COUNTING THE COST

Solving the online profitability challenge

RWRC BY ASCENTIAL

In association with BearingPoint.

AT A GLANCE

As all retailers are painfully aware, free online delivery comes at great cost to a business' bottom line. But it is becoming increasingly accepted that the costs associated with ecommerce in general – from acquiring tech talent to the final mile – can obliterate a retailer's profit.

In a stunning admission, a senior director of a leading grocer admitted to Retail Week that the retailer had "created a monster" in launching an ecommerce offering due to the substantial costs involved.

Privately, a number of major grocers also claim that if they were to roll out online in the UK today, they would do it in a very different way, executing more profitable strategies such as no home delivery outside of cities and offering click and collect rather than home delivery.

But this report, compiled as online sales continue to soar, shows there is a way to balance the books. In partnership with management and technology consultants BearingPoint, we uncover the true cost of your ecommerce offering and how to make it financially viable in the long term.

From recruiting tech talent and building a solid ecommerce infrastructure to customer acquisition and fulfilment, this report will help retailers and brands map out:

- The true impact of their ecommerce offering on profit margins
- How efficiencies can be made to positively impact online revenue
- How data can be a brand's most important tool if harnessed correctly
- The best customer incentives to reduce the costs of delivery and returns.

Read on to discover how to ensure your ecommerce model is both profitable and future-proofed in the strange new normal we have found ourselves operating in.

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VIEWPOINT

STUART HIGGINS
PARTNER, BEARINGPOINT

The Covid-19 lockdown has delivered a sea change in customer buying behaviour.

Many more customers are now choosing to shop online rather than risk venturing into a retail store.

Indeed, many non-essential retail stores simply shut up shop during the height of lockdown and, in this case, the ability for those retailers to continue to trade online has been a lifesaver.

However, the shift in channels from store to online brings with it challenges on profitability. Online fulfilment is typically more expensive than store fulfilment, meaning every customer who simply switches channel erodes retailer profits.

This report highlights the true impact of channel switching on retail profit margins and details how efficiencies can be made to positively impact online costs and revenues.

But the pandemic has also changed customer buying behaviour in other ways as well:

Sustainability
The Covid-19 crisis has accelerated the trend towards caring about the environment and consumers are now asking for sustainability and a strong stance on CSR from their retail brands. Sustainability is likely to become the next retail disruptor, with 30% of consumers saying they will stop buying from their preferred brand if they lose trust in this critical area.

Non-profit customer relationships
Demonstrating solidarity with the national consensus and exhibiting caring credentials have been shown to create a significant halo effect for retail brands, with significant resulting opportunities to increase their NPS.

Localisation
Given the demand for more sustainability, consumers are trying to buy more local products and will migrate towards retailers that enable them to do so.

New business models and services
New business models and services are emerging, both in response to the crisis, but also to make shopping missions easier for consumers, such as subscription services for home delivery or reordering.

There is opportunity in every crisis

The Covid crisis has created a retail profit challenge, but it has also created an opportunity for differentiation in the marketplace.

The Chinese symbol for crisis sums this up well. It consists of two ideographs, one meaning danger, the other meaning opportunity.

There is opportunity in every crisis and now is the time for retailers to seize the moment and transform for the future.

BEARINGPOINT

We deliver management and technology consulting with a difference.
We drive change in our clients' businesses by creating customized solutions on a personal basis.

CHAPTER I

DOING BUSINESS ONLINE: THE HIDDEN TRUTH

The ability to trade online has been a lifesaver for retailers denied the use of their store networks by Covid-19.

Online made up 33% of total retail sales in May, up from 20% in February, with many retailers experiencing double the level of normal demand. But the record sales achieved through digital channels have come at a cost. For retailers that sell both through stores and online, the shift from one channel to the other means that profitability has taken a hit.

When Dixons Carphone reported its annual results for the year ending May 2 2020, the impact of the pandemic – both positive and negative – was laid bare. Across the year, online sales grew 26% and contributed 35% of sales, 7 percentage points higher than the previous year.

There was a sharp acceleration in this growth when stores were closed in April – online sales surged 166%, compared with a 10% rise across the first 11 months of the financial year. Gross margin, however, fell 1.7% for the year and by 2.8% in the second half as the impact of the accelerated shift to online took a chunk out of profitability.

"Most online operations are profitable whether they be multichannel or pureplay. The issue is that online operations are significantly less profitable than store operations because of the cost of fulfilling to the home," explains Stuart Higgins, partner at BearingPoint.

