

2020 Report

eCommerce Fulfilment & Logistics Report

Do you struggle to provide fast and affordable shipping to your customers?
Find out how you can bridge this gap



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Retail Landscape in 2020

Brick-and-mortar and e-Commerce are constantly fighting for consumers' attention and dollars. Sales channels are expanding, customers are widely distributed, and last year Amazon made the official move to one-day shipping for Prime members. Meanwhile, brick and mortar stores continue to close. There have been more store closures year-to-date in 2019 than all of 2018; the "Retail Apocalypse" is still in full force.

From classic department stores like ToysRUs, Sears and Barney's, to fast-fashion retailers like H&M and Forever 21, retailers and brands have struggled to maintain foot traffic and in-store sales.

Retail isn't dead, but it is different. As more sales move online, buying behaviors continue to change. Retailers who have failed to adapt to new consumer demands aren't around anymore.

AMAZON HAS CHANGED THE FACE OF RETAIL

Amazon has fundamentally influenced customers buying behaviour. It has not only affected their buying behaviour but also their buying expectations. From providing fast and free delivery to enhancing customer experience, Amazon realised that by providing utmost convenience and differentiated customer experience, would put the company ahead of its competitors.

Unfortunately, until now no other business has been able to build a thorough logistics infrastructure and provide its customers with fast and free delivery like Amazon. In fact most companies have spent years trying to meet Amazon's delivery promise but have failed.

In this era where Amazon reigns supreme, how can brands and small scale retailers compete? What is standing in their way?

KEY FINDINGS

For the growing business that finds their supply chain and fulfillment workflows limited by operational or financial bottlenecks, the question arises; how can I manage costs while still acquiring the tools necessary to support expansion?

At BEZOS, we help our customers optimise their logistics networks through on-demand warehousing and fulfillment. That starts with understanding how retailers are doing business and the challenges they face in the market.

BEZOS eCommerce Fulfillment and Logistics survey, sheds light on the numerous challenges and opportunities for retailers in the eCommerce industry. It discusses all the ways that retailers and brands can take to meet customer demands and stay competitive in their industry.

1. Majority of online customers prefer to have free delivery over fast deliver. They would wait longer to choose free options.
2. Survey respondents, with a margin of 2:1 ratio, know their customers want free shipping instead of fast shipping, yet most respondents still focus on faster shipping.
3. Limited storage locations and fixed warehousing infrastructure prevent retail businesses from meeting customer expectations for quick and affordable delivery. Many retailers and brands fear outbound costs that are too high.



CHALLENGES:

How to give your customers what they need

Over the years, many eCommerce businesses have tried their best to match Amazon's promise of fast and free delivery. Now Amazon's promise has become the new normal, but is there a way to find out if this is the right step for your retail business given the high delivery costs?

Additionally, Amazon spends more than \$27 billion in shipping costs annually. Are you ready to afford that?

THE SHIPPING CHALLENGE:

FREE VS FAST SHIPPING

Recent studies have shown that online customers prefer free delivery over fast delivery. But still, majority of the retailers are prioritising faster shipping over free. This creates a clear gap between what customers are looking for and what the retailers are offering.

THIS IS WHAT ONLINE CONSUMERS TELL US:

