

The State of Ecommerce Order Fulfillment & Shipping



Introduction

Online sellers have a problem.

They are now being faced with increasingly-demanding, and, at times, unrealistic expectations from online buyers to deliver orders with unprecedented speed for little to no added cost.

eFulfillment Service's The State of Ecommerce Order Fulfillment & Shipping report combines data compiled from online merchants we service along with data from other recent studies, and aims to disseminate the facts as they relate consumer purchasing and shipping behavior.

A significant gap currently exists between the delivery speed and costs desired by online buyers, and the actual speed and costs offered from most online sellers.

This gap, in part, has been created by what is commonly referred to as the "Amazon effect," a threatening expectation among Amazon shoppers for fast, free delivery, which has extended beyond the Amazon microcosm to the entire ecommerce landscape.

Online sellers have a choice.

Sellers may decide to join the ranks of Amazon in hopes of winning multiple laps in what is often a race to the bottom. And for some sellers, this strategy will reap its benefits.

For others, a more fruitful approach is to distinguish their products and brand to a point that shipping speed and cost becomes less of a concern, and more of an afterthought.

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SECTION 1: A STATE OF BOOM

ECOMMERCE SPENDING

Across the globe, the growth of ecommerce is far outpacing the growth of overall retail sales, and will reach \$4 trillion by 2020.

Asia-Pacific

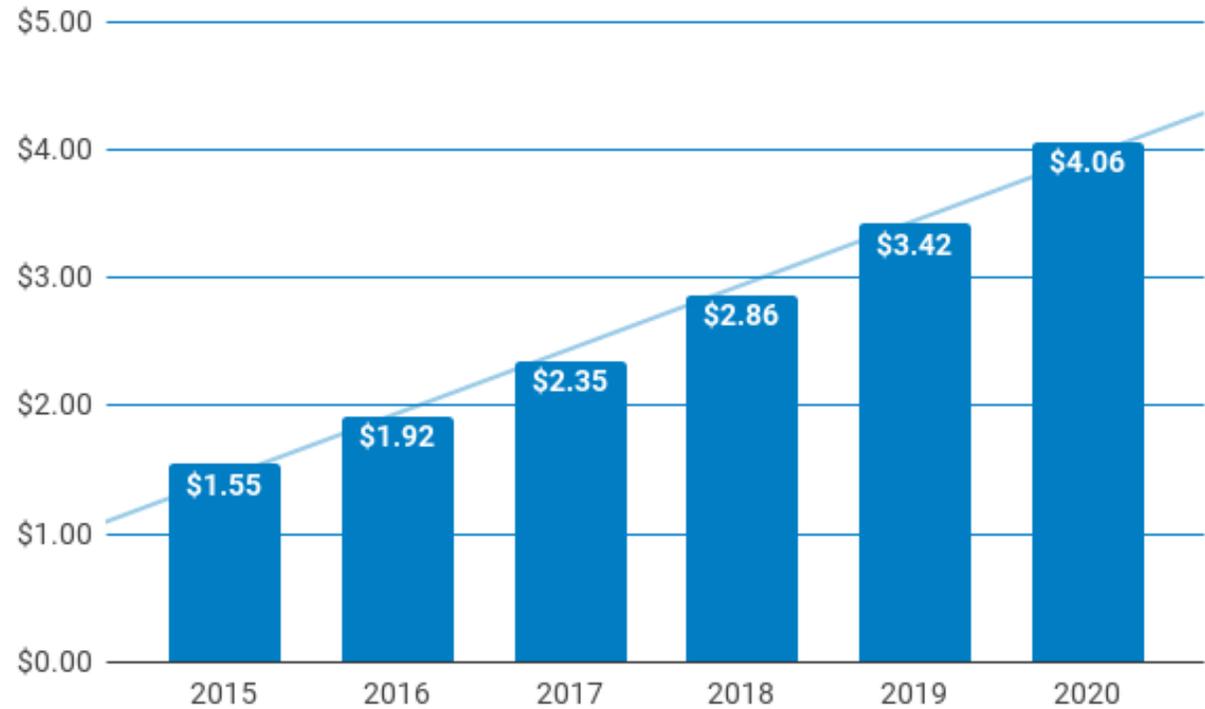
Due to an expanding middle class, wider access to internet, as well as a more substantial logistical infrastructure, Asia-Pacific will remain the largest ecommerce market for years to come.

North America

North America will continue to remain the world's second largest ecommerce market, and will continue to see double-digit growth for the foreseeable future.

Worldwide Ecommerce Spending in the Trillions

Includes all products and services ordered online via any device, regardless of payment or order fulfillment method.
Excludes travel and event tickets.



By 2020, ecommerce sales will account for nearly 15% of total retail spending worldwide.

SECTION 1: A STATE OF BOOM

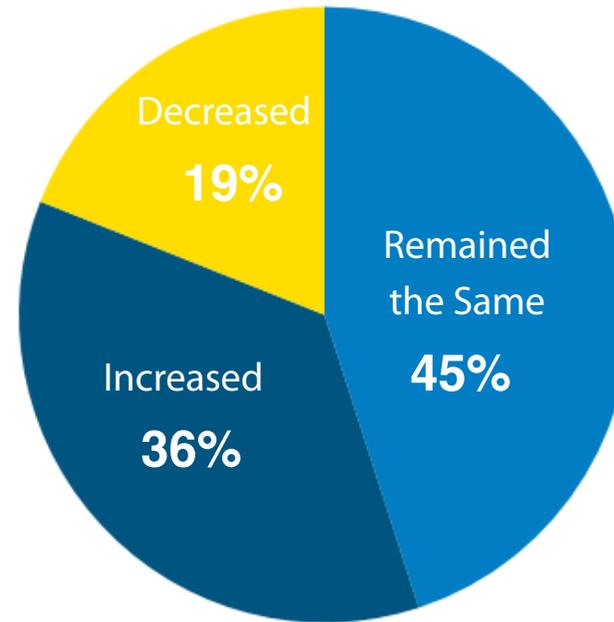
MERCHANT GROWTH

We surveyed hundreds of ecommerce sellers for which we provide warehousing & fulfillment services, asking how their order volume this year has compared to last year. Here are the results.