Retailers doing business online face a long list of costs they need to recoup in the price of goods sold in order to run a profitable operation (see infographic for full list).

WHAT DOES AN online retailer spend its money on?

Cost of GOODS SOLD

CARD HANDLING

Customer acquisition and retention

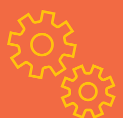
WAREHOUSING and DISTRIBUTION

RETURNS

DATA ANALYSIS

Website modernisation

ONLINE PLATFORM DEVELOPMENT



Software MAINTENANCE

CALL CENTRE and HEAD OFFICE

MARKETING

ADVERTISING

The structural changes to shopping habits brought about by Covid-19 have exacerbated the challenge of online margin retention. Some of the greatest challenges have come in grocery retail. Many commentators agree that the grocers worst hit are the ones that have undergone dramatic volume shifts and sudden channel switches during the pandemic, leading to a huge dent in profitability.

Tesco's online sales rocketed 69% in the 26 weeks to August 29, 2020, driven by a 90% surge in May. During this period, the grocer increased its online capacity from 600,000 to 1.3 million slots per week. Growth in its online grocery business subsequently soared from around 9% to over 16% of Tesco's total UK sales. Yet the transformation has come at a cost.

In its quarterly trading update in June, Tesco estimated incremental costs for the UK relating to changes in its operations due to Covid-19 would be £840m for the full year. As well as extra online capacity and personal protective equipment, this includes the expense of hiring thousands of new temporary and permanent employees – a cost that would only be partially mitigated by the UK business rates relief of £532m and a contribution from additional food sales.

Preparing for the future

Any retailer that believes they can simply ride out the coronavirus storm and recoup their losses once sales revert to stores should think again. Although experts agree that online sales are unlikely to remain at the levels seen during lockdown once restrictions are fully removed (the latest Office for National Statistics data for August shows them falling back to 28.1% of total retail sales), most also believe that they will never return to pre-Covid levels.

In this context, the ability for businesses to trade profitably online will be fundamental to their future viability. Next claimed two years ago that if all the sales lost in retail were transferred to sales of Next stock through its UK online business, it would lose 7p for every pound transferred, totalling a cost of around £8m.

"Any retail business that is not profitable online, or is not working towards online profitability, is totally unprepared for what is about to come next," says Michael Jones, co-founder of online homewares retailer Houseof. "That is not to suggest that there is no value in the experience of walking into a store, holding a product and walking away with it, but it is not a binary choice and we are quickly finding ourselves in a world where online retail facilitates immersive in-store experiences, rather than the other way around. We are a decade at most away from the tipping point where businesses that are not profitable online are not profitable full stop."

> **Any retail business that is not profitable online is totally unprepared for what is about to come next**

MICHAEL JONES, HOUSEOF

If this sounds like a desperate prognosis for multichannel retailers then there is hope too, according to Higgins. "By understanding the cost of fulfilling customer orders, you can then start to understand where you can pull the levers that are available to you to nudge consumer behaviour in the direction you want it to go in," he says.

Higgins gives the example of the cost to fulfil a click-and-collect order versus an order for home delivery. "If you understand the cost, you can start to think about how you manage the balance of pricing between the two in order to nudge people towards click-and-collect because that will invariably be a cheaper fulfilment option."

Multichannel leaders such as Next are admired for their clear understanding of the cost to serve online customers and their ability to balance operational capacity with customer demand. Next's online sales fell by £142.3m in the first half of a pandemic-hit 2020 versus 2019; however, the retailer was able to reduce the fall in online profits to just £49m (from £177m to £128m) by clawing back £32m in wage costs mostly in warehousing and distribution, and a further £21m by stopping digital marketing and printing catalogues during periods when warehousing capacity was less than daily demand.

Only by understanding the real drivers of the cost to serve their customers can retailers realise the true profitability of operating online. And only by understanding where profit is accrued can they know how best to optimise it.

In association with BearingPoint.

