



MCM OUTLOOK

OPERATIONS AND FULFILLMENT

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MCM Outlook 2014: The State of Operations

BY TIM PARRY

Multichannel Merchant's MCM Outlook 2014 survey was fielded from Feb. 10 to March 10, 2014 and drew 1,281 respondents. Of those respondents, 470 identified themselves as a merchant or a retailer. The full MCM Outlook 2014 report on Operations and Fulfillment will be released in conjunction with Multichannel Merchant's Operations Summit, which will be held Apr. 22 to 24 in Indianapolis.

Here's a snapshot of the MCM Outlook 2014 results.

Amazon Effect Overrated?

If Amazon is, indeed, taking over the ecommerce world, then operations and fulfillment professionals are the last to know. According to the results of MCM Outlook 2014, 28.8% of respondents have seen no effect from Amazon on their business.

However, 36% of respondents said Amazon has had an effect on their shipping offers. Nearly a quarter of respondents (23.2%) said they feel the pressure to offer free shipping and 12.8% said there is pressure to ship orders faster.

Meanwhile, 45.4% of respondents told Multichannel Merchant that they are not using Amazon for anything at all, and just 2.8% of respondents said they are using Fulfillment by Amazon (FBA).

Despite these eye-opening numbers, Amazon is putting a dent into the direct-to-customer businesses.

"I believe Amazon has had a major effect on all ecommerce sites," says Chris Brenner, vice president of PetSolutions. "They are definitely the toughest competitor on the Internet. Fast and free shipping is just something customers expect these days."

Brenner thinks Amazon will have an even bigger impact on ecommerce in 2014. He has noticed Amazon increasing prices and dropping unprofitable SKUs. Brenner thinks this is the year Amazon will try to turn a reasonable profit.

"In the long term, if [B2B marketplace] Amazon Supply attacks our business model, then it will hurt us much more," says S&S Worldwide director of distribution Mark Desrosiers.

Desrosiers says S&S Worldwide does partner with companies like Amazon, and has doubled its business there between 2012 and 2013. Though they are not using Fulfillment by Amazon, they are considering it for certain product selections.

Brenner, however, has no plans to use

FBA. "I believe this is just another way for Amazon to gain product knowledge that can be used against other retailers," Brenner says.

Spanning the Globe

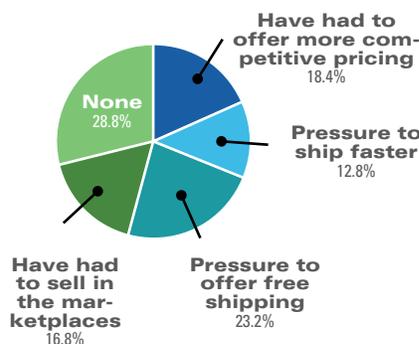
U.S.-based merchants are growing their cross-border business. According to the MCM Outlook 2014 survey results, merchants here are shipping an average of 9.8% of orders outside the U.S. But the majority of merchants (64.1%) ship from 0% to 4% of orders across borders.

Meanwhile, 40.5% of respondents said they are using marketplaces such as Amazon, Rakuten and Alibaba to sell globally.

Craig Reed, vice president of global commerce for Pitney Bowes, said in an in-

"Fast and free shipping is just something customers expect these days." — Chris Brenner

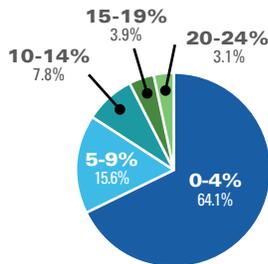
What has been the effect of Amazon on your business?



What are you using Amazon for?



How many orders are shipped outside the U.S.?



interview at IRCE 2013 that selling products globally is about having access to another market. While the U.S. market has shown a lot of growth and has been very robust, it is slowing down.

“As a merchant, you want to look at what is the next big stage of growth, it’s really international,” said Reed. “The growth of ecommerce, we believe, is going to be driven in part by global demand.”

There has been a shift in what shipper respondents use as their primary international carrier. Last year, exactly one-third of respondents said the United States Postal Service was their primary international shipper. This year, just 18.2% of respondents are using the USPS.

UPS has seen its global business grow. More than one-quarter of the respondents (25.6%) said they use UPS as their primary international carrier, up from 23.8% last year.

