



THE COST OF INNOVATION

2017 eCommerce Fulfillment and Logistics Report

The 2017 FLEXE eCommerce Fulfillment and Logistics Report reveals delivery promise is paramount to success. But improving operations to meet customer demands remains too expensive for most. The need to innovate is clear, but at what cost?

SO IT GROWS: THE ECOMMERCE LANDSCAPE AND AMAZON GAP

Retailers are at a crossroads: innovate or die. While that may sound dramatic, we are currently in what some industry pundits call the “Retail Apocalypse”. 2017 is on trend to deliver more physical store closures and bankruptcies than during the peak of the Great Recession in 2008.

The way people shop is changing. eCommerce sales increase every year and Amazon continues to dominate the market. In 2016, Amazon accounted for 53% of eCommerce growth¹ and it isn’t slowing down. Every retailer, online and off, is now competing with Amazon.

One thing is clear: bridging the Amazon gap isn’t just an eCommerce problem, it’s a logistics one.

Last year, Amazon was valued at \$356 billion—nearly \$50 million more than the eight retailers behind it *combined*. Ten years ago, those same eight retailers were worth a collective \$400 billion; Amazon was only \$17.5 billion.² Times have changed.

The success behind Amazon isn’t just an easy-to-use website or fast checkout. Amazon is a threat because of its distribution network.

Amazon’s logistics and fulfillment network was built for eCommerce. The backbone of Amazon Prime is its delivery promise of free, two-day shipping for every order, regardless of size. With 250+ fulfillment locations³ in the U.S., fast, affordable delivery is a lot easier to offer and is what helped Amazon garner more than 80 million Prime members.⁴

Meanwhile, large retailers like Walmart and Target, let alone thousands of smaller companies, are trying to catch up. But the “Amazon gap” is wide. Amazon has spent years cultivating its position as the leader in eCommerce. A fundamental part of its success is the billions of dollars and years of innovation it’s invested in logistics.

For those that want to compete, one thing is clear: bridging the Amazon gap isn’t just an eCommerce problem, it’s a logistics one. Amazon found a way to make online shopping easy, fast, and convenient for shoppers. Others must do the same or they will quickly become irrelevant.

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EXECUTIVE SUMMARY

2017 eCommerce Fulfillment and Logistics Survey Insights

At FLEXE, we wanted to understand how eCommerce retailers deal with the Amazon gap. We surveyed 100+ eCommerce companies to learn how delivery promise impacts conversion rates and brand perceptions.* We discovered retailers know improvements to delivery promise and logistics are needed, but the cost to innovate is a gap too wide to reconcile with traditional solutions.



The Delivery Promise Gap

Clearly, there's a delivery promise gap between what Amazon offers and what other retailers offer, and between what other retailers offer and what customers want. **Only 18% of respondents can match Amazon Prime's delivery promise. Also, 56% of respondents say fast shipping is more critical to offer than the 44% that say free shipping is critical.** However, a recent UPS report⁵ reveals 74% of customers want free shipping and 95% of customers have taken action to qualify for free shipping, including opting in for slower ship times.



Cost Widens the Gap

Cost is an obstacle to offering fast, affordable shipping. **60% of respondents say they don't offer free, 1-2 day shipping because "outbound costs are too high", yet, 74% rely on a fulfillment network size of 1-3 locations.**

A smaller fulfillment footprint drives up cost-per-order for faster shipping, forcing either retailers or customers to absorb high shipping rates. But simply building out a larger fulfillment network isn't the solution. Buying, renting, or leasing space is costly and comes with fixed capital investments that are often too risky.



Why Bridge the Gap?

Delivery promise can make or break a sale. It impacts shopping cart abandonment rates and brand perception. **70% of respondents that offer fast, free shipping and fulfill packages in their own branded box have a lower shopping cart abandonment rate than those that don't.** The difference suggests that retailers that prioritize a better delivery promise also place more value on brand and overall customer experience.

