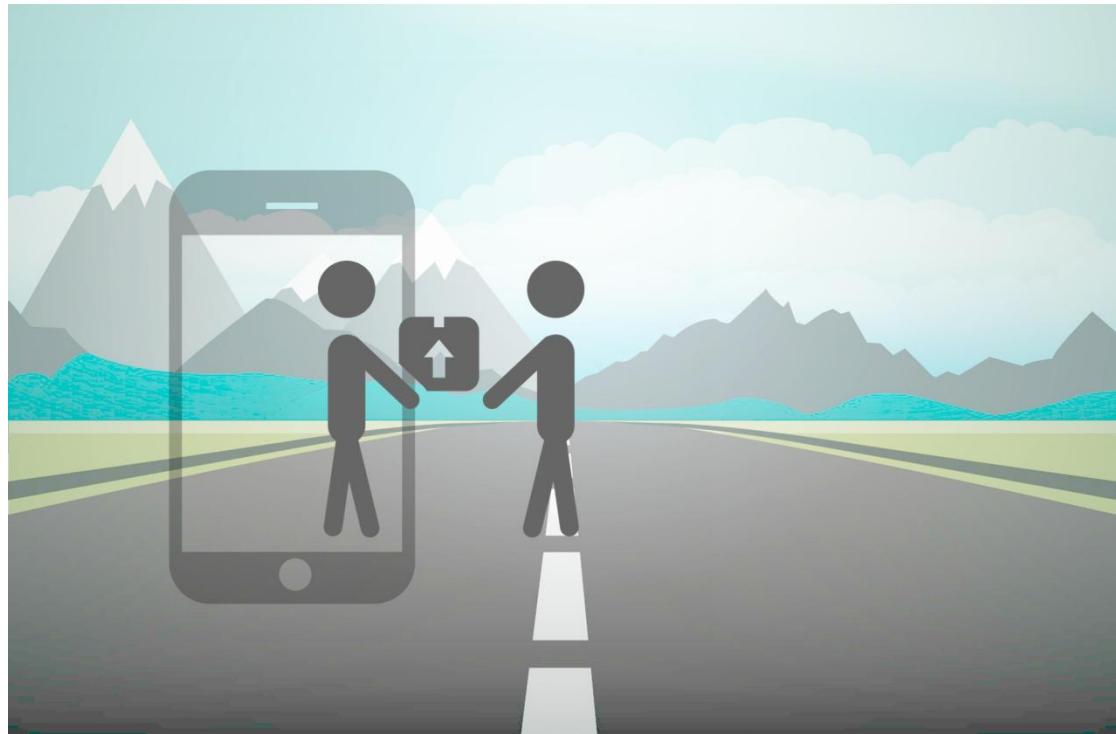


## Crowdsourced Delivery



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## Introduction

In a world of speed, convenience and fast delivery become the new battleground for customer experience. Retailers are experimenting ways to reduce their costs of delivering online orders, and at the same time increase the speed of delivery. A couple of international enterprises such as Wal-Mart and DHL have started experimenting crowdsourced delivery a few years ago.

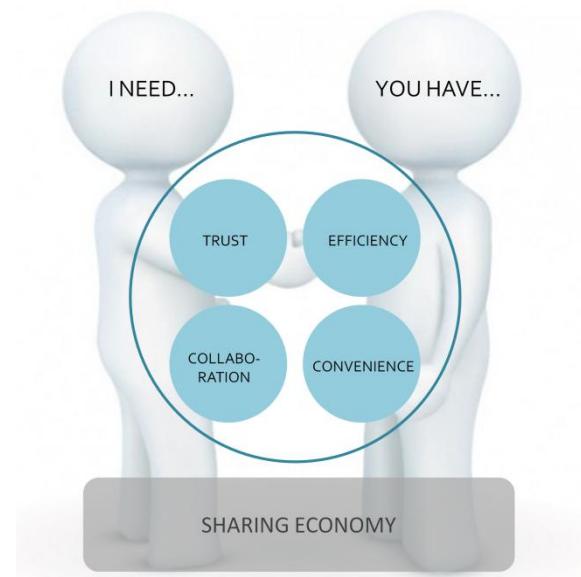
Crowdsourcing goes hand-in-hand with the concept of sharing economy as it matches demand with supply digitally, based on the sharing of excess and underused assets. It leverages technology to line up with a group of idle human resources to create a new cost-effective logistics system.

Crowdsourcing is still new in China, and not until recently, some companies have started rolling out crowdsourced delivery services. There are a lot of potential problems such as safety issues, legal questions, liability concerns, and reputational risks. That said, as crowdsourced delivery matures, it may have profound implications for traditional express delivery players. On the other hand, with the rapid growth of e-commerce and O2O development, crowdsourced delivery may become the next big trend to watch as it helps pave the way for O2O by providing convenience and speedy e-commerce fulfillment and last-mile delivery.