FedEx saw a slight drop in global business, with 18.2% of respondents (down from 19% in 2013) using them as their primary international carrier.

DHL is seeing a re-birth in the U.S. Just 2.4% of respondents said they used DHL as its primary international carrier last year; that number jumped to 12.4% in 2014.

Happy Holidays?

Holiday season ecommerce spending reached a record \$46.5 billion in 2013. That’s the good news. The bad news had to do with on-time delivery results.

Forrester principal analyst Sucharita Mulpuru told Multichannel Merchant that

ecommerce taxed the capacity of the carrier network. And that was especially evident with express delivery around Christmas.

“There were very lofty expectations that you can order things two days before Christmas and, depending on the retailer, you could get it shipped for free by Christmas,” Mulpuru says. “It’s just not something that was a realistic expectation.”

Almost 12% of ecommerce orders fulfilled by retailers by their planned on-time-for-Christmas cutoff date did not reach the recipient by Dec. 25, according to the results of the MCM Outlook 2014 survey.

Although an average of 11.6% of respondents said orders fulfilled by the cutoff date were delivered late, it does not appear to be the result of shippers pushing that last-chance offer as close as possible to Christmas. According to the survey results, 29.2% of merchants had an on-time-for-Christmas cutoff date of Dec. 17 in 2013.

Dec. 20, the Friday before Christmas, was the second most popular planned on-time-for-Christmas cutoff date. More than 16% of 2014 MCM Outlook survey respondents said they chose that as their

cutoff date.

But 7.9% of 2014 MCM Outlook survey respondents said between 85% and 100% of orders fulfilled by their planned cutoff date arrived late for Christmas. Of those respondents, 40% had a planned on-time-for-Christmas cutoff date of Dec. 17, and 30% set theirs for Dec. 20.

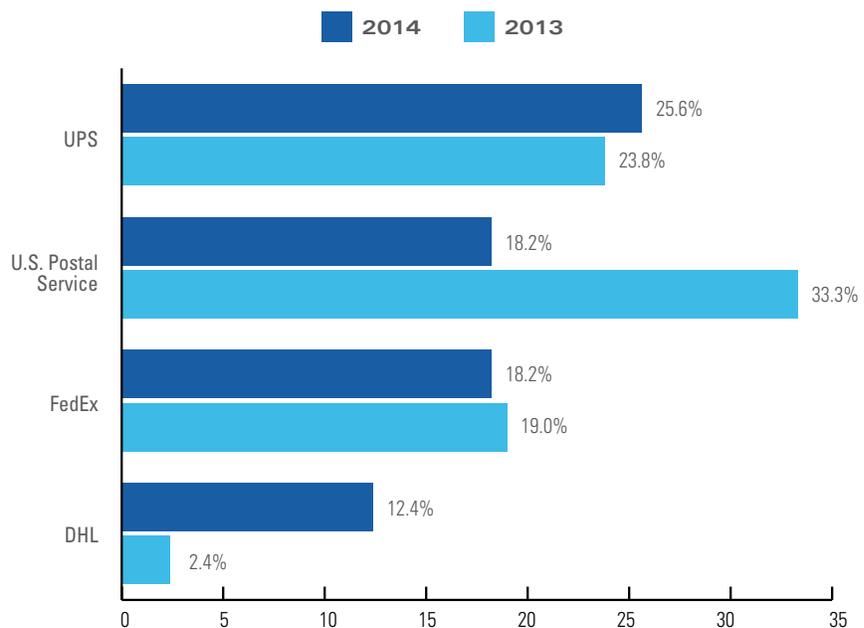
In its Jan. 30 earnings call, UPS acknowledged the operational issues that gave the shipper a black eye during the 2013 holiday season. And it’s something UPS is not taking lightly.

UPS chairman and CEO Scott Davis told reporters that the carrier has been working around the clock to ensure the company can handle consumer volume, weather issues and its customers’ promotional cycle in the 2014 holiday season.