*The insights are based on the results of the FLEXE eCommerce Fulfillment and Logistics survey, and reflect the views of the 100+ eCommerce companies.

INSIGHT 1

THE DELIVERY PROMISE GAP

Survey respondents understand that fast, affordable delivery is important for the business and has the power to impact brand perception. They also understand customers value a better delivery promise. However, there's a gap between what retailers can offer and what customers expect.

High consumer expectations are largely due to Amazon Prime's standard delivery promise of free, two-day shipping. Additionally, Amazon continually expands its fulfillment footprint and experiments with new modes of delivery to achieve faster ship times.

eCommerce retailers that want to compete with Amazon must improve their delivery promise to incentivize more customers to shop with them. They must bridge the gap or they will continue to lose market share.

Delivery Promise Gap

noun

1. The disparity, or difference, between what shipping options eCommerce retailers can offer versus what customers expect:

Due to increasing consumer expectations for fast, affordable delivery, many retailers found it difficult to bridge the Delivery Promise Gap.

Delivery Promise Features that Stand Out

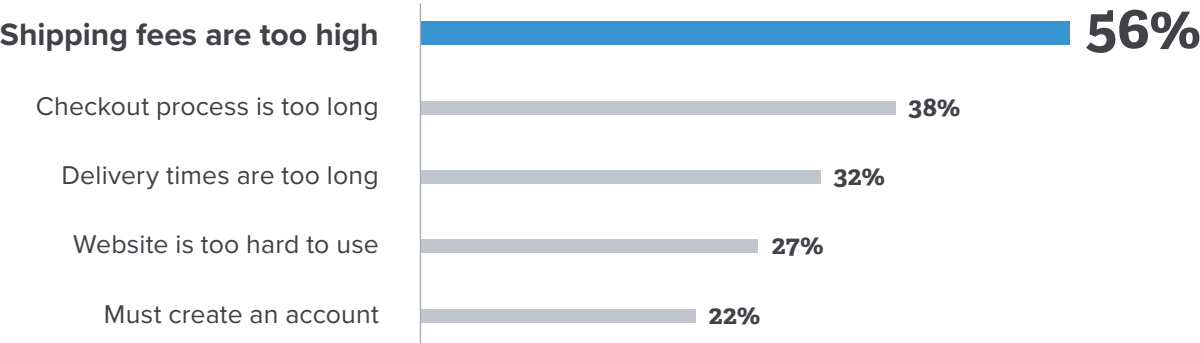
When asked to rate features of delivery time and speed on a scale of 1-10, a majority of responses reported that fast, affordable delivery is important to offer. Figure 1 shows 56% of respondents believe offering 1-2 day shipping is “essential” for business. Only 55% rated impact of delivery promise on brand and 44% rated the importance of offering free shipping in the same regard.

Respondents cited two of the top three reasons customers abandon their shopping carts as “logistics-related” (Figure 2). **The number one reason customers abandon online purchases is “shipping fees are too high”.**

Figure 1: **What Is Considered Essential for Business***



Figure 2: **Why Consumers Abandon Online Shopping Carts**



*"Essential" is an aggregate of responses rated 8 and higher on a scale of 10

Retailers Prioritize Speed, Customers Value Cost

Amazon influence aside, it’s clear that respondents recognize the role delivery promise plays in sales. It is important to customers. However, when compared to consumer data, there’s an undeniable gap—in more ways than one.

First of all, let’s take a look at the findings from the UPS “2017 UPS Pulse of the Online Shopper” report:

- **74%** of consumers said options for free shipping were the most important part of checking out online
- **94%** of shoppers have taken some kind of action to qualify for free shipping

The **top two** action items to qualify for free shipping:

48%  add more items to their cart

44%  choose a slower transit time

Figure 3: **The Delivery Promise Gap**

When we compare survey responses to consumer demands, as presented by the “2017 UPS Pulse of the Online Shopper” report, a divide in retailers’ perceptions of the market and reported consumer demands is noticeable.