## What is crowdsourcing and crowdsourced delivery?

Crowdsourcing goes hand-in-hand with the concept of sharing economy. An important element of crowdsourcing is that it builds on the sharing of excess and underused assets. Crowdsourcing allows activities that were traditionally performed by a certain agent or company to be outsourced to a large pool of individuals. Members of this economy, whether personal or professional, can direct resources to just the place they are needed.

Exhibit 1 | What is crowdsourcing?



Source: Fung Business Intelligence Centre

Crowdsourced delivery is a web or mobile-based courier service which leverages large groups of geographically dispersed individuals to match demand with supply digitally.

Nowadays, customers demand fast delivery and good customer service. Both traditional retailers and e-tailers are trying to provide same-day delivery for customers. They have either formed partnership with crowdsourced delivery platforms or rolled out their own services. Crowdsourced delivery platforms are platforms that connect people who need things delivered with independent couriers, or delivery staff who can help. It makes use of idle human resources to complete tasks that otherwise require massive amount of work and long logistics lead time.

## How does crowdsourced delivery work?

When a consumer has bought some goods and services and requested same-day delivery, a fast and effective way is to outsource the job to the readily available couriers. Exhibit 2 illustrates the process of crowdsourcing via crowdsourced delivery platform.

When an individual (service seeker) submits a delivery service request online or via an app and wants an item delivered, the crowdsourced delivery platform sends the confirmed order details to available approved couriers in the vicinity of the dispatch point. Similar to the way taxi hailing apps work, the first courier to accept the delivery assignment secures the task. Couriers receive remuneration in return.

Exhibit 2 | Crowdsourced delivery platform – how it works?



Source: Fung Business Intelligence Centre

## Pros and cons of crowdsourced delivery

### *Advantages of crowdsourced delivery*

Crowdsourced delivery attempts to achieve a win-win situation by connecting enterprises with part-time individuals who have spare capacity. For these enterprises, crowdsourced delivery can help them reduce logistics costs, especially for last-mile delivery. It also helps satisfy the growing demand for e-commerce logistics, especially during certain e-commerce promotional periods. Moreover, having no vehicles to maintain, warehouses to stock the products or regular salary and benefits to pay helps companies save a lot. Besides, these part-time couriers can work anytime and anywhere, adding flexibility to the delivery process.

From an environmental perspective, crowdsourced delivery may help alleviate the traffic congestion problem and reduce car emissions. From a social perspective, it provides employment opportunities for people who want have trouble getting a full-time job, or want to earn extra money.

### *Risks and challenges of crowdsourced delivery*

In reality, crowdsourced delivery has some pitfalls and uncertainties. Such service may not be as reliable as those provided by traditional courier companies. A number of safety issues need to be addressed: Theft, fraud, damage of parcels or late delivery may occur, and it is not clear that who should be responsible for such problems. There are privacy concerns too. For instance, retailers sharing home addresses and shopping habits of customers with strangers may be dangerous.

Furthermore, there are additional costs such as insurance, lawsuits and training of part-time staff. Training is needed to ensure the consistency of service quality. Training costs of couriers are high as their turnover rate is very high. Companies have to consider the uncertainty as well as sustainability of the large pool of part-time labour force. Last but not least, managing the geographically-dispersed labour force may also be a challenge.

Exhibit 3 | Pros and cons of crowdsourced delivery

# Pros

# Cons

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- |   |   |
|---|---|
| <ul style="list-style-type: none"><li>✓ Flexible workforce on-demand</li><li>✓ Significant cost savings:<br/>No or limited overhead costs,<br/>lower logistics costs</li><li>✓ Meet the growing demand for<br/>e-commerce logistics</li><li>✓ Help alleviate traffic congestions<br/>and air pollution</li><li>✓ Provide employment<br/>opportunities for communities</li></ul> | <ul style="list-style-type: none"><li>✗ Safety issues</li><li>✗ Privacy concerns</li><li>✗ Legal and liability concerns</li><li>✗ Uncertainty and<br/>sustainability of part-time<br/>workforce</li><li>✗ Other costs such as training<br/>costs, insurance, lawsuits</li></ul> |
|---|---|

Source: Fung Business Intelligence Centre

## Overseas cases of crowdsourced delivery

Crowdsourced delivery has emerged earlier in overseas countries. Several big enterprises have launched trial operations previously to test the market. Selected examples include:



Wal-Mart trialled a crowdsourced delivery service to its online shoppers in the United States in 2013. It outsourced some of its deliveries to its own customers. In-store shoppers would deliver packages on their way home from the store to people who bought the items online at [walmart.com](http://walmart.com). In return, in-store customers would get a discount for their delivery efforts, which would essentially cover the cost of fuel<sup>1</sup>. In this way, it turned customers in its stores into couriers, and at the same time, it also turned their vast networks of physical stores into distribution hubs for online purchases.



