

# The pros and cons of home delivery as e-commerce surges

With e-commerce in South Africa breaching the R55bn a year barrier, home delivery has become a way of life for the country's consumers. Yet, delivery isn't the right fit for every retailer's customer base or business model. Each merchant should balance the potential revenue gains against the costs and drawbacks of home delivery.



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That's according to Gerhard Le Roux, head of capital growth at Capital Connect, a fintech that offers fast and flexible business funding to South African retailers. He says that fleets of delivery bakkies and scooters have changed the shape of fast-food and grocery retail since the pandemic, contributing to 40% growth in South African e-commerce in 2021 and 35% in 2022.

"The growth of this market is hard to ignore," adds Le Roux. "Along with options such as click-and-collect, home delivery has transformed the customer experience since the first COVID-19 lockdowns. But it's a competitive space, and retailers that haven't jumped in should consider whether it's the right option for them. Some retailers might benefit from deploying capital elsewhere in their business."



## What is driving the e-commerce surge in SA?

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Le Roux says that some of the pros and cons retailers should consider before adding last-mile delivery to their service option include:

### **Pro: Customer convenience**

Customers love convenience, and what could be more convenient than getting hot food or groceries delivered in 45

minutes? Getting it right can drive repeat sales from loyal customers.

#### **Con: Loss of a personal touch**

Some retailers that offer a personalised touch and an advisory element in their store may lose differentiation when they go online.

#### **Pro: Reaching new customers**

Offering home delivery can help a retailer to reach new customers as well as ensure it doesn't lose existing customers to competitors with a delivery option.

#### **Con: Potential loss of sales through smaller basket sizes**

Some stores might lose their ability to cross- and upsell to customers who come into the store to shop and see the goods on offer. Although product recommendations on an e-commerce store can help to drive extra sales, it doesn't have the impact of an enticing store display or walking through a bakery with the aroma of freshly baked bread in the air.

#### **Pro: Driving new revenues**

A good home delivery service could enable a retailer to grow its top-line by getting existing customers to spend more as well as by reaching new consumers.

#### **Con: High costs**

The costs of offering a home delivery service can be high. Retailers will need to invest in vehicles and hire drivers, or outsource to a third-party logistics company, as well as build an app or ecommerce website. Alternatively, they can offer their services through a platform like MrDFood or Uber Eats. However, there will be platform fees to pay.

Customers aren't willing to pay large delivery fees or premium prices on home delivered goods. And costs such as fuel are highly variable, so margins are likely to be tight. In more remote areas with lower demand or those with higher crime levels or poorer infrastructure, for example, the economics might not make as much sense as they do in suburbs and cities.

#### **Pro: Customer choice**

Offering home delivery gives customers more choices. Those who may not have easy access to the store or prefer the convenience of online shopping can still purchase products from the store and have them delivered to their doorstep.

#### **Con: Missing customer expectations**

Last-mile delivery is no longer a new service and many of the competitors in the market are now offering delivery in 45 minutes or less. Any company that wants to enter this space needs to ensure that its store infrastructure and logistics engine can meet these expectations. Companies lose some control of their customer experience when they outsource logistics or leverage a third-party platform. A home delivery service that doesn't meet the consumer's expectations will harm customer relationships and lose money.



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#### **Instant capital to expand an omnichannel retail business**

Says Le Roux: "Providing delivery services in South Africa can be a strategic move for retail stores to enhance customer satisfaction, expand their reach, and stay competitive in a rapidly changing retail landscape. For many retailers, it can be a highly profitable venture and even turn into their largest revenue stream. Others might find that it's too expensive or dilutes

customer experience.

“Each retailer needs to look at its customer base, how consumer behaviour is changing, local delivery infrastructure, the competition, and its market positioning to decide which mix of channels to use. From pure-play e-commerce and click-and-collect to pop-up shops and brick-and-mortar retail, there are numerous options to choose from.”

Le Roux says that most retailers can grow by offering consumers flexibility, choice and a consistent experience whichever channel they use. The good news is that they can access instant capital to help fund their expansion into new channels and markets - whether they want to buy a scooter for deliveries or a shipping container to deploy as a pop-up store. Retailers can apply for a loan of up to R5m from an app and the funds will be in their bank account in 24 hours, or less.

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