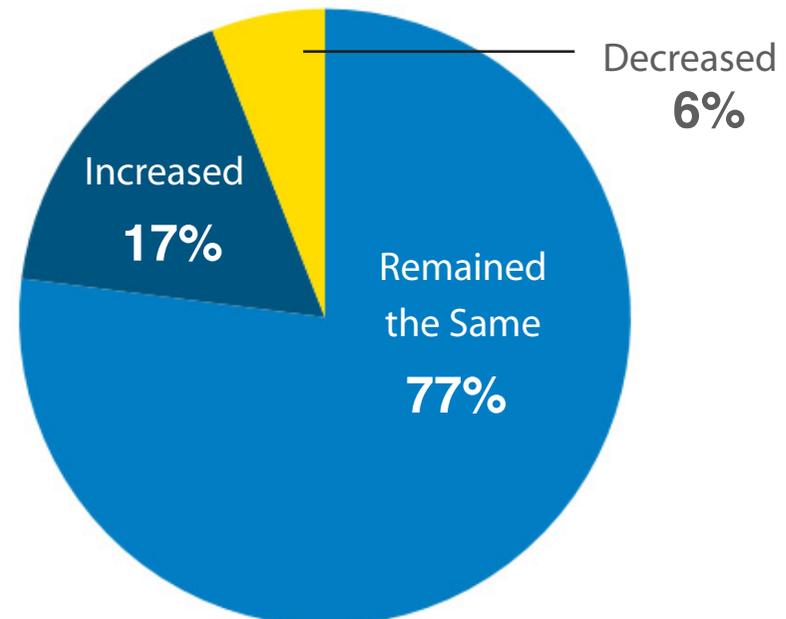
36% of our clients have seen a growth in U.S. order volume this year. The primary reasons for this growth include increased ad spend, presence on more selling platforms (eg - Jet, Walmart), and better product sourcing and market testing.

17% of our clients have seen growth in international order volume this year. While the U.S. remains a top focus for many of our clients, the majority do plan to focus more heavily on international markets in 2018.

U.S. Order Volume



International Order Volume



SECTION 2: BUYER BEHAVIOR

MARKETPLACE APPEAL

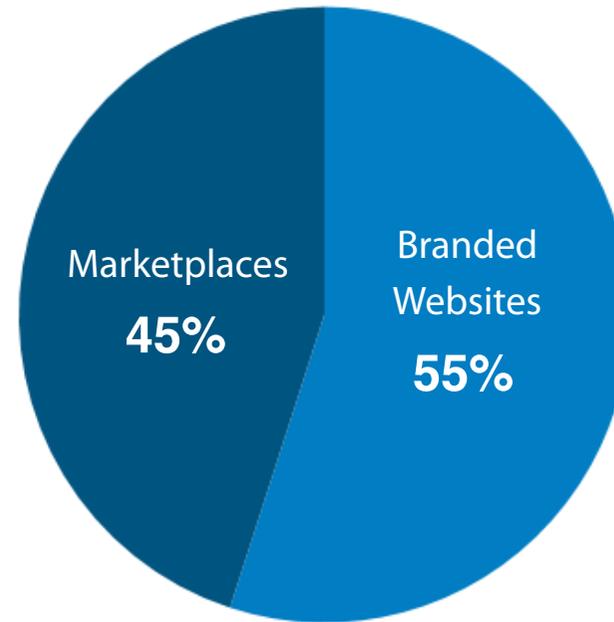
Consumers are now purchasing via online marketplaces more than ever before, and the buying behavior of online shoppers differs greatly between marketplaces and retailer websites.

Marketplace Shoppers

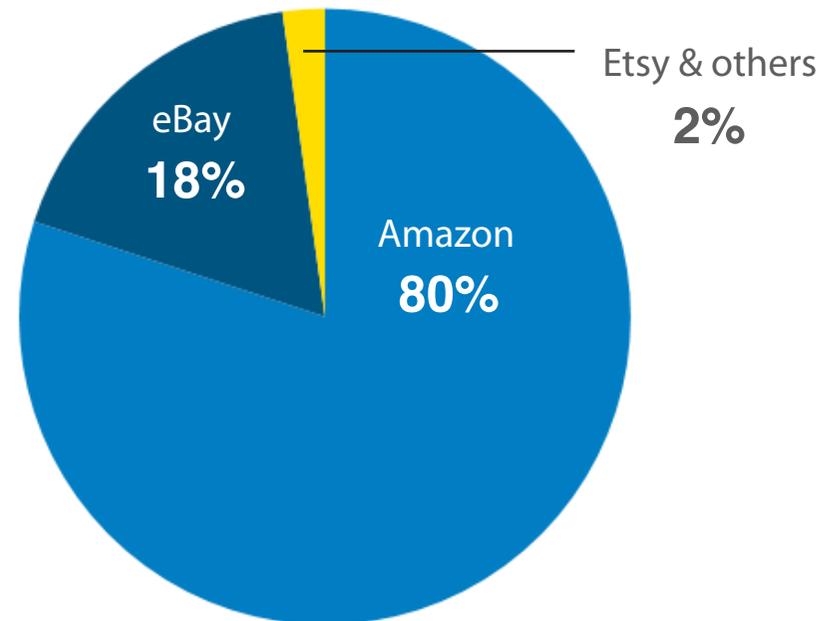
Nearly half of all online purchases are now made on a marketplace, with Amazon dominating this category. As compared to retailer shoppers, those on marketplaces tend to shop online more frequently and, on average, spend \$79 more per year than on retailer websites.

Retailer Shoppers

As compared to marketplace shoppers, retailer shoppers are less likely to research multiple brands before making an online purchase, with loyal retailer shoppers most frequently purchasing apparel, footwear and related accessories.