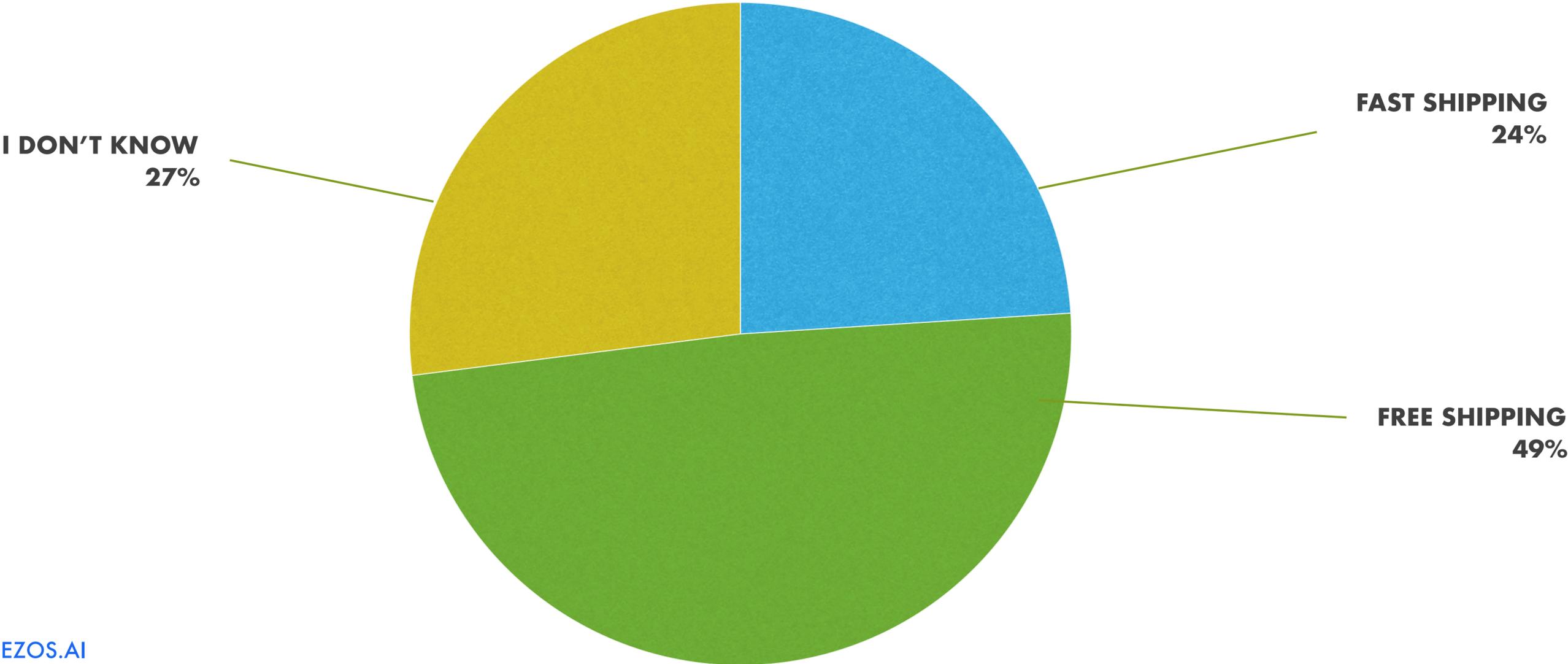
Consumers want free shipping over everything. According to a study conducted by Deloitte, 88% of consumers prefer free shipping over fast shipping. In an NRF report⁵, approximately 65% of online consumers research and calculate shipping costs before placing their order online.



HERE'S WHAT WE FOUND OUT:

Many brands and retailers feel it is equally important to offer both free (63%) and fast (64%) shipping (as shown in Chart A), but when they were asked what they thought their customers preferred, they by a 2:1 margin they said customers wanted free shipping.

CHART A: DO YOUR CUSTOMERS PREFER FREE OR FAST SHIPPING?



Based on the findings of a survey in 2017, the importance of offering free shipping has seen an increase by 43% whereas only 14% increase is seen in fast shipping.

TABLE B: HOW IMPORTANT IS IT TO OFFER FREE AND FAST SHIPPING?			
	2017	2019	% Change
Free Shipping	44%	63%	43%
Fast Shipping	56%	64%	14%

TABLE C: 2019 DELIVERY OFFERINGS			
Delivery Times	Offered	For Free	For Shipping Fees
Same-Day	20%	32%	68%
Next-Day	59%	12%	88%
Two-Day	74%	29%	71%
3-5 Days	78%	50%	50%
6-10 Days	54%	57%	43%
10+ Days	42%	53%	47%

The figures show that customers always prefer free shipping over fast shipping, yet the distribution of delivery offerings show that retailers are focused on optimising their business models for faster shipping, instead of free shipping (Table C).

Even though a number of respondents said they offer 20% same day delivery, 59% next day delivery and 74% 2-day delivery. But most businesses offer them for a price which is a major disadvantage.

HOW LONG WILL CUSTOMERS NEED TO WAIT FOR FREE SHIPPING?

On average, online customers are willing to wait 4-5 days just to get free shipping.

According to our recent survey, retailers who have 3-5 day delivery as an option, only provide it for free only half of the time. Fortunately, anything longer, such as, 6+ days, is frequently offered as free delivery, but that is much longer than the average consumer is willing to wait.

AMAZON SELLERS GET IT

73% of the respondents that sell on Amazon said that free shipping is **significantly important** to offer. Free shipping is undoubtedly one of the reasons these businesses use Amazon as a sales channel.

TABLE D: HOW IMPORTANT IS IT TO OFFER FREE SHIPPING?