	Consumer Demands*	eCommerce Retailers Perceptions**
Free Shipping	<p>74%</p> <p>of consumers said “free shipping” is the most important delivery offer</p>	<p>24%</p> <p>of retailers said “free shipping” is the most important delivery offer</p>
Paying for Faster Shipping	<p>“I WOULD PAY”</p> <p>75% of consumers are willing to pay a premium for expedited shipping</p>	<p>“THEY WON’T PAY”</p> <p>75% of retailers say their customers won’t pay for faster shipping</p>

*Data courtesy of “2017 UPS Pulse of the Online Shopper” **As represented by FLEXE survey sample

More respondents emphasizing 1-2 day shipping (56%) over free shipping (44%) suggests retailers believe their customers value delivery speed over shipping cost.

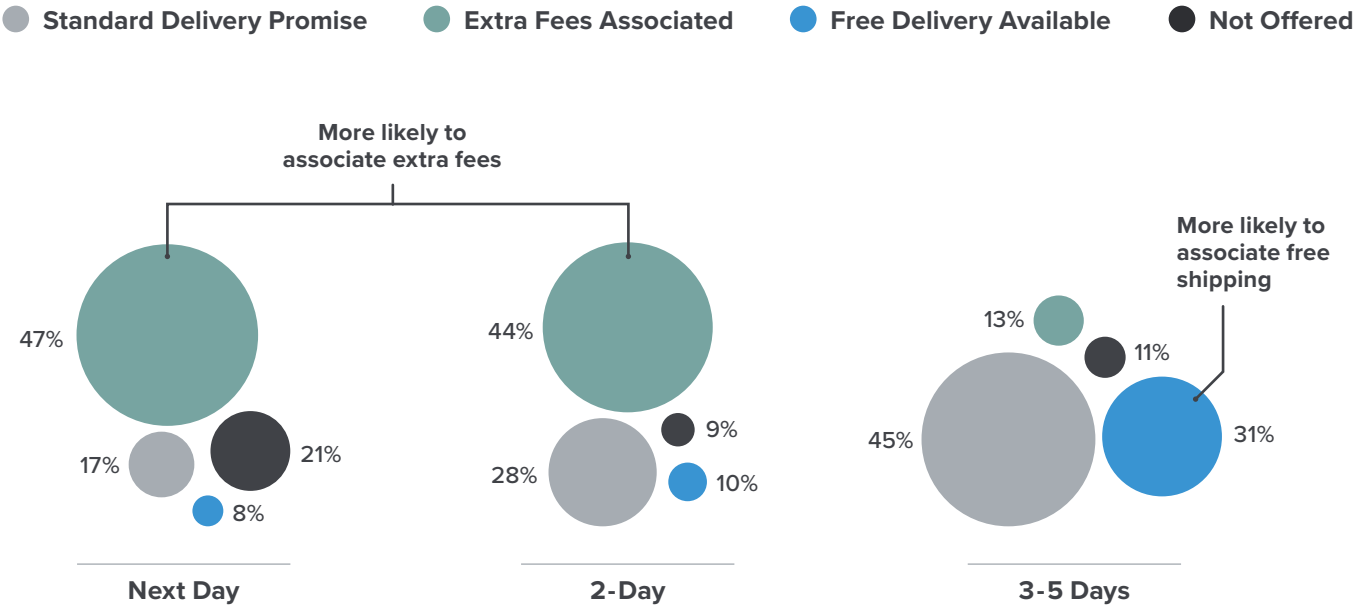
A speed-over-cost strategy is further reinforced when we look at delivery promise (Figure 4). Nearly half (45%) of respondents offer 1-2 day shipping, but they're 3-4 times more likely to associate extra fees than respondents with a 3-5 day standard delivery promise.

Conversely, those that offer 3-5 day shipping are three times more likely to associate free shipping with that delivery promise.

The data from our survey tells us that faster shipping is important, but it costs more. However, the UPS report shows consumers place a higher value on free shipping and are actually willing to wait longer for delivery if the cost of shipping is free. And retailers know this.