Amazon's Share vs. Other Marketplaces



SECTION 2: BUYER BEHAVIOR

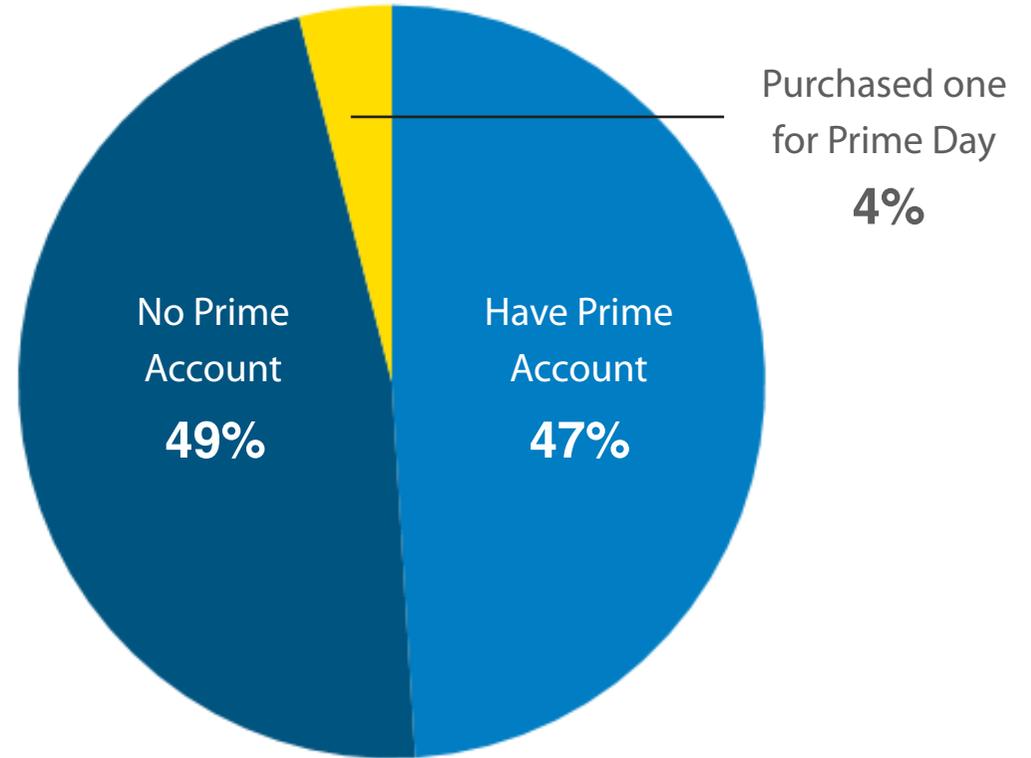
AMAZON'S DOMINANCE

More than three quarters of Americans shop on Amazon. Perhaps a more staggering statistic is that over half of U.S. consumers now have a Prime account.

50% of consumers shop on Amazon at least once a month. Home goods and electronics are currently the most popular items purchased via the marketplace, with groceries expected to skyrocket given Amazon's recent acquisition of Whole Foods.

24% of consumers never shop on Amazon, with college-aged males being the group that is least likely to shop on the marketplace. With Amazon's new Instant Pickup service, this is a demographic the giant is clearly targeting.

Percentage of Americans with a Prime Account



SELLER QUOTE:

"All retailers are now competing against Amazon's free shipping."

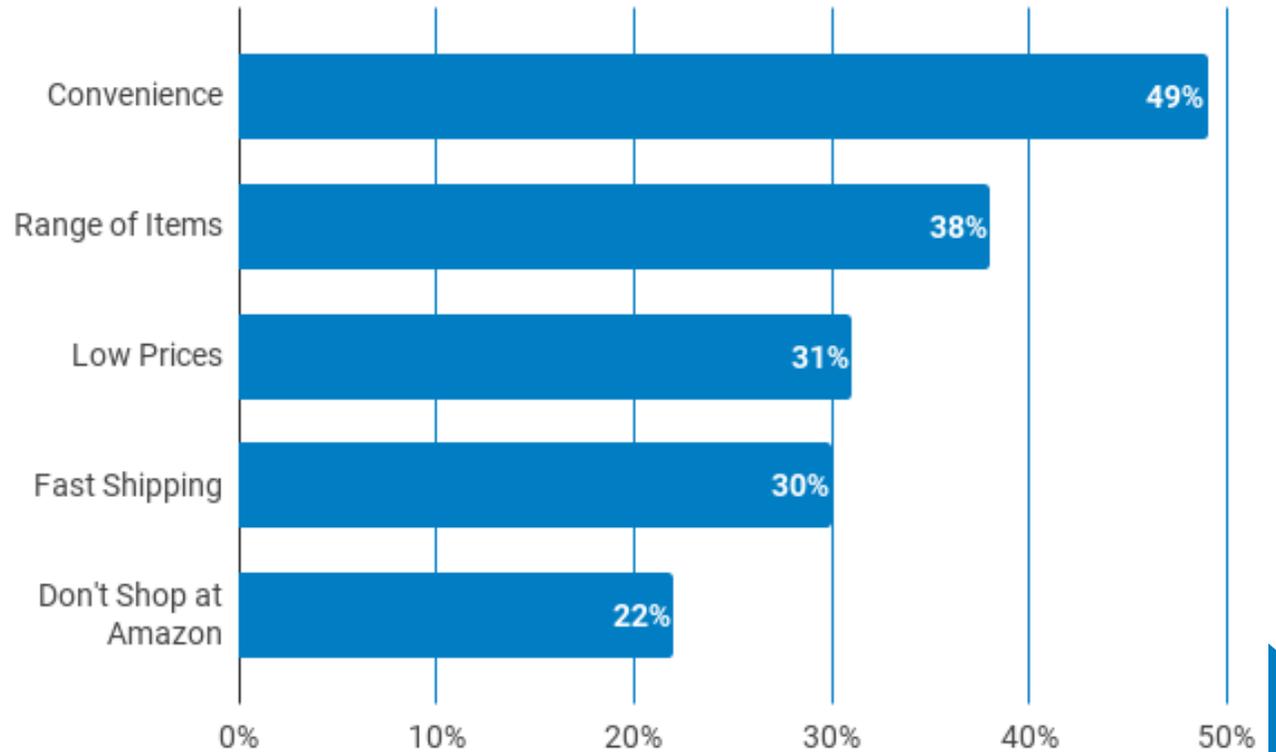
SECTION 2: BUYER BEHAVIOR

CONVENIENCE FACTOR

With millions of products, free two-day shipping, a range of devices, as well as their AmazonFresh and new Instant Pickup program, it's easy to see why "convenience" is the no. 1 reason people shop on Amazon.

37% of consumers currently own an Amazon device.

Why Do Consumers Shop on Amazon?



Roughly as many people shop on Amazon for the fast shipping as they do for the low prices.

SECTION 3: PRICE SENSITIVITY

PRICE VS. SPEED

We asked our clients which is more important to their ecommerce customers, fast shipping or cheap shipping? The results: they want both.

Speed

To address a growing expectation for fast shipping, we are seeing sellers introduce new shipping options into their ecommerce checkout process, including more air and priority options, which tend to be offered at a flat shipping rate.

Price

To meet the demand for inexpensive shipping, sellers are adding low-cost ship options (First Class, SmartPost, international consolidators), as well as re-examining their packaging options to minimize actual and dimensional weights.