	Not Selling on Amazon	Selling on Amazon	% Difference
Free Shipping	54%	73%	35%



DEALING WITH CUSTOMER ATTRITION

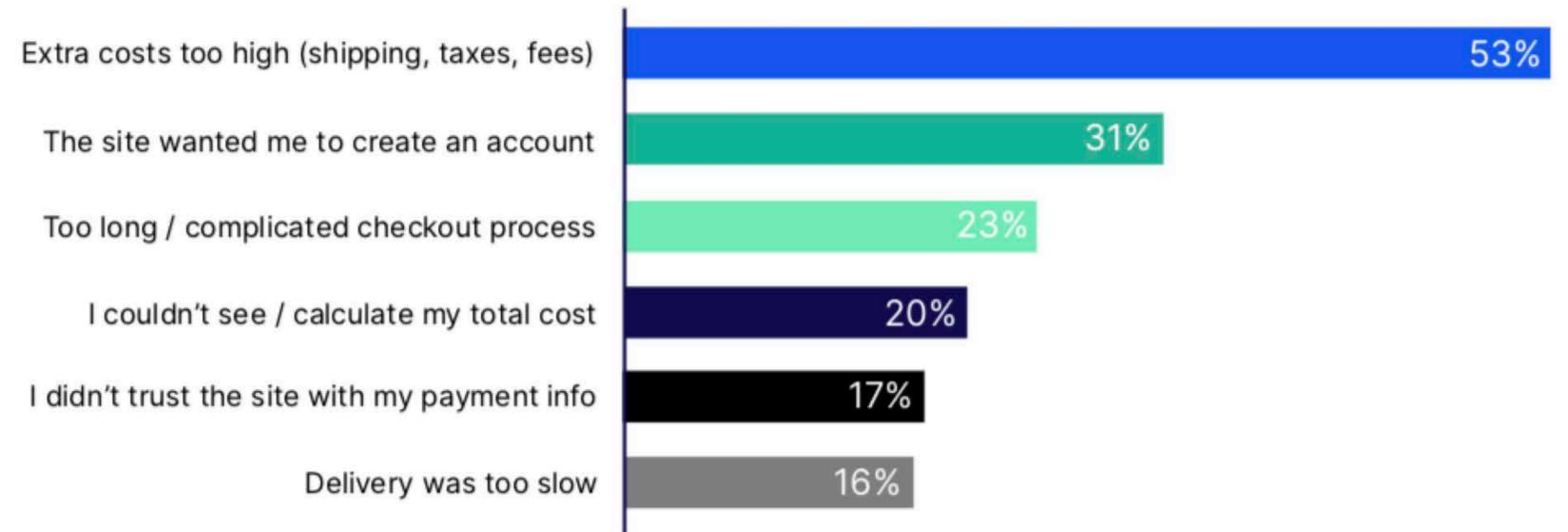
Businesses cannot afford to ignore what their customers want. Considering the amount of marketing spend that goes into attracting new customers; from your website, online advertisements, merchandising events, and regular promotions—the costs keep adding up.

Per industry standards, it costs 5 times more to get a new customer than to retain a current one. If you do not have the data, operations, and logistics in place to satisfy and retain your existing customers, then you're very likely to lose them.

ABANDONING THE SHOPPING CART

In its recent survey, the Baymard Institute found that the average shopping cart abandonment rate is 68%. The main reason why shopping carts are abandoned during checkout is because of the extra costs (shipping, taxes, fees) that are too high (53%). Only 16% of consumers chose to abandon their shopping carts because delivery times were too slow.