Respondents said the number one reason shopping carts are abandoned is because "shipping fees are too high". They are corroborating consumer demands for more affordable shipping even though their delivery strategy is misaligned. Retailers are losing sales because cost of delivery is too high.

Figure 4: **Delivery Promises Offered***



*As represented by FLEXE survey sample

INSIGHT 2

COST WIDENS THE GAP

Retailers know customers want better shipping options, but many aren't able to offer it. Only 18% of respondents said they can match Amazon Prime's free, two-day delivery. So what's standing in the way? The cost of creating a network that supports fast, affordable delivery.

52%

of respondents say the number one reason their shopping carts are abandoned is because **"shipping fees are too high"**

60%

of respondents don't offer free, 1-2 day shipping because **"outbound costs are too high"**

The Last Mile of Delivery Is Expensive

The number one reason respondents said they don't offer free, 1-2 day shipping is "outbound costs are too high".

But **74% of respondents only have between 1-3 fulfillment centers** (Figure. 5). A network that small can't support free, fast shipping to customers without creating steep transportation and outbound costs.

Additionally, of the respondents that use more than six fulfillment locations, 62% reported revenue of more than \$1 billion a year. Larger companies can afford larger distribution networks, but still nothing that comes close to Amazon's scale.

What about outsourcing to Amazon? It's not ideal. For those that have considered it, cost also remains top-of-mind. "High fees" and "complicated fees" are the two biggest concerns with using Fulfillment by Amazon (FBA).

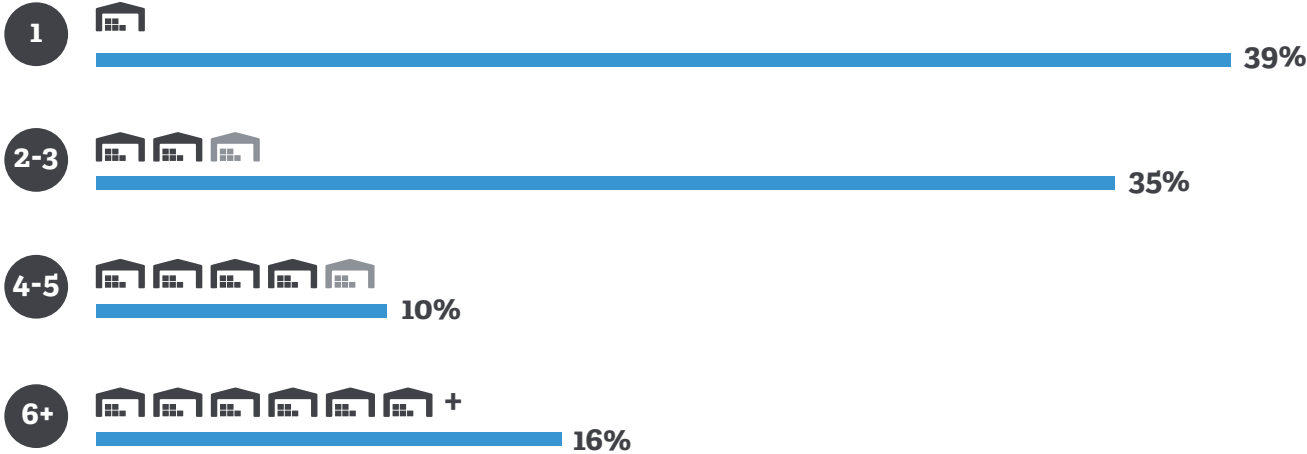
Top two concerns with using FBA?

High Fees

Complicated Fees



Figure 5: **How Many Fulfillment Centers Do You Currently Use in Your Network?**



Reassessing the Fulfillment Footprint

Though larger companies can afford larger networks, no one can come close to Amazon. The cost pressures of building a network can't just be solved with growth or spending more money. Distribution networks should support growth, not just be the result of it.