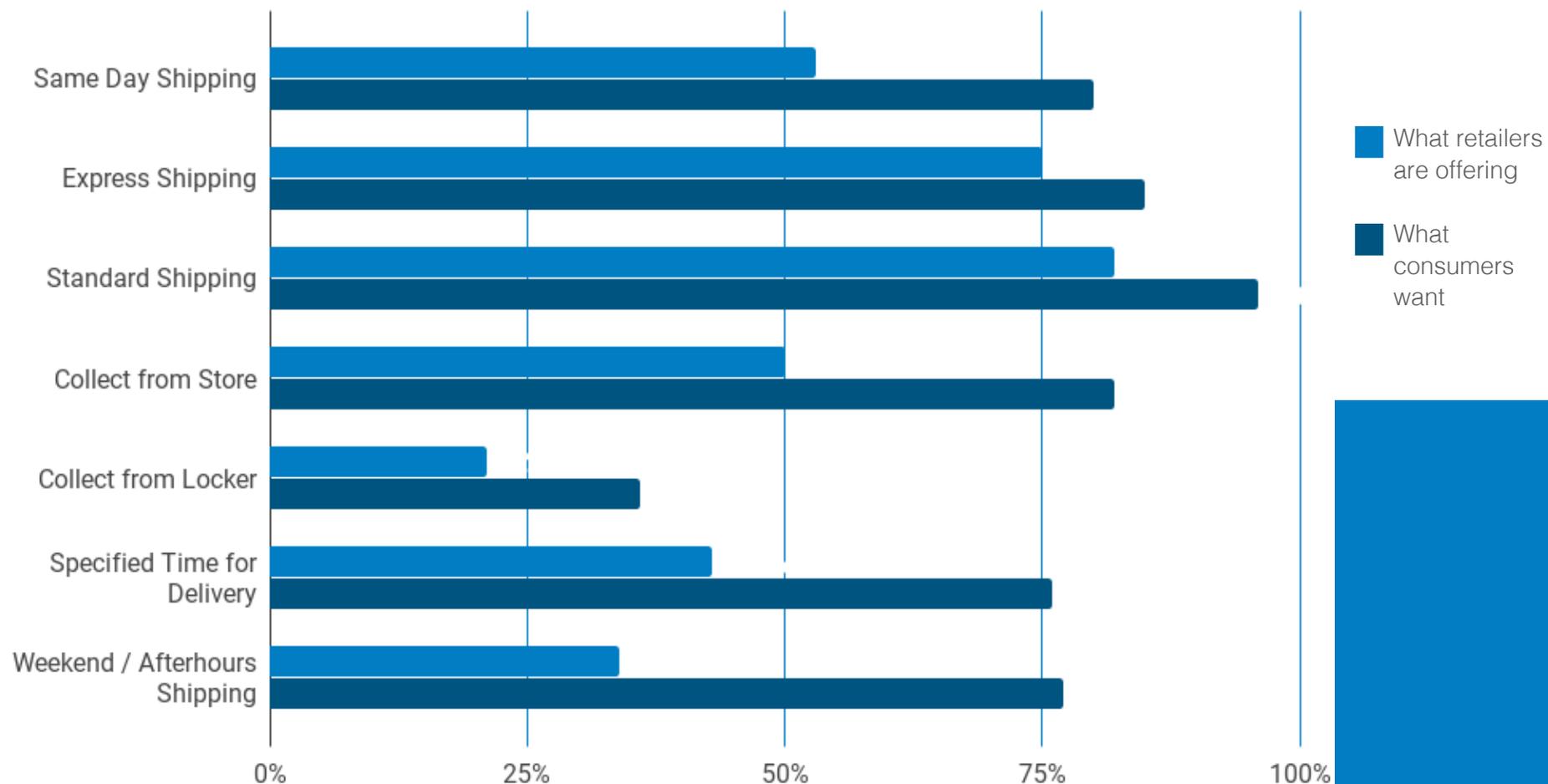
Which is More Important to Consumers?



SELLER QUOTE:

“Cost is a concern - seems that customers have higher expectations for lower fees.”

Where Online Retailers Are Falling Short



An Opportunity for Retailers

There is a significant gap between the number of consumers that want same-day shipping and the number of online retailers that offer it. However, because consumers will pay little for same-day delivery,

retailers have an opportunity to better meet consumer expectations in other ways, including specifying the expected time for delivery, and using shipping options that allow for weekend delivery.

SECTION 3: PRICE SENSITIVITY

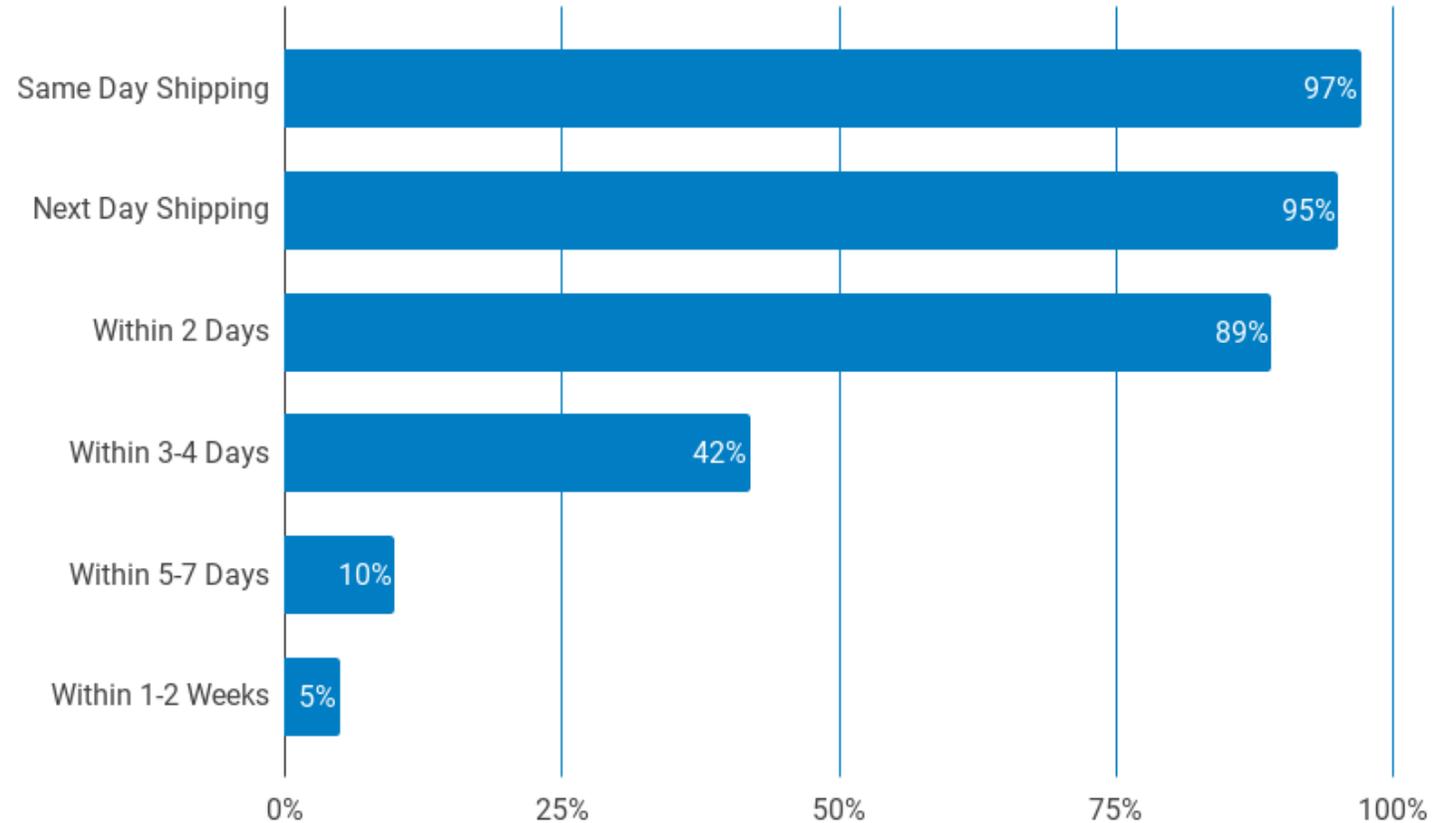
WHAT IS FAST?

