Costing Delivery into the Nursery Pricing Structure©

Nick Coslett
Palmstead Nurseries Ltd., Harville Road, Wye, Ashford, Kent, TN25 5EU, U.K.
Email: nick@palmstead.co.uk

INTRODUCTION

Palmstead Nurseries is a large trade only wholesale nursery in Kent. It grows a wide range of hardy nursery stock (more than 2,100 species at the last count) including field- and container-grown trees, shrubs, and perennials. Customers are primarily landscapers, large private land owners, and local authorities. Hardly any production goes into the retail market but over the last 5 years increasing numbers of garden designers have become customers. This increase has in part mirrored the decline in plants going to new house build landscaping which had been a core market.

Like many nurseries serving the amenity sector it had been usual practice to deliver orders valued at more than £1000 free of charge and few regular customers were charged for delivery even if their orders were smaller. However the nursery began to face significant strains on profitability, as product prices were under intense competitive pressure and the contribution towards delivery costs from sales was also being squeezed. The nursery's generally free delivery and local service, as well as quality of product and service, retained strong loyalty from a large number of long term customers. However the cost of running a fleet of three large lorries (15 tonnes and 10 tonnes) and one small 3.5 tonne truck, together with three full-time drivers was approximately £200,000 per year – working out at about £2 per mile travelled. Of these costs 40% were labour, 35% vehicle costs, and 25% fuel costs.

TRIGGERS TO CHANGE DELIVERY COST POLICY

First, fuel prices began a rapid rise from the third quarter of 2007 and this continued during the first two quarters of 2008, by which time the diesel price had risen more than 30% from what had been a reasonably consistent 90p to 100p per litre during the previous 2 years. This was a significant inflation factor as fuel contributed to 25% of all delivery costs.

Second, while this was happening, the "credit crunch" was having a major impact on all sectors of U.K. business – and in September of 2007 the Government took over the failing Northern Rock bank. The market place was in some flux, house builders reduced their volumes anticipating the reduction in availability of mortgage credit. Palmstead Nurseries saw order activity drop in Autumn 2007 and competitive price pressures increased. However, the cost of running, staffing, and delivering plants to customers was in the region of 10% of all costs. The labour element was close to 40% of that and with pay linked to statutory Agricultural Wages Board rates annual increases were adding at least 3% a year to this element. Free deliveries were becoming unsustainable as prices were under pressure.

The turmoil in the economic markets and the increased fuel prices were being experienced by everyone and gave clearly evident reasons to support a change in policy. Other companies and industries were increasing prices and transport rates. Palmstead Nurseries could not continue to absorb delivery costs without major loss of profit margin. A new catalogue was being prepared in Summer 2008 and this was the opportunity to review terms and conditions and set out a new delivery policy. Research into competitors' charging policies was carried out – concluding that although many nurseries had charging policies in place, implementation of them was variable. It seemed everyone wanted to keep regular customers sweet and not "rock the boat."

MANAGING A CHANGE IN POLICY

A new policy on delivery charges was drawn up for implementation from the start of the nursery's financial year in August 2008. It included clear zones and bands, based on

distance from our nursery and while these reflected in part the original terms and conditions it was more clearly stated, with an adjoining map (Fig. 1). The information was printed on the back page of the catalogue, published on the website, and included in a letter to all active customers. The new policy was:

- For deliveries within 20 miles: £25 delivery charge.
- For deliveries between 25 and 50 miles: £40 delivery charge.
- For deliveries between 50 and 65 miles: £50 delivery charge.
- For deliveries between 65 and 90 miles: £60 delivery charge.
- Orders valued at more than £1,000 were free delivery up to 90 miles. Deliveries beyond 90 miles on mainland U.K. were price on application.

Fig. 1. Map for delivery zones.

A special "preferred customer" band was introduced to smooth the way for regular and large volume customers: they were asked to make a contribution of just £25 per delivery irrespective of distance, with deliveries free on orders worth more than £1000. These customers were generating the bulk of turnover and the top 20 were responsible for 43% of delivery journeys. The £25 contribution was equal to a 2.2% price rise for these top customers for their small deliveries (sufficient for a day's planting). They received a personal letter in which we asked for their reactions. A product price rise was not implemented or intimated, in fact we clearly stated that our plant prices would remain wherever possible stable and consistent. Only a handful of customers did react, as was expected, and compromises were agreed with them. Others altered their ordering behaviour and grouped deliveries for different sites just to one address or grouped deliveries from daily to a couple of times a week. Others agreed to collect more frequently.