ONLINE SALES GROWTH DURING CORONAVIRUS LOCKDOWN

Kingfisher
164%
SIX MONTHS TO JULY 31

Dixons Carphone
166%
FIVE WEEKS TO APRIL 25

Sainsbury's
117%
28 WEEKS TO SEPTEMBER 19

JOHN LEWIS & PARTNERS
84%
MARCH 15 TO APRIL 18

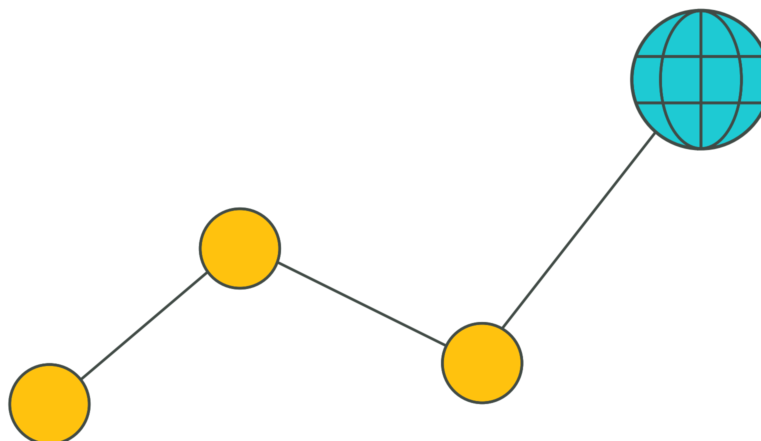
Walmart
74%
QUARTER TO MAY 1

TESCO
69%
26 WEEKS TO AUGUST 29

amazon
37%
QUARTER TO SEPTEMBER 30

M&S
20%
THREE WEEKS TO MAY 20

next
23%
QUARTER TO OCTOBER 24



CHAPTER 2

CUSTOMER ACQUISITION DOESN'T COME CHEAP

Retailers that prosper online are those that understand both the needs of customers and the cost to serve them in a way that drives customer retention and loyalty. But before retailers can retain customers, they need to acquire them.

This may be reasonably straightforward for well-known high street names whose customers move fluidly between their stores, website and mobile apps, but for early stage and pureplay businesses, the challenge is far greater and the resultant customer acquisition and marketing costs can quickly escalate.

Bed retailer Eve Sleep spent more than half of its revenue on marketing in 2019. Fashion retailer Quiz, meanwhile, increased its total marketing spend by 83% to £4.6m last year, with the cost of acquiring a customer estimated to be about £7 by chief financial officer Gerry Sweeney. "Those sort of costs for a one-off acquisition start to become unsustainable," Sweeney told Retail Week.

Typical customer acquisition costs relate to things like promotions, paid social media and search engine optimisation (SEO). Those costs are perpetually increasing as online becomes ever more competitive.

"That whole process of acquiring a customer is becoming more expensive because retailers are competing with one another using the same tools and techniques," says BearingPoint's Stuart Higgins.

It is much more effective, Higgins adds, for retailers to put the emphasis on customer retention rather than acquisition. By making website information easy to navigate, having a smooth transaction process, describing products, and offering a seamless delivery and returns process, retailers are more likely to retain customers, Higgins says.

Quiz's Sweeney says the retailer has "looked to take the customers we have and tried to maximise the value with frequency of purchase and basket size". In order to do this, businesses need to understand who their customer is and what is important to them. Next they must balance their ecommerce investment so they can deliver against those expectations as part of a rounded customer proposition that doesn't push all customers through the same online journey.

To ensure online profitability, it is vital retailers avoid competing with each other to provide certain capabilities they have seen in other retailers that might not be needed in relation to their specific customer set.

For example, in fashion, a customer is most likely to be making a considered purchase in advance of an event, so they usually won't need a clothing item delivered within a few hours or the very next day. Instead, what's really important is that a retailer can offer customers accurate information on their website about sizing and fit, as well as a seamless returns process if the product is unwanted.

The power of technology

Improving the online shopping experience for consumers experiencing a second lockdown is vital if retailers are going to hold on to their current customer base. This not only improves customer retention but also makes financial sense by reducing the need for expensive acquisition drives.

Homewares and furniture retailer Made.com has stepped up to the challenge by launching a shoppable virtual showroom as it adapts to changes in consumer behaviour accelerated by the pandemic.

The retailer, which primarily sells online but has seven showrooms, is hosting the new digital venture from an apartment above its Amsterdam branch. Shoppers can visit and explore the apartment online, clicking to discover the "individual stories" of aspects of products such as detailing or the designer.

The apartment can also be experienced using a Google Cardboard virtual reality viewer, or an Instagram "special augmented reality filter" that enables consumers to place themselves in the apartment and walk through it with a 360-degree view.