Online shoppers not only want free shipping, they also have a growing expectation of what they consider to be fast shipping.

89% of consumers say 1-2 day delivery is fast. This is down from two years ago when 92% of online shoppers considered 1-2 days to be fast.

42% of consumers say 3-4 day delivery is fast. Two years ago, 63% considered this time frame to be fast, a clear indicator that delivery expectations are increasing among online buyers.

What Do Consumers Consider to be Fast Shipping?



SELLER QUOTE:

“Consumers are not willing to pay for one or two day shipping, but that is what they expect.”

SECTION 3: PRICE SENSITIVITY

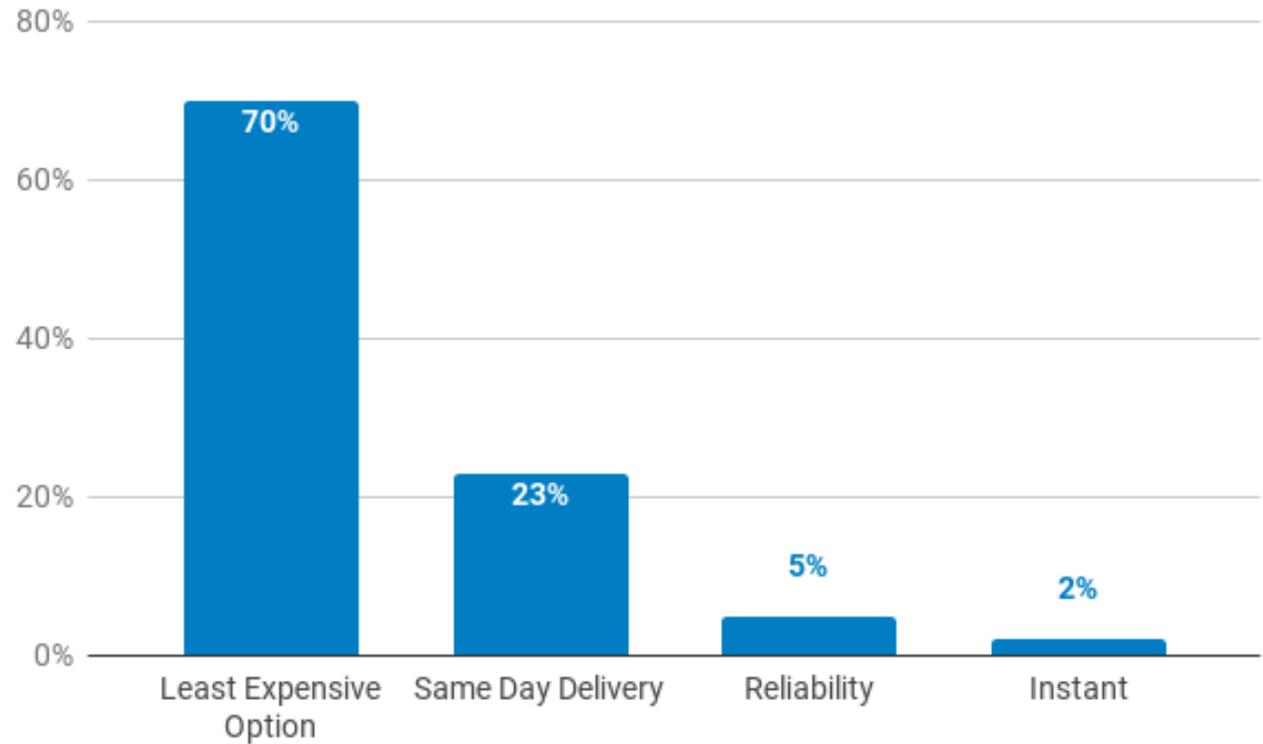
THE AMAZON EFFECT

While ecommerce sellers are seeing a growing demand among their customers for fast shipping, they are also discovering that few of them are willing to pay for it.

25% of consumers are willing to pay a premium for same-day delivery.

\$3.00 is the most that they're willing to pay for it.

How Do Consumers Choose to Ship?



A Small Niche

Just two percent of consumers are willing to pay more than \$3.00 for same-day delivery. For most consumers, they continue to ship via the cheapest form of home delivery possible.

Is it Sustainable?

By continuing to create unrealistic shipping expectations among consumers, many analysts question whether the trending ecommerce model is sustainable among online retailers, including Amazon.

SECTION 3: PRICE SENSITIVITY

CLOSING THE SALE

Nine out of 10 consumers say that free shipping is the number one incentive that would make them shop online more often.