Prices for web customers (who paid standard list prices) were formulated by allocating each postcode a respective delivery charge which was applied automatically as customers placed their online web orders.

The sales and accounts team were trained to include delivery charges or contributions on all quotes and invoices. This was implemented across the board apart from the handful of specials whose compromise agreements were a reduced contribution or continuation of

free delivery. The accounts software was adjusted to include the customers "delivery charge status" and so guide staff for each transaction.

The result was that in the year 2008-2009, delivery charge income increased by 260% to £65,000, making a significant contribution towards the company's overall delivery/fleet costs.

The impact of the delivery charges on the company's business was a reduction in the number of deliveries over the following 12 to 24 months though turnover continued to grow, albeit more slowly. The graph (Fig. 2) illustrates the impact of implementing charges at the start of the 2008-2009 season. Delivery miles did not reduce but the number of loads did. This was because regular customers grouped orders to get each delivery load above the £1,000 threshold and they started to plan a bit more. A further review of delivery charges was implemented in June 2010 with no discernible effects on the volume of business. There was actually an increase in the number of customers and the number and value of deliveries, generally to garden designers who were more accepting of charges than landscapers were.

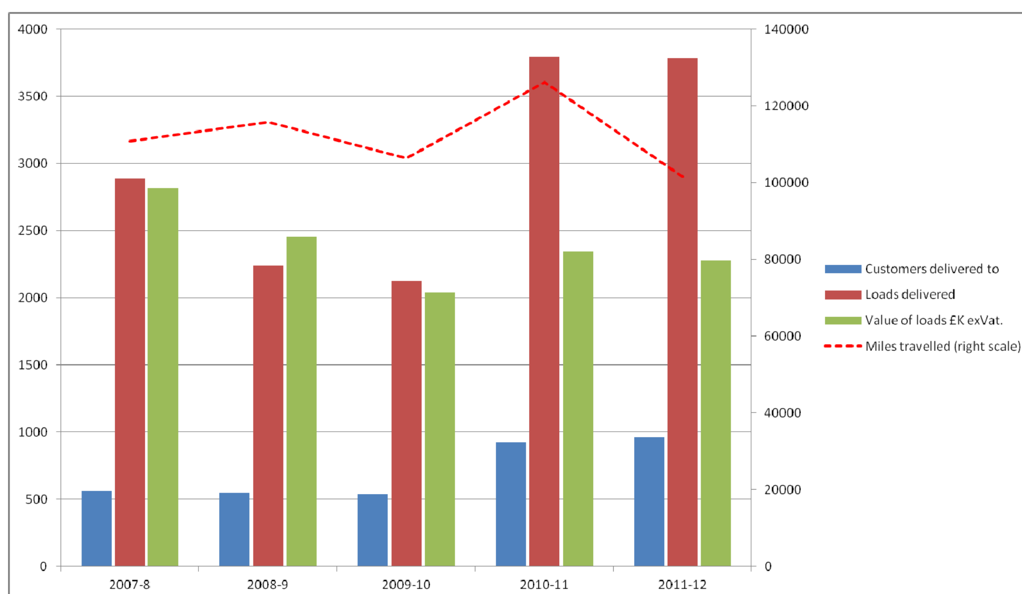

Fig. 2. Impact of implementing charges on delivery figures 2007-2012.

Fleet costs were also reviewed. It was decided that vehicles should be changed every 5 years, and as many customers were in London the company had to comply with the London Emission Zone rules. Newer trucks are more fuel efficient. The logistics of routing and loading were also studied using lean management principles and as part of a Nursery Business Improvement Scheme exercise. It was found that a policy of responding within 24 h to customers' demands disrupted the planning of some delivery routes and reduced certain efficiencies. Use of "sat-nav" and route planning continues to be a core part of the logistics operation. The adoption in 2010 of a logistics calendar within the sales software programme has further improved planning, routing, and geographic grouping of customer deliveries. All sales staff can see future planned deliveries inbound and outbound on their computer screen. This, along with better data collection, has allowed improved logistics management and control of costs. For example, greater use is now made of couriers and pallet services, if it is a more economic method.