Retailers must reassess their fulfillment footprint and how their network prohibits meeting customer demands for fast, affordable delivery. Amazon can do this because it has 250+ fulfillment centers in its U.S. network alone. For those companies with only 1-3 fulfillment centers, offering free, fast shipping will remain financially elusive. As a result, customers will choose to shop elsewhere.

Cost is widening the gap between retailers and a better delivery promise. 60% said outbound costs stand in the way of a better delivery promise, but building out a larger, traditional fulfillment network also requires a significant investment.

Something has to give. In order to compete, retailers have to realize the stakes are high and there will be a cost to innovate, but the results could pay dividends if done correctly.

Figure 6: **Cost Is a Supply Chain Problem**

Amazon can afford a billion dollar infrastructure, not everyone can.

	Amazon	Everyone Else
Fulfillment Locations	250+ Amazon fulfillment centers in the U.S.	1-3 Most respondents have just 1-3 locations.
Delivery Promise	FREE, 2-DAY	3-5 DAY
Result	80 MILLION Amazon Prime members	Fast, free shipping COSTS TOO MUCH

INSIGHT 3

WHY BRIDGE THE GAP?

Consider this: Amazon Prime members are incentivized to spend more with Amazon because of free, fast shipping. Prime members, on average, spend \$1300/year on Amazon—nearly twice as much as non-Prime members. And, they shop nearly twice as often at 25 times/year.⁶

Bridging the Delivery Promise Gap and providing a stronger delivery promise is critical to gaining market share and converting more sales. By offering a more competitive delivery promise to your shoppers, you're showing them you're ready and willing to meet their expectations.

A cohesive shopping experience that includes fast, affordable delivery and reinforces the brand through packaging could be critical pieces of market share growth and customer retention.

How Brand and Delivery Promise Connect

The data suggests there is a relationship between delivery promise, brand, and shopping cart abandonment rates (Figure 7). Of those **respondents that ship in a branded box and also offer faster shipping, 70% reported lower abandonment rates.**

Figure 7: **Proportion of Respondents Who Report Low Abandonment Rates***

Of the companies that **DO** ship in a branded box and have a fast delivery promise...



55% said delivery promise strongly impacts brand

41% said it's important to fulfill orders in branded packaging

The Whole Package

eCommerce brand experience is equally important, if not even more so, than in-store experience. From social media ads to your website to your delivery promise and packaging—brand is all of it.

This survey focused on delivery time and speed for eCommerce businesses, but another goal was to learn if and how logistics and brand are related. 55% said delivery promise strongly impacts brand and 41% said it's important to fulfill orders in branded packaging. Additionally, 70% of respondents that offer a faster delivery promise and fulfill orders in their own box have a lower shopping cart abandonment rate than those that don't offer that combination.

Together, brand and delivery promise results in more sales. From this data alone, it's unclear how the two are related, but higher conversion rates might imply stronger customer retention and loyalty. On average, a returning customer has a 60-70% chance of converting compared to a new customer at 5%.⁷ A cohesive experience that includes fast, affordable delivery and reinforces the brand through packaging could be a critical piece of customer retention.

*"Low" is defined as less than 20%

THE IMPLICATIONS

The data from this survey highlights that, in terms of delivery promise, the disconnect between what retailers can offer and what customers want is a supply chain problem.

Furthermore, the implications are that a direct line can be traced from customer expectations surrounding shipping times and cost to the size of fulfillment networks. In order to compete with Amazon and meet customer demands for fast, affordable shipping, eCommerce retailers have to understand how these relate to each other, and above all else, seek solutions that enable growth, not hinder it.

There are three major implications worth exploring:

1. The size of fulfillment networks matter
2. Retailers must optimize for speed AND cost
3. Traditional approaches to warehousing and logistics won't cut it

1. Fulfillment Network Size Matters

A smaller fulfillment footprint means products have to travel farther and through more shipping zones to reach customers. If delivery speed is a priority, a longer last mile will only increase the cost of outbound shipping rates and add premiums to faster delivery times.