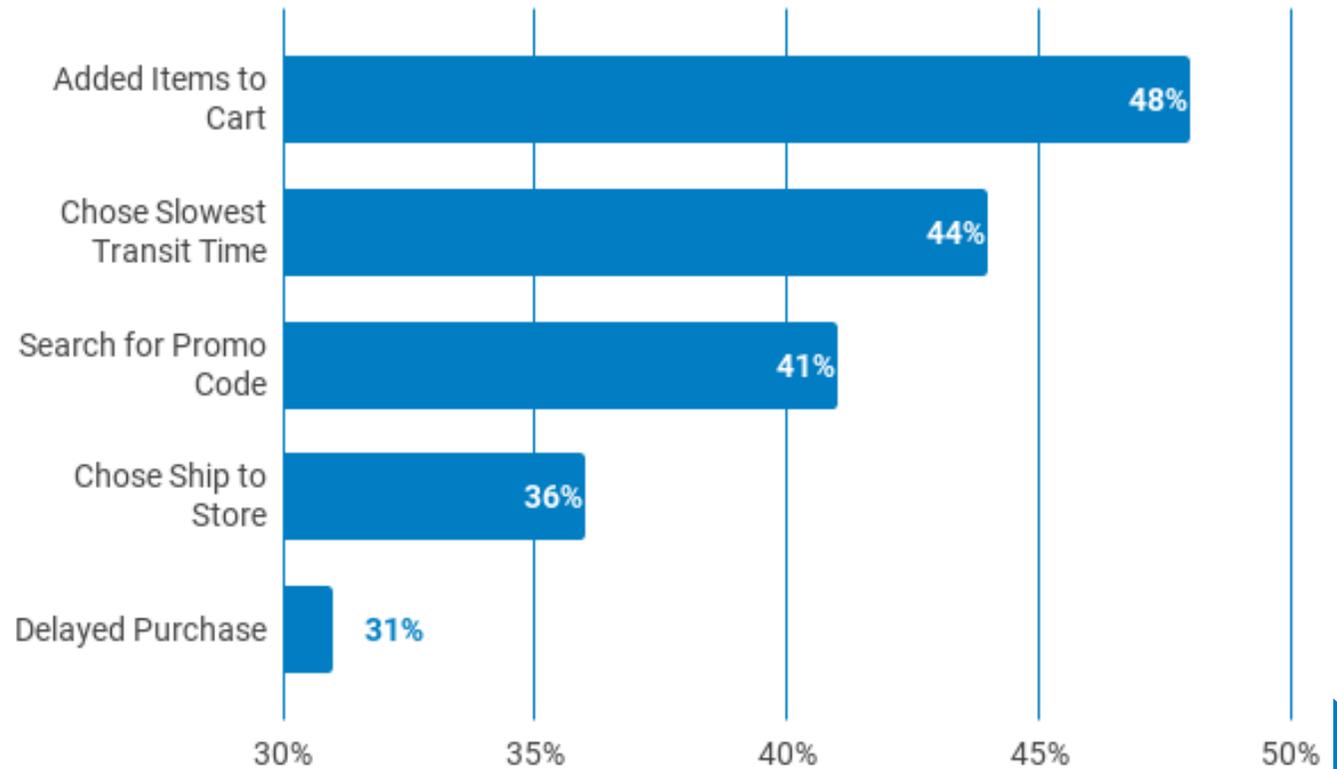
Free Shipping Still Rules

While the importance of free shipping has actually declined over the past four years, 74% of ecommerce buyers say it remains the most important option at checkout.

Multi-Unit Sales

Because the added margin of multi-unit sales typically outweighs the added expense, online retailers are wise to implement free shipping thresholds to encourage customers to add more items to their baskets.

How Do Consumers Qualify for Free Shipping?



94% of online shoppers have taken some type of action to qualify for free shipping.

MINIMIZING COSTS

With low fees expected from consumers, ecommerce sellers must do everything they can to minimize costly order fulfillment.

Order Splits

Retailers must effectively manage data and inventory to avoid the costly situation of splitting orders between multiple distribution points.

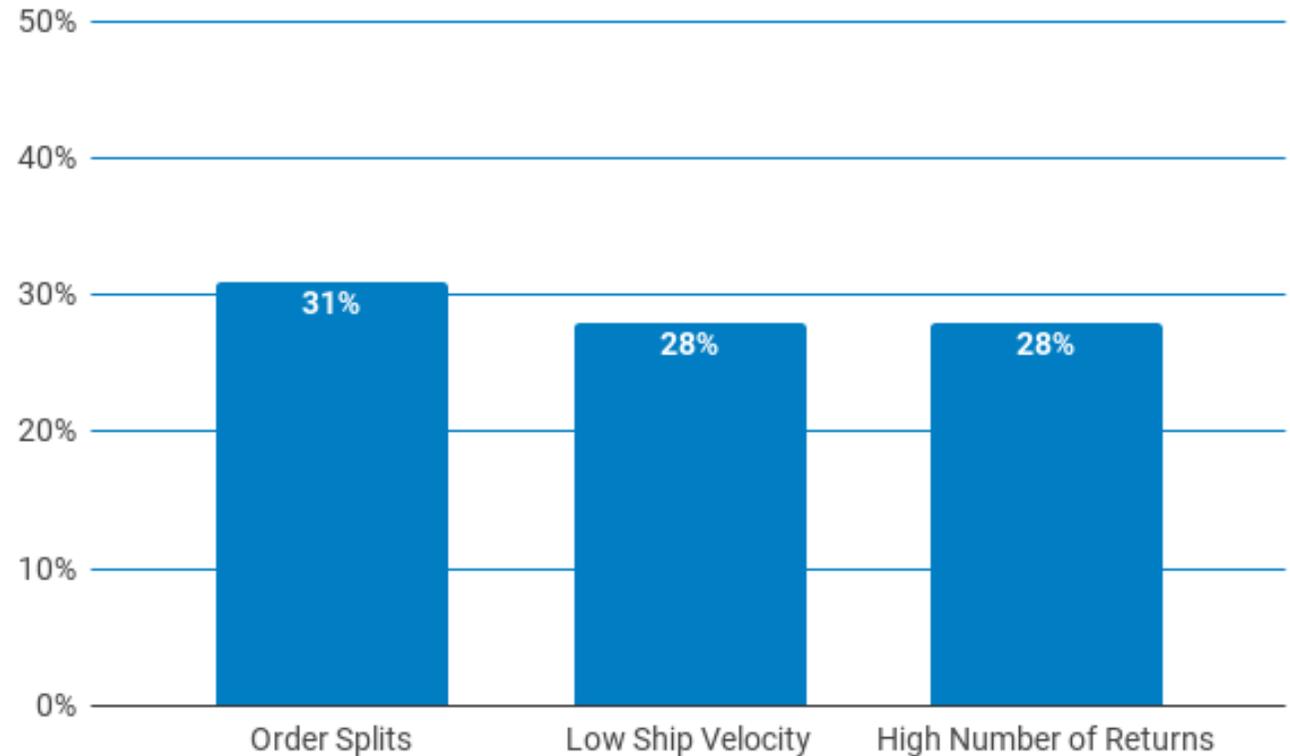
Low Ship Velocity

Online retailers must also effectively manage labor costs as order volume fluctuates to avoid unnecessarily adding to their cost of goods sold.