"This year has resulted in many brands like ours completely rethinking the way in which we present our products and engage with customers," says Made chief creative officer Jo Jackson. "Digital technology has become more important than ever in helping us stay connected, and the pandemic has made us, as a digital-first brand, work even harder to offer our audience something innovative and inspiring to experience."

Fashion retailers are also getting in on the action. Throughout the pandemic and as the UK enters a second lockdown, consumers have increasingly turned to the internet to buy new clothes, either as result of feeling uneasy about using fitting rooms or because they are unable to access stores at all.

By harnessing emerging tech such as 360-degree videos, 2D and 3D imaging, visual search, augmented reality and virtual reality,

online users are able to interact with fashion products in a visual, immersive manner.

Diesel is working hard to leverage 3D technology to emulate the physical shopping experience. The brand recently unveiled a website depicting a 3D virtual avatar of its Milan showroom, complete with entrance and a room where styles are arranged around the perimeter and on virtual mannequins in the mid-shop. Online users are able to walk around and browse the merchandise.

This technology can not only offer a more personalised and interactive service to customers, it can also result in cost savings. Meepl is an example of a tech start-up doing just that. Using its instant AI-based 3D body-reconstruction platform, a customer with a smartphone can submit two body scans to create a 3D avatar and a list of more than 50 measurements within seconds – data retailers can use to offer size recommendations and a 3D virtual dressing-room.

By making recommendations customised to the shopper and providing visual feedback on size and fit, etailers benefit from reduced return rates and therefore achieve greater efficiencies in their supply chain – leading to all-important cost savings.

Making data work harder

To fully understand their customers, retailers need to combine visibility of customer data with the ability to analyse it effectively. "Customer experiences, both online and offline, are directly affected by the quality of customer data," explains David John, founder and chief executive of white label engagement platform Loyalize.

"High-quality data gives online retailers a single, accurate view of their customers, whereas low-quality data results in inconsistencies and dissatisfied customers."

John says data quality can impact the success and profitability of retailers in areas such as product recommendations, inventory and deliveries. He adds that by cleaning customer data, outdated information is updated and incorrect information removed.

"This not only improves overall quality but supports the long-term productivity of retail staff, who are not having to continually take corrective action," he says.

Retailers need to be mindful of how customer groups are shifting in the pandemic. To this end, Myles Dawson, managing director of payment platform Adyen UK, notes that payments data can give retailers a picture of customers and their purchases in real time.

"For example, during the pandemic, payments data can help you identify customers who previously shopped with you in-store and then moved online," Dawson says. "You can also use payments data to understand customer journeys and behaviour, develop new experiences and test what works best for each customer."

INVESTING IN DATA

Under chief executive Alex Baldock, Dixons Carphone is a multichannel retailer that has made data a key business focus both in terms of managing it securely and in finding ways to attract more shoppers and give existing customers a better, more personalised experience.

In its full-year 2019/20 results, the retailer reported that improvements in customer relationship marketing (CRM) saw increases in email conversion and in customers returning to abandoned baskets, which together drove an 85% increase in online sales attributed to customer targeting.

Unlocking the power of data comes with a high investment, especially if retailers are using AI and analysing data in real time. But evidence suggests that real-time, AI-enabled data analysis is going to be the next disruptor as far as online commerce goes.

For businesses without the financial muscle of Dixons Carphone, Houseof's Michael Jones suggests the emergence of SaaS ecommerce platforms such as Shopify has transformed the landscape, reducing barriers to entry and costs. "As a new pureplay organisation, we now need to make a fraction of the investment in our ecommerce platform than that of our more established multichannel rivals, who have found themselves bringing hardware to a software fight," he says.

Jones believes "clear, usable, consistent data is the decision-maker in the modern ecommerce business", and adds that Houseof has made proprietary visibility and analysis of its data one of the cornerstones of its business.

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CHAPTER 3

RACKING UP PEOPLE COSTS

Running a first-class ecommerce operation means recruiting first-class technology talent – but that comes at a cost.

Tony Gregg, CEO of executive search consultancy Anthony Gregg Partnership, says an ecommerce director at a FTSE 100 retailer or equivalent could easily expect to command a basic salary upwards of £400,000. That outlay, however, can generate significant returns. Gregg adds: "Their expertise could save the business tens of millions of pounds."