CHART E: REASONS FOR ABANDONMENTS DURING CHECKOUT

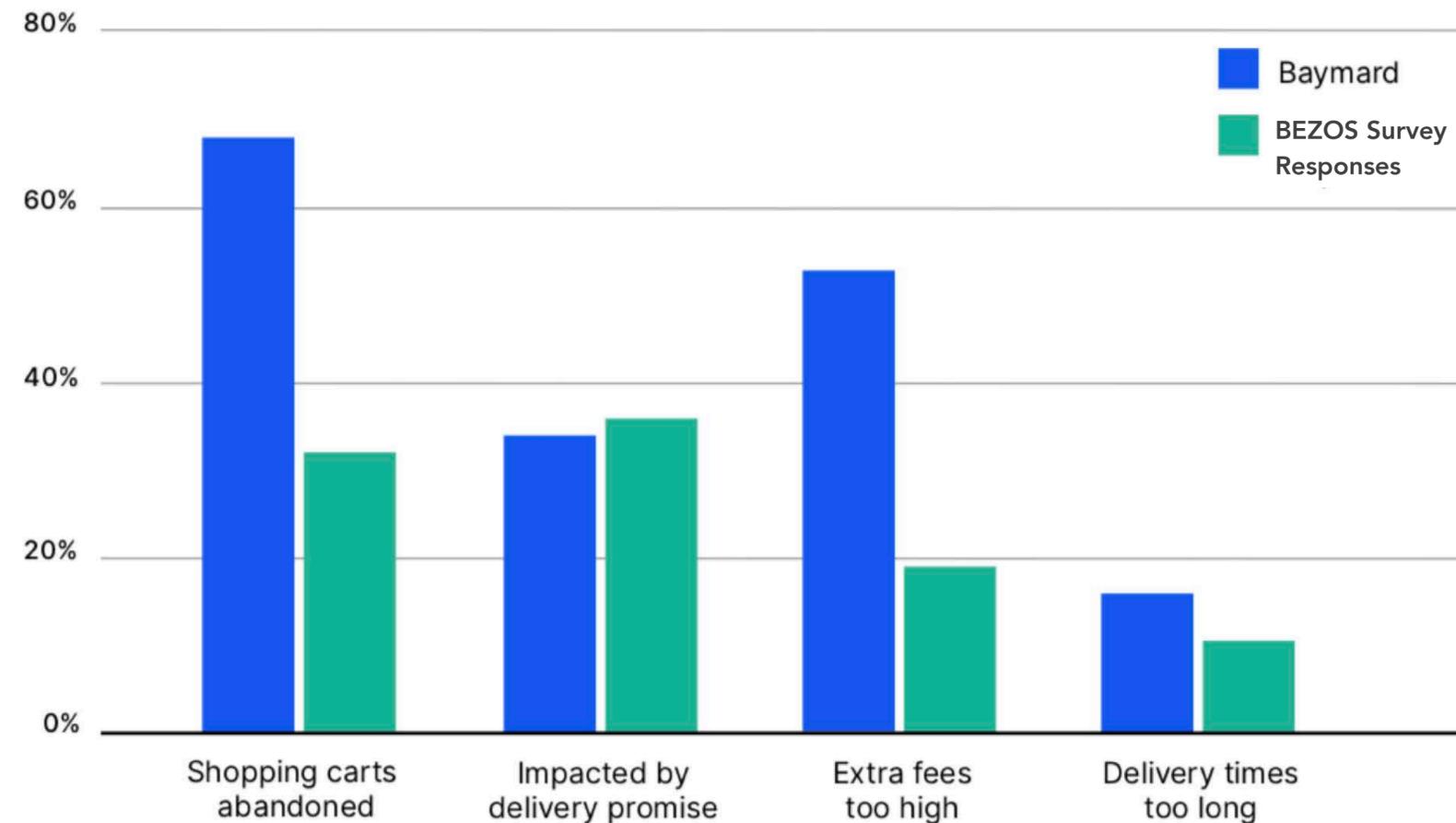


Full chart available at <https://baymard.com/lists/cart-abandonment-rate>

Majority of the online consumers are concerned about the price they pay for shipping. In fact, 65% of the customers report that “they look up free-shipping thresholds before they add items to their online shopping carts,” and 29% have abandoned their order because two-day shipping wasn’t offered for free.

Unfortunately, shopping cart abandonment is widely misunderstood. When you compare the Baymard Institute’s analysis with our survey responses, there is clear misalignment. Both data sets recognise that delivery promise impacts shopping cart abandonment, but respondents to the BEZOS survey are unclear on how frequently it happens, nor do they believe delivery costs or times impact the decision.

CHART F: SHOPPING CART ABANDONMENT COMPARISON
BAYMARD INSTITUTE AND FLEXE SURVEY RESPONSES



FINDING A VIABLE SOLUTION:

Are you prepared to meet your shipping promises?

Logistics is always complicated. One of the key findings from the BEZOS survey is that for retailers warehousing remains a key obstacle to offering better experiences to customers. The problem is, it is only going to get more complex as retail continues to diversify.

DEALING WITH EXPENSIVE SHIPPING

When retailers are asked why they weren't offering free or fast shipping, the number one reason they stated was "Outbound costs are too high with existing network."

The last mile, or the distance goods travel from the fulfilment centre to the final destination, impacts outbound costs. According to the respondents, 53% do not offer free shipping because of these outbound costs that are too high and 37% do not offer 1-2 day shipping because of it.