High Number of Returns

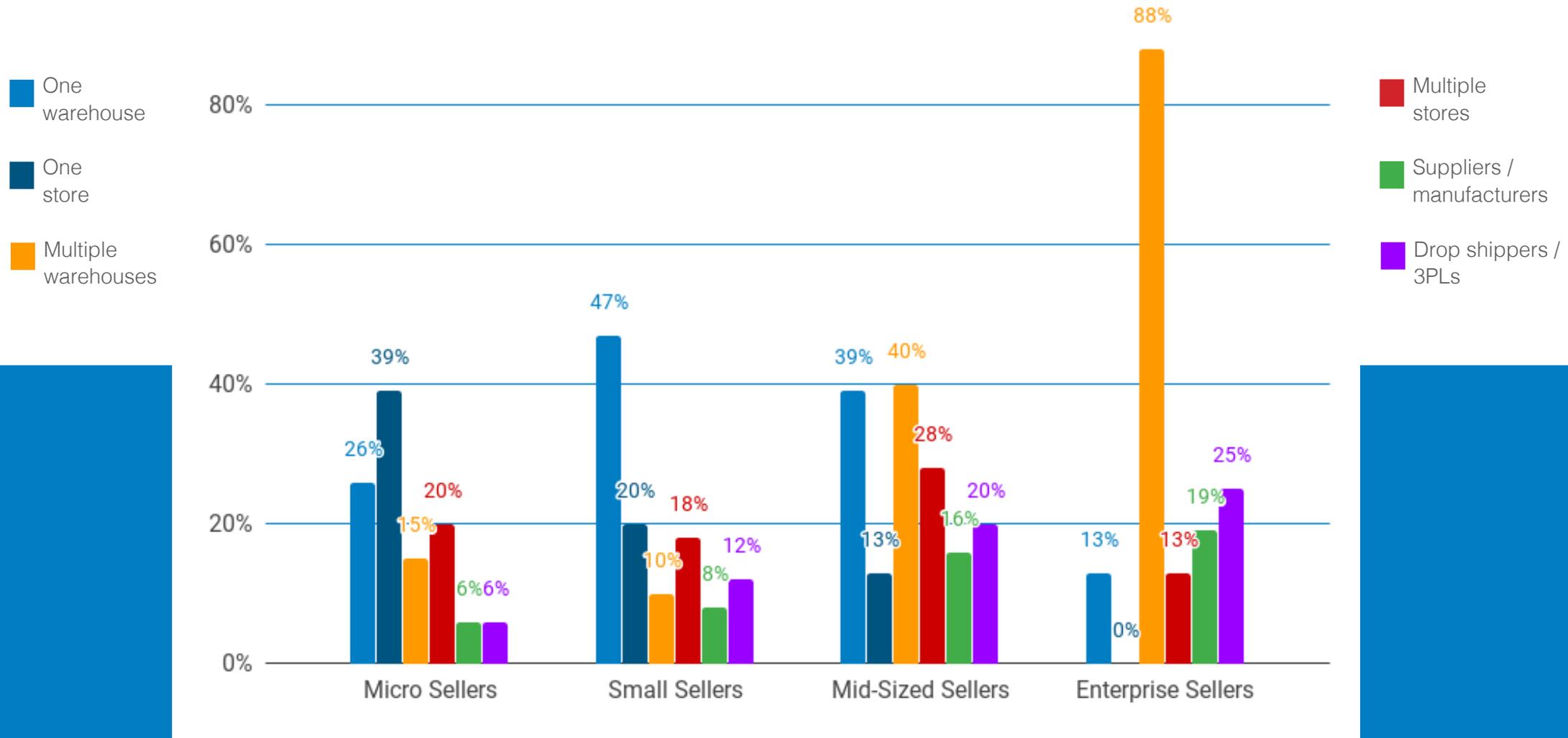
To avoid costly returns, retailers must provide buyers with detailed product images, descriptions and other tools, and ensure orders are shipped on time.

The Mostly Costly Aspects of Order Fulfillment



For online retailers, the average cost to fulfill an order is 70% of the average order value.

Where Do Online Retailers Ship From?



Multi-Point Distribution

To lower costs and help meet customer expectations, retailers utilize a variety of approaches to order fulfillment, including shipping from one or more of their own stores or warehouses, or outsourcing to a 3PL. Because

order splits result in costly order fulfillment, and because of the added inbound logistical and carrying costs of splitting inventory, distributing from multiple locations does not make sense for all ecommerce sellers.

MANAGING PEAKS

Managing order spikes is critical for any ecommerce fulfillment warehouse. Here are the most common ways that businesses deal with peak times.

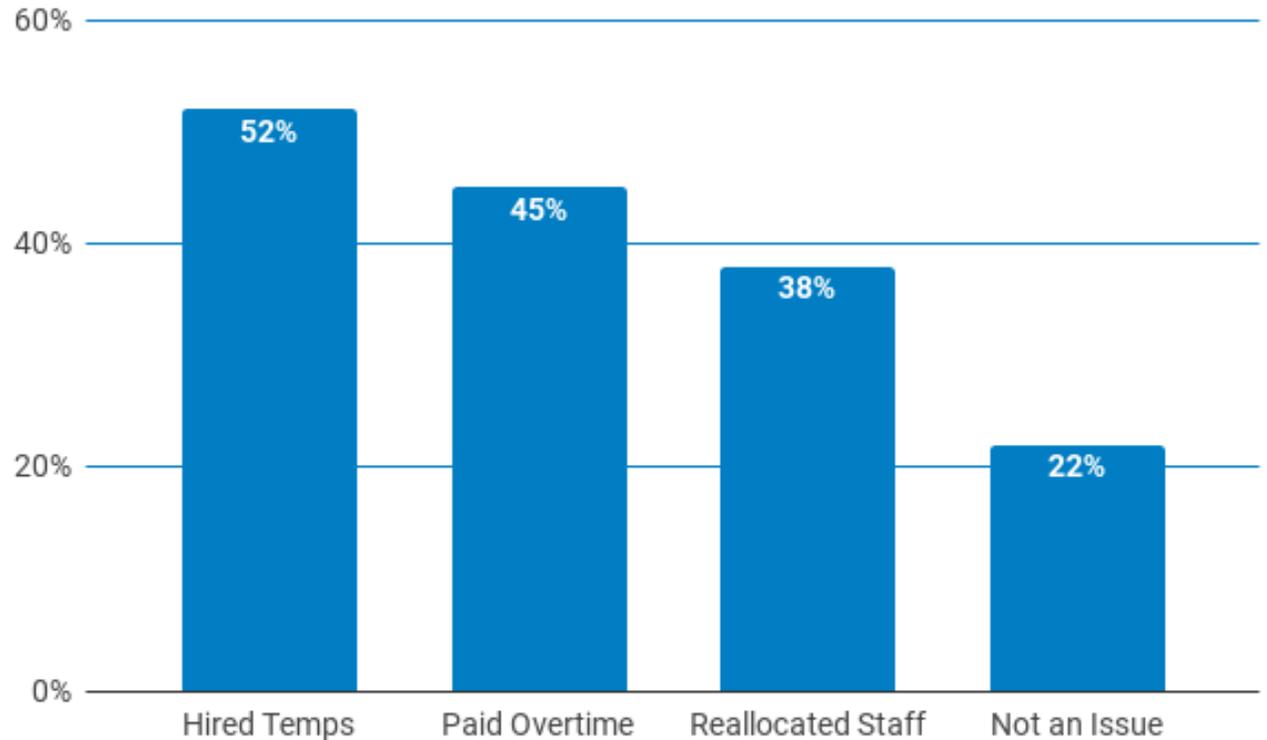
Temporary Staff

Hiring temporary staff is the most common way to manage order spikes. With too many temps, this can become counter-productive given the training and management involved.