The majority (74%) of respondents say they have a network of 1-3 locations. Based on a network analysis, courtesy of Starboard Corp., the below percentages of the continental U.S. are reachable with the following number of fulfillment centers and ground delivery.

With a network of 1-3 locations, it's impossible to meet the Amazon Prime delivery promise of two-day shipping. However, when more locations are added, the last mile of delivery is shortened, making 1-2 day shipping available to a larger percent of your market while also optimizing for ground delivery.

With a network of 1-3 locations, it's impossible to meet the Amazon Prime delivery promise of two-day shipping with ground.

Network Analysis: Continental U.S. Reached with Ground Delivery

Number of Fulfillment Locations	Next-Day Ground Delivery	2-Day Ground Delivery	3+ Day Ground Delivery
1	19%	53%	100%
2	29%	70%	100%
3	38%	84%	100%
4	59%	88%	100%
5	71%	94%	100%
6	74%	95%	100%

With five or six locations, retailers can reach more than 90% of their market with 1-2 day shipping.

Network analysis is courtesy of Starboard Corp.

2. Retailers Must Optimize for Speed AND Cost

Not every consumer is the same, nor are their purchases. Some customers value speed even with extra fees; some value low cost. An emphasis on speed isn't enough, cost has to be factored into the strategy, too.

Additionally, the context of purchases vary. The morning purchase of birthday candles for that night's celebration needs 1-2 hour delivery, the monthly bulk order of paper towels does not.

Creating a one-size-fits-all distribution network may be the wrong answer. Retailers have to think about how to build smarter networks that can accommodate varying purchases and consumer segments.

The only way to optimize for both speed and cost is with a larger fulfillment network. With locations in all major metro areas, larger customer bases can be processed with shorter distances and more affordable modes of transportation—enabling retailers to offer faster, more affordable shipping options.

The cost of innovation doesn't have to be high or a barrier to giving your customers what they want.

3. Traditional Warehousing and Logistics Solutions Aren't Enough

Bridging the Delivery Promise Gap to meet customer demands doesn't require traditional warehousing and logistics solutions. The opposite, actually.

There are new technologies transforming the supply chain industry and helping retailers implement new, smarter fulfillment solutions.

New transportation management systems that use real-time GPS tracking, frictionless freight-forwarding software, on-demand fulfillment networks and warehousing marketplaces are just a few of the solutions leveling the playing field in an old and otherwise expensive industry.

The cost of innovation doesn't have to be high or a barrier to giving your customers what they want. Optimizing the last leg of delivery—especially with scalable solutions—doesn't require massive, fixed investments and big bets.

However, surviving in this “innovate or die” environment will require change. As eCommerce retailers look at ways to improve operations, business leaders must consider how the supply chain can help reconcile both the “Amazon gap” and the Delivery Promise Gap.

Explore non-traditional supply chain methods, take risks with new solutions, and create agility in what used to be a very linear business model. The result will be a stronger eCommerce strategy that drives more sales.

