name is a reference to the classical maths problem 'the seven bridges of Königsberg', from which network analysis originated: this is the foundation upon which the 7bridges platform is built.

7bridges was founded by Phil Ashton and Matei Beremski, and was recently selected as one of Europe's hottest AI startups in 2020 by Business Insider.

Request more info

Appendix:
Abbreviated survey findings in tabular form

Business Data Tables

All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 251 senior business leaders in the UK retail sector. Fieldwork was undertaken between 27th August - 2nd September 2020. The survey was carried out online. The figures have not been weighted.

Did your business experience any of the following during the first wave of the COVID-19 pandemic? (Please select all that apply)	Total
Staff were furloughed	58%
We ran out of stock of some items	50%
Our stores were closed for more than a week	43%
We had orders we were unable to fulfil	29%
Our logistics carriers failed to deliver goods	28%
We were unable to ship goods to customers	22%
Staff were made redundant	12%
Our call centre was closed for more than a week	10%
We paid extra to hold excess stock at our warehouse(s)	10%
At least one of our warehouses had to shut down	9%
None of the above	9%

How quickly, if at all, do you think your business could adapt your logistics operations if your primary warehouses were shut down?	Total
Quickly (less than a week)	30%
Slowly (2 weeks or more)	26%
Wouldn’t be able to operate	22%

Consumer Data Tables

All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 2079 adults. Fieldwork was undertaken between 27th August - 1st September 2020. The survey was carried out online. The figures have been weighted and are representative of all UK adults (aged 18+).

What proportion of general purchases (approximate, excluding groceries) did respondents make online in the 12 months before the outbreak of Coronavirus/COVID-19 in the UK, and what proportion do they expect to make in the next 12 months?

		Age				
	Total	18-24	25-34	35-44	45-54	55+
Mean: Proportion of purchases made online before the outbreak of COVID-19 in the UK (February 2019 to February 2020):	45%	50%	56%	54%	47%	36%
Mean: Expected proportion of purchases made online in next 12 months (September 2020 to September 2021)	57%	57%	66%	66%	60%	49%

Where, if anywhere, do respondents plan to do their Christmas or Holiday 2020 shopping this year?

		Age				
	Total	18-24	25-34	35-44	45-54	55+
Net: Online	50%	42%	61%	64%	54%	40%
Net: Offline	14%	12%	8%	9%	10%	20%

Reasons why respondents who said they will be doing all/some of their Christmas/Holiday 2020 shopping online choose to do so (respondent selected all that apply)

		Age				
	Total	18-24	25-34	35-44	45-54	55+
It is more convenient	73%	74%	78%	74%	72%	70%
The health risks are low	41%	31%	33%	35%	41%	50%
There is more choice	40%	53%	43%	44%	39%	32%
It is cheaper	28%	24%	30%	33%	31%	23%
It is what I have always done	18%	16%	22%	20%	18%	15%
The experience is better	6%	5%	11%	6%	6%	4%
Other	6%	3%	5%	4%	6%	7%
None of these	1%	3%	1%	1%	0%	1%

Planned Spend by Percentile and Channel (GBP)

	Channels			
	Mainly in store	Even split (online & offline)	Mainly online	NA
Avg	£162	£263	£435	£ 158
Sample Size	291	583	1051	154
% of respondents	14%	28%	51%	7%

High Street Brands Delivery Costs (sample recorded on 21st September 2020)

	Boots	GAP	Sports Direct
Standard (3-5 business days)	£3.50 or free if you spend over £30*	£4.00 per order	£4.99
Increase on what consumers think is reasonable	4.5 X	5.2 X	6.5 X

References

Office of National Statistics (ONS)

British Retail Consortium (BRC)

Centre for Retail Research

CACI Ltd.

NBK Retail