The nursery undertook a further review of deliveries in Summer 2010 after a period of further fuel price rises. However, these rises did not result in fuel costs above the peak price per litre of 2008. In order to maintain income generated from delivery charges, the free delivery for orders over £1,000 was dropped; an average of £10 was added to the rate for each zone; and the "preferred customer" rate was increased by £5 to £30. As before,

all changes were explained to customers by letter, which received no reaction, and the revised charges were implemented. Customers had or were becoming accustomed to charges and tolerant of their modest level. Figure 3 shows the impact on nursery income of implementing a delivery charge policy, which in turn had very positive impact on overall profitability.

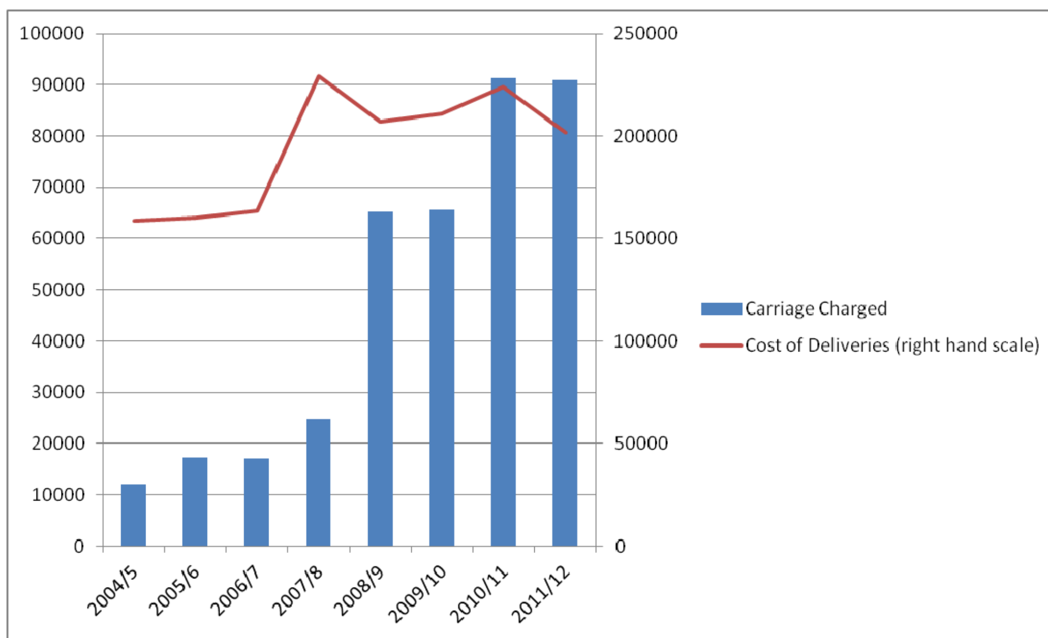

Fig. 3. Income generated from implementing delivery charges in 2008 and 2010.

FACTORS TO CONSIDER FOR THE FUTURE

In 2012 transport fuel costs again increased, to more than £1.40 per litre and the nursery is undertaking a further review to maintain the contribution that delivery charges make to overall income. It is unlikely that charges will recover the full fleet and delivery costs but recovering half or more is the aim, even if this is only achieved in incremental steps. The business cannot afford to carry the full cost of dispatch and remain profitable. The plant price and order package traditionally included some or all the contribution to dispatch costs but this can no longer be born. Delivery charges are not a fixed item and future steps may also include charging packaging costs. The first step toward this is recording of packaging data on delivery notes. Customer attitudes have changed as the market has changed and there is now greater acceptance that their wholesale plant orders carry a delivery charge. There is also a reciprocal expectation that customers can have deliveries to where and when they require – on occasion with very short lead times.

Collecting good quality data on sales and deliveries has allowed better management of this function and continues to generate efficiencies and benefits to customers. The company continues to consider the possibility of using third party suppliers for delivery services, although has yet to find one who can handle all of the varied load types and customer care needs as effectively as the current in-house service. The company is sensitive in passing over this major responsibility to others – Palmstead's drivers are the nursery's main brand ambassadors and generate considerable positive customer feedback. Therefore for the immediate future the company will continue to deliver to its customers directly.