DHL experimented with a crowdsourced parcel delivery service in Stockholm during September to December 2013<sup>2</sup> with an app named MyWays<sup>3</sup>. The service connected individuals who ask for flexible deliveries with those offering to deliver parcels along their daily routes for a small fee.

After ordering a product online, the recipient could specify both time and location for the delivery in Stockholm, as well as the delivery fee. The package would then register at one of DHL's collection locations and became visible to all MyWays users. They could decide which parcel they would like to transport to the appropriate address and at the specified time.



Picture source: DHL official website



Macy's began piloting same-day delivery in October 2014 to online consumers in eight markets (Chicago, Houston, Los Angeles, New Jersey, San Francisco, San Jose, Seattle and Washington, D.C. Bloomingdale's, its sister chain, offers the service in four markets: Chicago, Los Angeles, San Francisco and San Jose). It then expanded the service to nine additional markets (Atlanta, Boston, Dallas, Honolulu, Las Vegas, Miami/Ft. Lauderdale, New York City/Western Long Island, Orange County and Philadelphia. Bloomingdale's offers the service in the aforementioned markets except Dallas and Las Vegas) in August 2015<sup>4</sup>.

The same-day delivery service is supported by Deliv, a crowdsourced delivery company, in collaboration with major mall owners including General Growth Properties, Macerich MAC, Macerich, PREIT, Simon Property Group, Taubman Centers and Westfield Corporation. They charge a flat rate of US\$5 above standard ground shipping fees for same-day delivery service.

In certain markets (currently Chicago, Los Angeles, San Francisco and the Bay Area), Deliv also offers pickup of an online purchase being returned to macy's.com or bloomingdales.com. To schedule a return, customers can go online to authorise the return and schedule a pickup time at their preferred destination.



In its constant quest for speedier delivery, Amazon is reportedly considering paying normal people to deliver packages as part of a crowdsourced delivery program in June 2015<sup>5</sup>. The new service, tentatively known as "On My Way," will hire retailers in urban areas to store packages and pay regular people a small fee to make deliveries. Presumably, customers can pick up their own package and then grab other parcels to deliver to others at their convenience<sup>6</sup>.

Some other companies such as U.S.-based Zipments, Postmates, GrubHub, Australia-based MeeMeep are all trying out the crowdsourced delivery model to outsource delivery orders to the public.

## Crowdsourced delivery in China

China is a latecomer in terms of launching crowdsourced delivery service. That said, crowdsourced delivery is getting popular in China as it helps solve part of the last-mile delivery problems especially during the annual online shopping festivals such as the Singles' Day and annual promotional campaign on June 18 ("618 festival"). Crowdsourced delivery is also valuable for certain product categories such as daily necessities and fresh products, where consumers demand same-day delivery service.

Recently, several companies have started experimenting crowdsourced delivery service. Below are the cases of Renren Kuadi and JD.com's JD Crowdsourcing services.



Renren Kuaidi is one of the earliest pioneers in China's crowdsourced delivery industry. It started operation in March 2013, but not until March 2014 did it draw much public attention amid intensive media coverage<sup>7</sup>. Renren Kuaidi now has operations in 16 cities<sup>8</sup>. An important aspect of the company's value proposition is to provide fast delivery; it promises to complete the delivery process in 30 minutes within 3 km for delivery orders in the same city.

Renren Kuaidi runs a credibility-based delivery model. Part-time couriers have to bind their credit card with Renren Kuaidi's system. When a courier accepts a delivery order, the amount corresponding to the package value would be frozen in the courier's credit card account to prevent damage or theft, until the delivery is completed. To protect the privacy of the package sender and recipient, details of the delivery order will be deleted after the recipient receives the products<sup>9</sup>. Couriers get 8 to 12 yuan in return per order depending on different cities<sup>10</sup>.

In November 2014, Renren Kuaidi obtained US\$15 million funding from investors including Tencent Holdings and Banyan Capital<sup>11</sup>, indicating that investors feel confident about the development prospects of crowdsourced delivery in China.



Picture source: Renren Kuaidi official website - <http://www.rrkd.cn/>



JD Crowdsourcing is the crowdsourced delivery service offered by JD.com. The service is similar to those offered by other crowdsourced delivery companies. Anyone can be a part-time courier of JD.com. JD.com's O2O service platform JD Daojia (literally JD to your home) is the first service which leverages the JD Crowdsourcing service. The service first started in Shenzhen in May 2015. JD Daojia users can buy products from local supermarkets or takeout meals online, and experience fast delivery services provided by JD.com's part-time couriers.

