



COVID-19: Setting up or scaling your online delivery model

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Grocery demand is rocketing, but demand for non-essential goods, such as clothing and consumer electronics has slumped by at least 85 percent. With consumers at home and physical non-essential retail outlets closed, this has placed unprecedented demand on retailers to make sure their online delivery model is fit for purpose – and in some cases, to setting up online delivery for the first time.

The health and safety of workers will be the priority for retailers. Whether in warehousing, distribution or any related activity, social distancing and sanitisation measures must be followed rigorously in online fulfilment. However online delivery remains, at the time of writing, a critical and permitted route to market for retailers, both in the essential and non-essential categories and is particularly important to serve vulnerable customers.

Whether you are an established big retailer or a small entrepreneur; setting up a permanent or temporary capability, here are the top things to consider when starting up or scaling your online delivery model at speed:

- Finding the right partner and channels to market
- Protecting your business online
- Maintaining customer confidence
- Delivering the goods
- Understanding tax and VAT impacts

Finding the right partner and channels to market

Building an online technology capability can be time-consuming and expensive. Speed, cost efficiency and safety are your main concerns.

Paul Martin, UK Head of Retail at KPMG UK, comments:

// Retailers setting up or scaling their online delivery model have a choice between self-build or partnering. The speed equation, in the current environment, probably favours partnering. But be cautious. Is this a temporary agreement and how much margin are you prepared to hand over to a partner to do your heavy lifting? What's the likelihood of damage to your brand before we return to normality? //

Before you move into partnership, weigh up their platform offering;

- **Software and logistics** – offering payment processing and deliveries such as Deliveroo, Uber Eats and Just Eat. This will work best in towns and cities where the need for delivery infrastructure is greatest.
- **Software-only** – you receive an order via the platform, prepare and deliver the food. This will work best in less densely populated areas.

Though partnering might be the speediest option, make sure it is a no-regrets solution. Nail down your contract terms, particularly on costs and duration.

What have we seen so far? Some examples:

In the food sector, partnering platforms, like Deliveroo, Just Eat and Uber Eats, are providing a commercial lifeline for pubs, restaurants and hotels that have had to close their doors.

To offload excess winter stock, clothing retailers are setting up parallel clearance channels, or turning to white-label partners, such as Zalando, or e-commerce platforms, like Amazon, with ready-made customer networks, checkout and fulfilment capabilities.

Big online delivery platforms are overwhelmed by orders, creating scope for takeaway partners to venture into grocery deliveries. By teaming up with Deliveroo, Marks and Spencer is having its food delivered direct to customers' doors from its BP forecourt franchises.

Small businesses, like independent pubs and restaurants, are making best use of their assets, by offering take-out rather than eat-in and becoming delivery hubs for groceries. Healthy fast-food chain Leon has converted shops into grocery and ready-meal outlets. By scaling up, they are delivering 5,600 free meals to NHS workers everyday with the support of restaurants and other suppliers¹.

¹ <https://www.hospitalityandcateringnews.com/2020/03/restaurants-transform-hospital-caterers-leon-powers-feednhs/>



Maintaining customer confidence

The online experience for customers should be functional, informative and easy to navigate.

Key things to consider:

- **Consumers need support.** Provide a physical helpline or online chat.
- **Ensure product quality is consistent from online to delivery.** Inaccurate online imagery that does not represent the product will prompt an influx of complaints, returns and refund requests.
- **Keep stock levels under review** (your own and your merchants'). It is better to show stock of three available items, than 10, seven of which are unavailable.
- **Make sure the delivery mechanism fits your value proposition and brand.** Do plastic take-away boxes, on-the-back-of-a-bike delivery uphold the image of your top-end restaurant?
- **Be clear and fair on pricing.** Customers can more readily compare prices online than in physical stores, and any perception of price gouging in the current climate will damage your integrity.
- **Capacity is critical,** particularly when staff sickness and self-isolation levels are so unpredictable. Just one bad online delivery experience compromises trust. Be clear about how much you can actually do. And don't exceed it.

Whatever your approach, communicate. Ensure customers understand the changes you're making and where to find you online; explain spikes in demand for home-delivery slots, and set out how you would like to engage online during the pandemic.

Businesses that win customer confidence at a time when nervousness is high stand a much better chance of success once we come out the other side of this COVID-19 crisis.



Protecting your business online

Criminals are already taking advantage of COVID-19 to defraud and disrupt. Protecting your customers' data should be a priority. Rather than building your own cyber competencies, professional third parties can help safeguard your online capability. Here are some options you could consider:

- **Passwords:** try to avoid having customers register with a password. Use alternatives by allowing customers to log on with their social media or other identify provider accounts to your website.
- **Secure web gateways** can protect your employees from cyber security threats when online.
- **Third-party payment providers** can provide assurance by processing payments made on your website or app.
- **Fulfilment providers** can handle communication, payment and delivery mechanisms on your behalf.



Delivering the goods

Consider your logistical practicalities in order to determine the footprint for your fulfilment offering. Fulfilment of online orders might be more convenient from stores because they tend to be closer to customers, but stock is often held in less centrally located warehouses.

Putting checks in place will help to ensure that products are dispatched from the best location to the right customer. Ideally, delivery slots should be broken down into 15 or 30-minute intervals, with a predetermined number of drop-offs. Once the slots are filled, prompt online customers to pick an alternative.

Include a communication mechanism that tells customers that their order has been received; that it is being prepared; that it is out for delivery, and include an address confirmation.



Understanding tax and VAT impacts

Government is doing what it can with tax, VAT and business-rate holidays, as well as other measures to maintain personal and business solvency. For those food retailers seeking to compensate for lost footprint by moving their businesses online, and using existing platforms and employees, the corporate and employment tax treatment is unchanged.

The VAT rules for delivered or take-away food are more complex. Broadly, most delivered food is subject to VAT at the standard rate (20%). However, prepared cold salads, sandwiches, sushi, various desserts, uncooked or heat-at-home ready meals, milkshakes and iced coffees are zero-rated (0%). The VAT treatment for delivery charges should mirror the VAT treatment for the food.

Remember that your online retail operations may come under scrutiny. You will need to be able to demonstrate, in the future, that you set up your model with due care.

All retailers are under intense pressure to continue to meet their customers' needs under extraordinary circumstances. While businesses may feel they need to choose the speediest option, it is essential to consider the longer-term implications of decisions you are making now and protect the future of your brand. This document is intended to provide a guide for those key considerations, and we would welcome any questions you may have.

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