Gregg says the top ecommerce leaders need to be thinking long-term about how the consumer will shop in 2025, and mould their strategy around that. "When we recruit a digital or ecommerce director, we want them to use the data and interpret it in the right way," he continues. "You can't just build a platform for now, you've got to build it for what the market will be like in five years. You really need to be ahead of the game."

Retail is still quite virgin in this area so these people are creating their own stamp

TONY GREGG, ANTHONY GREGG PARTNERSHIP

Retailers are increasingly combining digital and marketing leadership roles into one single ecommerce director position, says Gregg. Not only does this save on the cost of recruiting two positions, thereby enabling businesses to offer a more attractive salary to their ecommerce director, but it also allows for greater agility "because there's now one person making the decision, not two".

Salary costs are also inflated by the fact that technology leaders have transferable skills that can be applied to numerous industry sectors, meaning retailers are competing for their services alongside sectors such as financial services, technology and consumer goods. While retailers may not have the financial resources of Facebook, Google or a major banking group, what they can offer digital leaders is the freedom to express themselves.

"Retail is still quite virgin in this area so these people are creating their own stamp," says Gregg. "They are the only person within that business who knows as much as they do, and so they can build a team around them."

Those teams don't come cheap, even for smaller businesses; however, forward-thinking retailers see people with strong digital skills as a necessary expense. "It is very rare to find junior talent for less than £30,000 per annum, and I wouldn't expect to be paying less than £90,000 for senior talent, but it is important to who we are as a business that we absorb our employees into our community and that we see their remuneration as more than just a measurement of their contribution," says Houseof's Michael Jones.

Retailers headquartered outside of London potentially face an additional expense in setting up digital hubs in the capital in order to access high-calibre personnel. "A lot of retailers whose head offices are in the regions have a separate head office in London for their ecommerce and digital teams because otherwise you can't get the talent," explains Gregg.

So what would the typical salaries be for the multitude of digital roles at an online retailer? At the top of the organisation, a high-calibre chief technology officer, chief digital officer or chief data officer can be paid up to £350,000, claims retail search specialist Oresa. Beneath that, Cranberry Panda's 2020 ecommerce salary survey gives the ranges in the table below.

With salaries so high, it is clear that a retailer must be on an upward trajectory to attract such talent, with candidates looking for a retailer with the right mix of ambition, people and, crucially, capex to achieve ecommerce success.

ROLE	AVERAGE SALARY
Ecommerce director	£120–£200k
Head of product/ product director	£70–£150k
Head of customer insight	£80–£100k
Senior data scientist	£70–£90k
Head of data science	£90–£110k
Senior UX designer	£65–£90k
Head of performance marketing	£70–£120k
CTO/CIO*	£90–£160k

*SOURCE: Cranberry Panda's 2020 ecommerce salary survey. *Role not included in survey. Salary based on estimate from Cranberry Panda team*

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COVID IMPACT ON STORE STAFF COSTS

Digital costs relating to people do not start and end with head-office roles. Increasingly, store workers are playing a huge part in ecommerce sales: whether that means taking orders over iPads, picking and packing items in store or, more recently, carrying out virtual customer consultations. The cost of hiring people and training them to carry out these tasks all adds to a retailer's cost base.

During the pandemic, supermarkets rapidly scaled up initiatives such as in-store picking and packing to meet soaring demand for online groceries. Sainsbury's said in June it had recruited more than 25,000 colleagues to work in stores, as drivers and in distribution centres. If each employee worked a 40-hour week on the minimum wage of £8.20, this recruitment drive alone would have added roughly £425m to Sainsbury's annual cost base.

"Everywhere you look, organisations have had to react very quickly to a changing landscape," says Peter Birch, director at technology recruiter Harvey Nash. "Any abrupt change of this kind brings challenges. For some, this will be cost-related – having to invest in new areas of customer engagement, for example. For others, it might be more about the need for process changes to adjust to a new operating model, which may mean intensive training is required to upskill employees. For many, it will be all of the above."

Whatever the challenges, Birch says one feature with almost universal relevance across retailers during the pandemic is the importance of leveraging technology to increase speed, efficiency, and service quality. "The drive to automate costly internal manual processes has also become very evident," he says. "This could mean redundancies in the future as workforces are scaled back. But at a time when driving costs down and profits up is paramount, technology has never been more valuable."

INVESTMENT CASE STUDY:

The virtual retail experience

At the height of the UK's lockdown, with shoppers unable or unwilling to visit stores, John Lewis launched a virtual personal shopping service using Zoom.