The operation is similar to that of other taxi apps. When a user places an order request on the app, available couriers bid for the order; the first courier to accept the order secures the task. Very often, delivery orders are fulfilled by courier within 3 km of the location of the user, and thus the delivery process can be completed within two hours<sup>12</sup>. The courier gets 6 yuan per delivery order in return.

The service is currently available in several cities, including Beijing, Shanghai, Guangzhou, Shenzhen, Chengdu<sup>13</sup> and Nanjing<sup>14</sup>. According to JD.com, JD Daojia will further promote the service of JD Crowdsourcing national-wide and expand its product offerings<sup>15</sup> in the near future.

The image shows the JD.com mobile application interface. At the top left is the JD.com logo with the slogan '掌上京东'. Below it is a banner for '京东到家' (JD Fresh) featuring a green icon of a smiling fish-like character. The banner text includes '京东到家' (JD Fresh), 'iOS Android客户端' (iOS/Android Client), and '没错！这就是传说中让你懒在家里不出门的神器，京东到家！' (Indeed! This is the mythical device that lets you stay at home without leaving, JD Fresh!). It also features a '一键下载' (One-click Download) button and a QR code. To the right is a smartphone displaying the JD Fresh app's order tracking screen. The screen shows two pending delivery orders from '蓬莱·钟剑店' (Pengle · Zhongjian Store). Order 1: '1元到家！点我！」 (1 yuan delivery! Click me!), distance 772.3 meters, delivery by Li Zhijie (李忠静) at 1.3 km, cost 1.0 yuan, due 0 minutes. Order 2: '1元到家！点我！」 (1 yuan delivery! Click me!), distance 772.3 meters, delivery by Zhou Yuting (周玉婷) at 1.9 km, cost 1.0 yuan, due 0 minutes. Both orders have a '取货' (Fetch) button. At the bottom of the app screen are navigation icons for '我要抢单' (I want to bid), '已抢单' (Bids placed), '扫码' (Scan code), and '关于我的' (About me).

Picture source: JD official website, JD itunes -

<https://itunes.apple.com/cn/app/jing-dong-zhong-bao/id1000513268?mt=8>

## Crowdsourced delivery in China still at infancy development stage

In China, crowdsourced delivery is in its infant stage of development. Apart from the risks and concerns mentioned earlier, there are also some regulatory issues that may hinder the development of crowdsourced delivery. It was reported that the operations of Renren Kuaidi were suspended in some provinces such as Shanghai<sup>16</sup>, Tianjin<sup>17</sup>, Henan<sup>18</sup> and Hubei<sup>19</sup> in 2014 because their operations were initiated prior to the official approval of the provincial governments.

Moreover, according to some provincial general post offices, it is a requirement that at least 30% of the employees of a courier company should have a delivery service license; most crowdsourced delivery companies fail to meet this requirement. Also, there is no national training standard/ training program for the part-time staff of the crowdsourced delivery platforms. The services provided by these platforms may not be consistent or up to standard.

It still remains uncertain whether the government will further regularise the crowdsourced delivery market to prevent the potential risks of crowdsourced delivery, and set clearer standards to support its development.

## Implications to traditional express delivery sector

Obviously, if crowdsourced delivery provides reliable and fast delivery, and can do it for less than the courier companies, it could grab a bigger share of the express delivery market. That said, crowdsourcing delivery is still very new in China and there are a lot of potential problems such as safety issues, legal questions, liability concerns, and reputational risks. Moreover, the sustainability and profitability of such service remain a question. For instance, if there are insufficient orders or there are not enough part-time couriers at the time when the service is needed, the service cannot go ahead. Also, the operation is largely subsidised by the crowdsourced delivery platforms. The operation alone is often not profitable.

But we believe crowdsourced delivery companies will continue to experience different operation models and come up with innovative ways to run their businesses. If crowdsourced delivery takes off in a big way, it may have profound implications for the express delivery sector. Courier companies need to be more creative and find some new ways to operate and provide better services for their users.

## Conclusions

As crowdsourced delivery matures, it may become a promising trend in China. The rapid growth of e-commerce and O2O development has fuelled the demand for retail logistics services. However, even today, last-mile delivery is still a hiccup for many retailers and e-commerce players. Crowdsourced delivery, which largely based on the concept of sharing economy, can help solve part of the problems by providing speedy delivery to remote districts. However, given the potential risks and uncertainties involved, enterprises shall weigh up the pros and cons before trialling the new initiative.

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