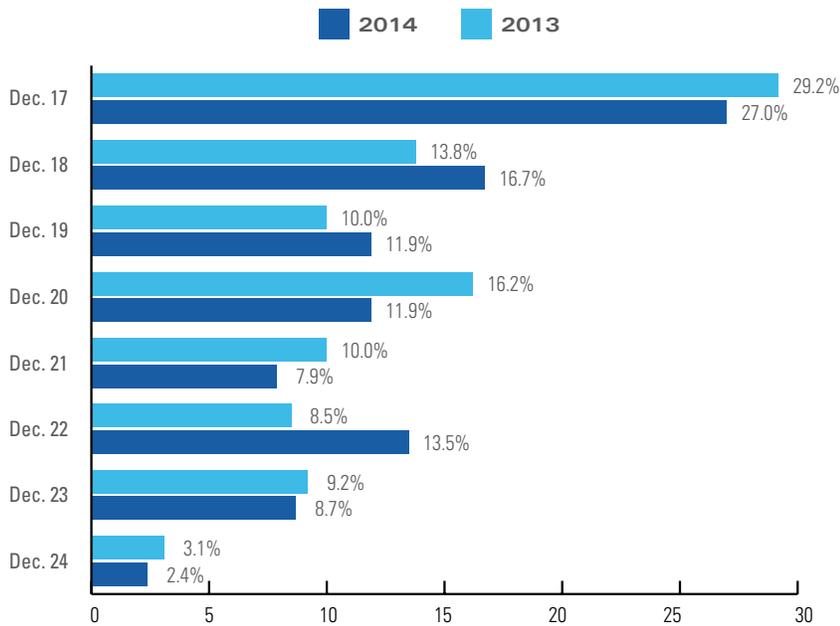
“Our entire team is intensely focused on using the learnings from this peak season to ensure we are prepared for 2014,” added David Abney, UPS’s COO. “We have recognized that the UPS brand is a valuable asset to be protected.”

Despite the 2013 backlash, merchants are willing to take a chance on last-minute

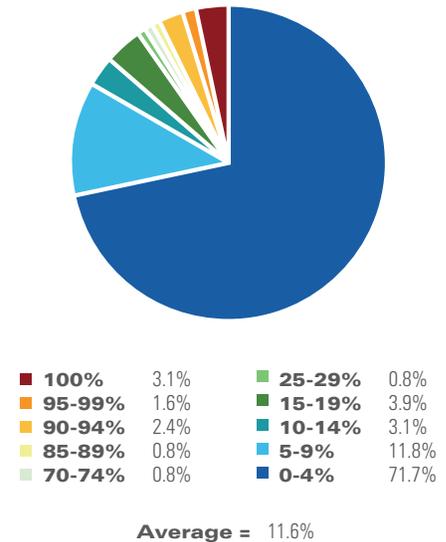
Which company is your primary international parcel carrier?



What was your cut-off date for guaranteed on-time for Christmas deliveries in 2013, and what will it be in 2014?



What percent of packages fulfilled by the guaranteed cut-off date did not reach the recipient on time?



holiday shoppers again in 2014—13.5% of respondents said they will make Dec. 22 their planned on-time-for-Christmas cut-off date this year, compared to just 8.5% that used that as the cutoff date in 2013.

More than a quarter (27%) said Dec. 17 would be their planned on-time-for-Christmas cutoff date this year.

The Omnichannel Experience

While customers are showing a growing tendency to order merchandise online, they don't always want it shipped to their home or their office. So ship-to-store and

in-store pick-up options are growing for those merchants with brick-and-mortar locations.

Nearly a quarter (23.1%) of respondents with storefronts already offer ship-to-store, and another 5.1% said they will add that option in 2014. And 29.6% of respondents with storefronts already offer in-store pickup, with another 11.2% planning that as an option in 2014.

Buy online, pickup in store, which Macy's tested in the fall of 2013, is now being rolled out to all stores in the spring, Macy's CFO Karen M. Hoguet said during the company's fourth-quarter earnings call in

February.

Hoguet said that one of the things that has Macy's excited about the buy online, pickup in store test is that it will lay out a foundation for same-day delivery.

"We have the capability now of knowing exactly if that inventory that a customer is ordering is in a specific store," Hoguet said. "And if that inventory is in a market, obviously it's easier to get to the customer on the same day."