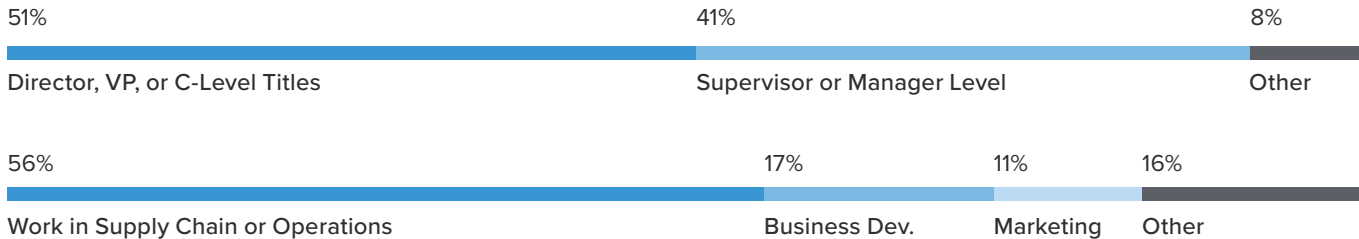
THE SAMPLE

METHODOLOGY

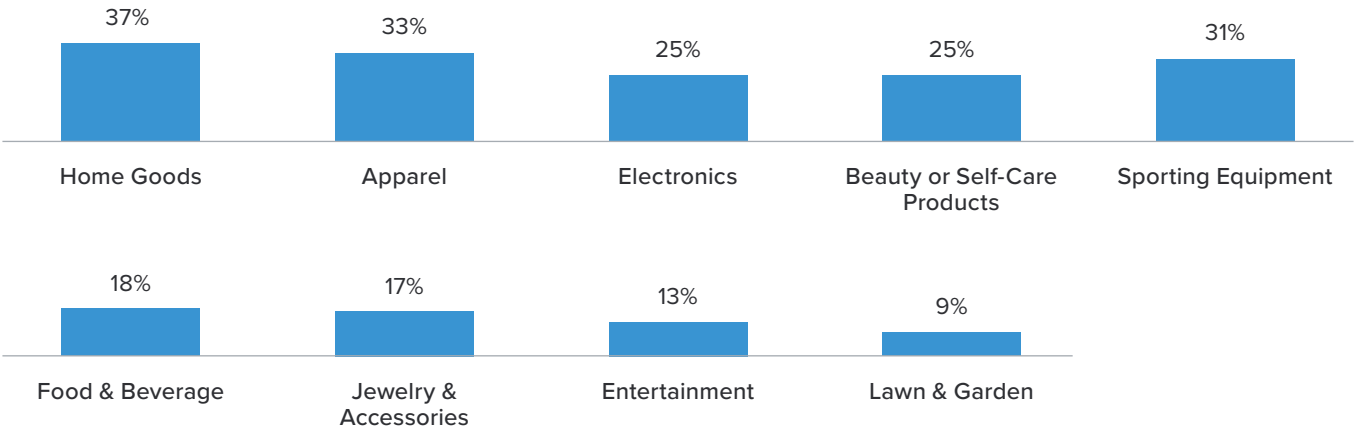
There are myriad industry stats out there that discuss consumer buying behaviors and key criteria for completing an online purchase. Knowing that delivery promise is important in that process, we wanted to get a better understanding of the importance eCommerce retailers place on delivery promises and shopping cart abandonment in relation to how their customers shop online.

We worked with Metro Tribal to build the survey and analyze responses. The data set includes more than 100 eCommerce companies.

Our Survey Respondents Included the Following:



Products Sold Online:



SUMMARY:

WHAT'S NEXT

Retail is changing. Never before has the supply chain been more business-critical. Amazon continually uses its supply chain to prove this.

Consumers will always prefer to have choices, but these choices have to be compelling and competitive with what else is available. Innovative retailers CAN accomplish this and offer delivery promises that create a choice beyond Amazon.

This paper analyzes a sample of data to test our theses on delivery promise and shopping cart abandonment, and shed light on what retailers are focusing on. We believe this information is worthy of tracking and this data will serve as a baseline for further exploration as eCommerce continues to grow and as supply chain continues to move to the forefront of retail operations.



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About FLEXE

Powered by a logistics software platform, FLEXE is an online marketplace that connects companies in need of warehousing space and fulfillment services to a network of providers. Together, the FLEXE platform and marketplace provide a suite of warehouse and inventory management tools that enable on-demand warehousing solutions for capacity overflow and fulfillment.

FLEXE enables eCommerce and omnichannel retailers to compete with Amazon Prime's two-day delivery promise. In fact, with FLEXE it's possible to reach 98% of the U.S. with next-day delivery. Businesses can use FLEXE solutions to transform their supply chains from static cost centers into agile, strategic assets. FLEXE is headquartered in Seattle, Washington.