

## Use case: hidden costs of late apparel delivery

### Case:

A digital retailer sells t-shirts online. For ease of purchasing, they only offer one shipping option, which has an estimated delivery of 5 days. They're considering switching to 3 day guaranteed shipping, which costs \$7 more per package, but keeping their shipping costs the same and subsidizing the difference. To make this choice, they want to know: **do customers who experience a late delivery order again? How much do late deliveries cost in forgone revenue?**

### Approach without King Street Economics:

The retailer whips out excel and finds that 80% of customers who experienced a late delivery reorder. Customers who don't experience a late delivery also reorder at 80%. They conclude that late deliveries have no effect on future orders and make no changes.

### Problems with this approach:

- How much would customers who experience a late delivery have re-ordered, **if they hadn't experienced one?**
- If customers who order more often are more likely to experience late deliveries, then the digital retailer may be losing out on easy business even though the customers experiencing late deliveries re-order at a similar rates as those who don't
- If customers who experience a late delivery do re-order less, it's important to know how much revenue is foregone in order to perform a cost-benefit analysis of the proposed shipping change

### How King Street Economics could help this firm:

- Use advanced statistical modelling to identify a customer's probability of experiencing a late delivery
- Calculate the actual effect experiencing a late delivery has on follow-up orders
- Translate the results into an estimate of foregone revenue to enable the firm to perform a cost-benefit analysis on their proposed shipping policy change
- Present results in a clear, easy to digest report with an accompanying slide deck

### Want to find ways you might be leaving money on the table?

Email [contact@kingstreeteconomics.com](mailto:contact@kingstreeteconomics.com) to schedule a free consultation.