The service, which enables customers to be shown around departments by an in-store adviser using the video communications platform, is a clear example of a completely new service that staff are expected to offer customers. It has required existing staff to take on a different role and learn new skills.

Customers can book a free 30-minute appointment, supplying details about what they are looking for. On the call they will then be shown products selected by the adviser, and have an opportunity to ask questions and see other products. Items can be sent to customers' homes or click and collect arranged.

John Lewis head of customer experience Steven Hand says: "What our partners offer in our shops is impartial expertise and advice, and this pilot means we can offer that again to customers all over the UK who cannot get to our shops. The lockdown has changed customer habits but customer service remains as important as ever."

The service, variations of which are also being offered by retailers such as Boots and Dixons Carphone, is a demonstration of how the pandemic has accelerated the transition towards a unified retail offer that breaks down traditional boundaries between store based and online commerce.

"The closure of stores during lockdown forced many previously loyal store shoppers to venture online where the smiley, brand passionate, store colleague 'welcome' is replaced with an all too often two dimensional, transactional experience," says Laura Morroll, fashion retail expert at BearingPoint. "For retailers recognising this, we're seeing the emergence of conversational technologies that enable store colleagues to service online customer needs at the press of a button through video chat and I'm certain that this is just the beginning of such developments to bring online 'to life'."

CHAPTER 4

FINANCING THE FINAL MILE

Ask a retailer where it incurs the greatest single cost from its online operations and the answer is likely to be delivery. Next has previously revealed that, at 68%, delivery accounts for the lion's share of its total cost of fulfilment, which it breaks down into picking, packing and delivery.

"In most cases, home delivery is the largest element of fulfilment costs," says BearingPoint's Stuart Higgins. "It's a basic case of mathematics. If you take the lease cost of a van per week, the variable cost per mile for fuel, the shift cost for a driver and assume you can get between 60 and 80 parcels on a van for a typical day's work, then the average cost per delivery for a one-man parcel business is between £2 and £3, excluding parcel carrier profits."

PJ Scott, co-founder and director of full-service marketplace agency Velocity Commerce, suggests one reason why delivery is so expensive is because Amazon has set the bar so high.

"The customer's expectation for delivery is now far beyond what it was a few years ago – they don't want to sit at home all day waiting for a parcel, they want to know the exact time slot they will receive it, and they want it now."

Scott adds that couriers need to keep up with this demand to ensure they don't fall behind. "But without the funding of the Amazon machine, there are large costs associated with efficient delivery which, of course, are passed back to the retailer," he explains.

Scott says "multi-buys and consolidating multiple purchases into single deliveries is a key strategy for reducing delivery costs". He notes that Amazon has introduced a feature where customers are incentivised to mark purchases as being 'non-urgent'. "This is a model that is being replicated by ecommerce businesses to alleviate pressure on the team during busy periods."

Another way to save money in home delivery is retailer collaboration, with a growing number of brands sharing assets such as delivery vans and warehousing space. Such a strategy can be greatly cost-effective for the multiple parties involved.

Rather than compete in a race to the bottom on delivery prices, some retailers are asking customers to foot some of the bill. "The biggest reduction in cost we have achieved came from bucking the trend and asking our customers to make a contribution to shipment," says Houseof's Michael Jones. "This has seen a 60-70% reduction in our shipment costs and has had almost no

The customer's expectation for delivery is now far beyond what it was a few years ago

PJ SCOTT, VELOCITY COMMERCE

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impact on our conversion rate."

BearingPoint's grocery expert Chris Moss says: "One hope for retailers is to bring together the key trends of home fulfilment and sustainability. We see a number of players offering greener deliveries, which often extend lead times and increase drop efficiency, both of which will reduce cost for retailers whilst also being more sustainable. Retailers that get into the detail of the sources of their emissions will also have a roadmap to unlock future profitability."

Retailers can also look to make efficiencies at the back end of their distribution operations. "You can look at the pick, pack and dispatch element of fulfilment and try and make that more productive," says Higgins. "It's a smaller slice of the pie, but you can still take cost out through intelligent investment in automation in your fulfilment centres, for example."

Philip Ashton, CEO of logistics software provider 7bridges, argues profitable online operations are entirely possible if retailers make use of the right technology to optimise their fulfilment by capitalising and building on their existing asset base. "To do this, retailers need to calculate the total cost of logistics for every single order and product, and the total brand value of logistics [an estimate of the value to the consumer of the delivery/returns proposition] as well," Ashton says. "At a high level, our latest research found optimised logistics would result in more than a 200% increase in consumer spending with retailers who currently deliver a poor experience."