Paid Overtime

While overtime allows retailers and fulfillment houses to cope with spikes more easily, it is a costly approach that can lead to increased errors and staff fatigue.

How Do Online Retailers Handle Order Spikes?



Reallocated Staff

Employee cross-training and reallocation is another commonly-used approach to managing spikes. This tactic requires skilled staff, and for certain departments to be slow while others are at peak.

All Part of the Puzzle

As we've shown, consumers have growing expectations for fast, low-cost delivery. Mis-managing peak times leads to delays and added costs, which means solving this puzzle will allow you to better meet those expectations.

SECTION 4: COST MANAGEMENT

THE COSTLY LAST MILE

Given increasingly-demanding expectations surrounding order fulfillment, many companies are vying to become front-runners in the costly last mile of delivery.

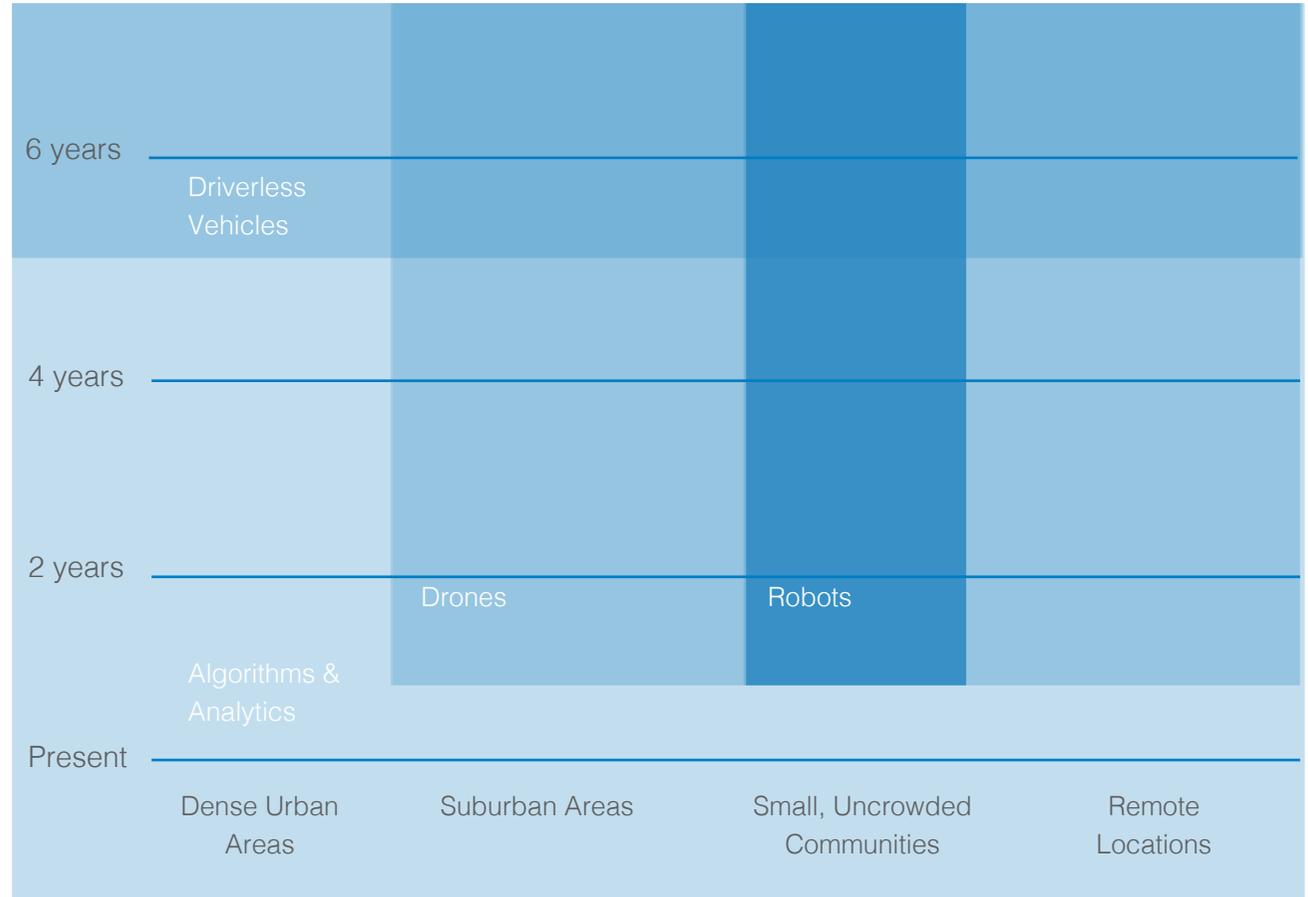
The Present

One of the most widely-used approaches to last-mile optimization involves FedEx & UPS partnering with the U.S. Postal Service. Soon, technology will dramatically disrupt the last mile.

Short-Term Future

Algorithms & analytics are currently being used by companies like Uber & Google to connect couriers with merchants. These algorithms will continue to improve to allow both traditional carriers and new entrants to provide more options for consumers.

Managing the Last Mile of Ecommerce Delivery



Longer-Term Future

Within the next 2-5 years, new technologies will emerge, including more widespread use of drones and automated delivery vehicles. The primary barrier of these methods, along with driverless vehicles (5+ years away) will be regulatory constraints.

Unpredictability

While consumers expect faster, more flexible order fulfillment, they have a low appetite for added costs. This, coupled with new technologies, market entrants, and business models, make for an uncertain future with the last mile of delivery.

Key Takeaways

1. The strength of a brand.

In just a couple of years, ecommerce will account for 15% of total retail spending, and this upward trend will continue. While marketplaces like Amazon, eBay and Walmart can significantly add to a merchant's bottom line, it's important that ecommerce sellers build their brand and a loyal customer base, one that looks beyond price alone.

2. Something's gotta give.

Amazon lost over \$7 billion on shipping last year. Until more pressure is put on Amazon to make a profit in all areas of their business, the "Amazon effect" will continue to spread, creating what is often an unrealistic expectation for shipping costs and speeds, that which will not be sustainable without new technologies to help reduce delivery costs.

3. Stay focused; stay open-minded.

While consumer expectations may only become more demanding, a variety of new market entrants will continue to reshape how ecommerce packages arrive to their final destination. These new entrants, along with the creativity and technologies they bring, will offer new opportunities for sellers to meet growing expectations. In the interim, ecommerce retailers should work to become more lean and flexible, while focusing on differentiators that help to make price less significant in the eyes of their customers.

WHO WE ARE:

eFulfillment Service is a family-owned and operated company providing dependable warehousing and order fulfillment services for online sellers of all sizes.

As a result of our flexibility, personalized service and 17 years of ecommerce experience, we're proud to service hundreds of merchants who put their trust in us to help delight their valued customers.

www.eFulfillmentService.com