TABLE G: REASONS NOT OFFERING CERTAIN DELIVERY PROMISES

	Not offering free shipping	Not offering 1-2 day shipping
Outbound costs are too high with existing network	53%	37%



FIXED INFRASTRUCTURE AND LOGISTICS SOLUTIONS GET IN THE WAY

74% of our respondents said they are only able to work with 1-3 fulfilment centres in their distribution network. With only 1-3 fulfilment centres, infrastructure is limited—making it difficult to reduce outbound costs, optimise distribution network, and offer free, fast delivery because the distance traveled for outbound shipments is too long to be cost-effective.

Solutions for managing distribution also plays an important role. The two most common solutions for warehousing are to “Rent and operate warehouses” (48%) and “Work with 3PLs” (42%). Both of these solutions are long-term and provide little flexibility to improve your distribution network and delivery promise.

SALES, COSTS AND COMPETITORS ARE MAJOR CONCERNS

In addition to the numerous barriers keeping businesses from offering fast and free shipping, we also asked our survey respondents, “What keeps you up at night?” Most respondents said “Costs” (55%) and “Sales” (46%), followed by “Competitors” (37%).

However, we also found that respondents that have more than 500 orders/day were more likely to cite Amazon as one of their company’s top challenges, with 31% citing it as an issue compared to 16% of all responses.

Rent and operate your own warehouse	48%
Work with 3PLs	42%
Fulfillment by Amazon (FBA)	24%
Ship from your stores	10%
Other	9%

BRIDGING THE GAP:

Customised Warehousing

Our findings reveal that currently retailers and brands are facing a couple of key challenges, mostly related to logistics. Most of them are struggling with the choice between meeting the demands of their customers or keeping up with Amazon. In this struggle, they are faced with the limitations of fixed warehousing infrastructure and small logistics networks that prohibit them from improving their delivery promise.

Having a flexible logistics strategy with on-demand warehousing can help retailers a great deal. First, you must understand your customer, then you can optimise for their wants accordingly (not necessarily the precedent that Amazon has set) by adjusting your logistics network and delivery strategy.

Positioning your inventory closer to your consumers is an efficient way to improve your delivery promise and lower transportation costs. With on-demand warehousing like BEZOS, you get a flexible, variable-cost model for adding warehousing and fulfilment nodes to your distribution network.



HOW ON-DEMAND WAREHOUSING CAN HELP YOUR RETAIL BUSINESS

A SCALABLE & FLEXIBLE NETWORK

Having on-demand warehousing network provides retailers and brands an unprecedented level of flexibility. They are not required to sign long-term contracts or pay for startup costs. Bezos connects retailers and brands to their wide network of warehouse providers across United Kingdom.

Every warehouse in the United Kingdom is connected through a single, standardised tech platform, making it incredibly fast and simple to expand your logistics network to match business demands or improve delivery options.

Because Bezos network is so vast, you can access capacity and services in whichever area you need. Wherever and whenever you have a need, you can surely find a provider with the right specifications for you.

REDUCE SHIPPING COSTS

On-demand warehousing provides retailers and brands to store their inventory at pop-up warehouses and fulfilment centres that are close to their customers, saving them on the most expensive part of their supply chain: transportation.

Transportation costs account for nearly two-thirds of logistics costs, but by positioning goods closer to customers, retailers and brands can reduce shipping costs through shorter last miles and taking advantage of ground shipping.



CONCLUSION

Our research into the retail landscape reveals that the retail industry continues to change. There is immense pressure on the online seller and brands to be all things at once; customers need free and fast delivery, retailers need to be present and active selling on every channel, and they must have all those channels seamlessly integrated. If you fail to satisfy your customers expectations, your business could lose its customers and could be the next one filing for bankruptcy.

The pressure to keep up with the standards being set by Amazon is causing most retailers to ignore a fundamental tenet of business: **The customer is always right.** When it comes to your delivery promise, what matters most is free and fast delivery, always remember what matters most to your customers.

KEY TAKEAWAYS

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ABOUT BEZOS

BEZOS is reinventing warehousing and fulfilment to optimise the global delivery of goods. It is a one-stop-shop for brands and online retailers. You send us your products, we take care of everything else when you sell online. Based in United Kingdom, the BEZOS team is dedicated to transforming the logistics industry and helping clients create structural flexibility in their businesses. For more information, please visit www.bezos.ai