Sainsbury's has been working hard to trade online profitably and appears to be succeeding. Since March, the retailer has more than doubled its online grocery delivery capacity from 350,000 to 736,000 in early November. It plans to be able to offer 750,000 slots from next year.

Chief executive Simon Roberts says: "We've doubled volume over the last six months and that's profitable growth. It's profitable growth because of the volume that we've seen come through. We've scaled up 102%." While the rapid growth of the online grocery market has been driven by Covid-19, Roberts believes even as society begins to return to some form of normality in the future, Sainsbury's can continue to sell groceries online profitably.

"We've improved our basket size by 17% over the half. We've seen our item pick rates recover broadly to where they were in March, despite the social distancing measures in place. We've also improved the efficiency of how we're getting these products to customers," he adds.

The data dimension

Higgins says visibility of data is hugely important if fulfilment costs are to be optimised.

"You can't decide on the price of delivery without having a clear understanding of the full cost of each option and the relative price elasticity. How is the customer going to react when faced with a free standard delivery versus a £5 next-day delivery, or a £2 standard delivery versus a £4 next-day?

"At what point does the customer say they are willing to pay the extra for the next-day option? And all of the time you need to look at that against your capacity and your ability to maintain availability," he adds.

Data is equally important if retailers are to optimise the costs associated with their warehousing operations, a cost that Asos put at £301.4m last year, or 11% of sales.

Next said in its latest half-year results statement that it has used lessons from the pandemic to build its online capacity and achieve greater efficiencies. This includes realigning all its shifts to maximise the use of the warehouse during the parts of the day and night that are traditionally quiet; for example, in the early hours of the morning.

THE COST OF RETURNS

If delivery represents the single greatest cost to retailers operating online, returns have the potential to come in a close second. Experts estimate the UK returns market is costing around £60bn annually and will continue to grow if retailers don't address the issues immediately.

Higgins notes that returns are a necessary part of online trading and differ vastly depending on the product and sector. "Typically if you're working in the electronics sector, where goods are bought to a specification, returns can be as low as 5%. But if you're talking about more fashion-oriented items where it's more to do with the look or fit of the product, which is very difficult to describe on a website, then returns can be anything from 30% up to 70%."

The cost of returns doesn't end once the product has arrived at the returns centre. Here, products still have to be sorted and graded. Some may be damaged and have to be scrapped, while others may need reworking to make them fit for resale. Often goods need to be repackaged, while seasonal items may have to be discounted if peak selling season has passed by the time the product has worked its way through the system.

The best way to maximise efficiencies in returns is to remove the need for them in the first place by, in Scott's words, "providing detailed, accurate information at the point of sale". Regular monitoring of customer reviews and product returns information, along with a quick response to customer queries, can also save unnecessary returns, he adds.

Jones puts it more bluntly. "The only way to sustainably reduce the rate of returns, in a way that will have a demonstrable impact on the bottom line and profitability, is to be absolutely and brutally clear about the promises of your product or service and then to keep every last one of those promises from the second your customer hits pay," he says.

Some retailers are looking to link the cost of returns to customer loyalty. Amazon Prime members benefit from free returns, while at Schuh, online returns are free for 'myschuh' account-holders but otherwise cost £2.50.

What's clear is that returns can aggressively attack profit margins so it's vital retailers do a lot of the hard work mitigating this early on with clear, concise and detailed product information on their website and quick, responsive communication to unhappy customers seeking returns, thus ensuring a potentially negative experience is turned around and has a positive impact on future purchases.

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TOP 7 WAYS TO MAKE YOUR ECOMMERCE OFFERING MORE PROFITABLE

1. Make sure you understand your costs at a product, channel and customer level and what part they play in profitability.

2. Don't pour money into customer acquisition to the detriment of customer retention.

3. Make it a priority to gain visibility of data so you understand your customers and what is important to them.

4. Invest in ecommerce talent. High-calibre individuals will save you multiple times their salary in long-term costs.

5. Pull available levers to nudge consumers in your preferred direction, for instance by incentivising click and collect.

6. Reduce returns rates by providing detailed information at the point of sale and delivering responsive customer care.

7. Plan for a post-Covid world by investing in tech that will reduce cost to serve and improve the customer experience.

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