

# Platforms in the e-commerce market and the relevance of ever faster delivery

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The recent surge of the social media platform TikTok has shown it again. Network effects hold unprecedented potential as part of a company's business model. Whilst TikTok is a rather new case, established platform giants like Amazon, have shown this potential already years ago and have led to network effects being taught as an integral part of introductory courses in business administration lectures. In this context, the importance of scaling is emphasized in order to derive the greatest benefit from network effects.

With the Internet as a basis to reach customers all over the world, scaling a company has become more feasible than ever. However, reaching out digitally to customers is only one part of the equation. The physical connection or delivery of the vendors' products is the other one.

## Surge of e-commerce

COVID-19 made this physical connection more important than ever since in-store visits were heavily restricted and e-commerce experienced continuous strong growth. According to the US Census Bureau, US e-commerce sales increased by 43% during the first year of the pandemic. Also, the global e-commerce market is figured to have grown more than a quarter to over US\$4.2 trillion in this period and is expected to exceed US\$8 trillion by 2026. This growing market holds great potential for platforms and network effects. While vendors want to reach the greatest numbers of customers and offer the most convenient delivery options, logistics providers want to provide their services to as many retailers as possible to maximize cargo load and make their routes as efficient as possible. Bundling the needs of the e-commerce market has brought up countless different types of business models.



Figure 1: <https://eminence.ch/en/best-strategies-and-tactics-to-boost-your-e-commerce-sales-in-2022/>

While the distinct services and unique selling propositions are platform-specific, the overall trend is to provide end-to-end services. This can also be seen by the fact that many platforms continuously extend their portfolio of services during their growth process to provide their partners with holistic solutions. The more

comprehensively the platform covers the operations of the retailers, the more attractive it becomes.

## What fast delivery offers and requires

One essential division of operations is logistics. After all, logistics is responsible for the goods' physical exchange and thus plays a crucial role in customer satisfaction. The delivery's perceived quality is determined by various aspects, including overall punctuality, options about when and where the delivery should be made, or rescheduling possibilities. When it comes to delivery options, McKinsey identified same-day delivery as the "next evolutionary step in parcel logistics". Over the last years, global players like Amazon or DHL, as well as numerous start-ups, have explored same-day delivery solutions. Also, traditional postal service providers are extending their last-mile capacities. In the case of the Swiss Post, this was done, among other things, through acquisitions of companies like the bike courier service notime AG.

Fast delivery options offer the opportunity to provide customers with near-instant gratification, just like physical shopping. Offering this solution, therefore, can be utilized to skim off market share from physical stores and increase general customer satisfaction. However, implementing this type of delivery should not be taken lightly. Such delivery options pose risks of overstressing companies' logistical capacities in regard to available staff or inefficient routing. Mandatory prerequisites are a high degree of automatization, effective inventory management, and flexibility in a company's order processing. Besides proper planning, maintaining same-day or even faster solutions like Amazon Prime

Now requires substantially more resources. Logistics companies must deploy additional transport capacity because routes can't be operated as efficiently as with traditional bundling and overnight main-run logistics. The resulting decreased efficiency increases costs and makes the option only viable in metropolitan areas or near logistics centers. This even holds for companies like Amazon. Nonetheless, same-day delivery can still be a solution for smaller shops. They can partner with one of the numerous fulfillment providers that bundle such shipments and take care of the physical and sometimes even digital processes. Provided a successful integration and data exchange, small e-commerce businesses can profit from the benefits of faster delivery.



Figure 2: <https://www.singlestore.com/blog/scaling-worldwide-parcel-logistics-with-singlestore-and-vectorized/>

## Same-day shipping: A must-have?

Surveys find that 30% of US buyers expect same-day delivery options, and 85% of consumers are expected to search for faster alternative deliveries if expectations are not met. In China, such fast delivery options are of equal, if not greater, relevance. In a 2019 Interview with McKinsey, the Assistant CEO of China's largest express-delivery company, SF Express, Eddie Huang, already anticipated further significant growth

in the Chinese e-commerce market and emphasized the importance of fast delivery options even in suburban or rural areas. According to Huang, expansion in those areas and building up infrastructure is easier. In this context, he mentions lower land prices and the viability of deploying unmanned vehicles and drones compared to densely populated areas. Until 2030, SF Express aims for standard delivery times of 12 hours. In metropolitan areas, Huang even sees times close to six hours feasible. Offering fast delivery options thus yields a high potential for increasing conversion rate and customer satisfaction in these markets. In the Chinese market, meeting the delivery expectations may be achieved best by partnering with a local service provider and by establishing a local presence. This can prevent delays that may be caused by Chinese customs regulations. However, the relevance of fast deliveries varies not only from market to market but also among product categories. Especially for pharmaceutical products and food, the option is in demand. Given this pressure from the customers' side, companies must adapt to today's demands. As the e-commerce logistics start-up Flexe puts it: Same-day delivery is no longer a nice to have. It's a must-have. At least in the US and China, it seems.

In Europe, however, same-day delivery options appear to lack widespread demand. Consequentially, companies like DHL, Hermes, and DPD ended their same-day delivery options after they didn't meet the expectations. In a customer survey, Hermes found that their customers prefer precisely timed delivery options over faster delivery. Further studies show that European customers are, in most cases, unwilling to pay a high enough premium to make these options viable, except in certain areas. As mentioned before, there are vari-

ous hurdles that need to be overcome before same-day delivery can be offered successfully. When it comes to the physical delivery of the purchases, not only considerations about planning and saving costs arise but also about how these deliveries are to be conducted. The already problematic traffic situation in most metropolitan areas will worsen with more and more transport vehicles. In combination with societies' rising concerns about climate change, alternative delivery solutions, e.g., via bike, must be explored and taken into consideration when companies plan their operations and address stakeholders' concerns.

Although same-day delivery has been heralded as the next big step in parcel delivery, its development seems to have fallen short of expectations, at least in Europe. With companies shutting down their same-day options and Amazon still only offering it in selected cities, it appears to remain more of a marketing feature and less of a soon-to-be standard option. However, regionally varying customer behavior and demands show that those aspects are culturally dependent. Such aspects are subject to change. The 21st century is already characterized by the spreading of American habits and consumer trends to Europe and the rest of the world. So, while same-day delivery lags behind its initially anticipated impact in Europe, this may change over the coming years. In conclusion, whether an e-commerce shop can and should offer such options is highly dependent on the company's operational abilities, the type of goods sold, the availability of partner companies, and the region's customer demands.

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