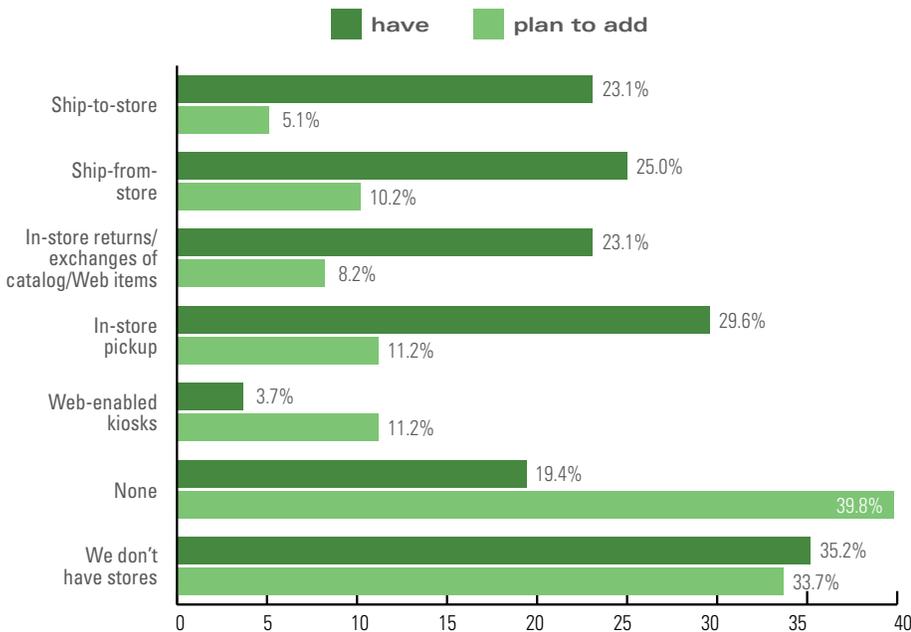
Macy's was one of the first merchants to hop on another trend, one that is more transparent to the customer: ship-from-store. Exactly 25% of respondents said they already offer ship-from-store, and 10.2% will add ship-from-store in 2014.

Best Buy CEO Hubert Joly said that now that they have ship-from-store capabilities, it is able to use its more than 1,400 stores and its eight distribution centers to improve speed to customer, enabling faster delivery of online purchases at lower cost to Best Buy.

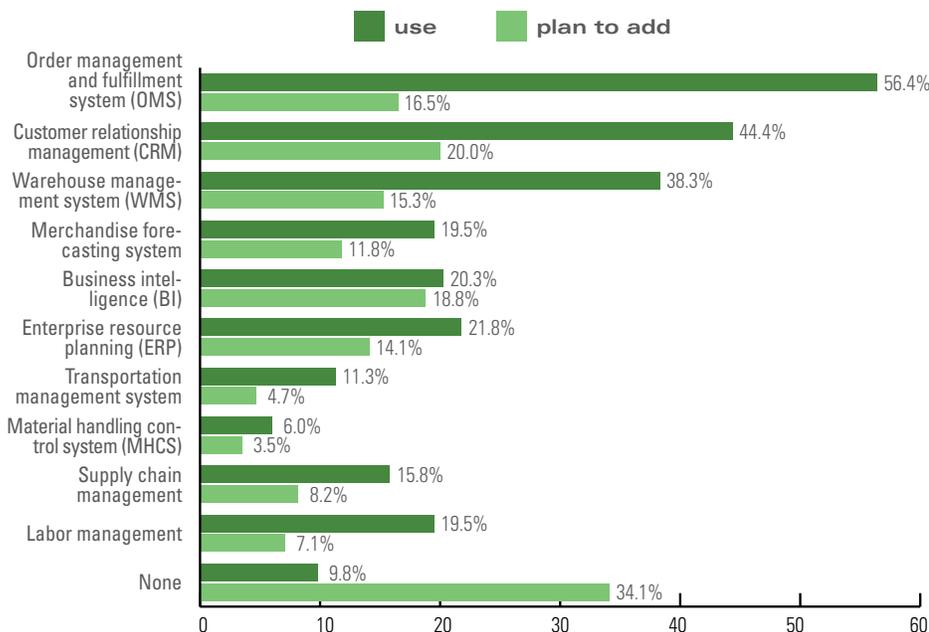
"We've recently reduced the delivery window promise to customers by two full days, and we will also begin adding returns

"There were very lofty expectations that you can order two days before Christmas and get it shipped for free by Christmas." — Sucharita Mulpuru

If you have stores, which technologies do you have, and which do you plan to add in 2014?



Which systems does your company currently use, and which do you plan to purchase in 2014?



and open box items that are sitting in our stores to our online inventory,” Joly said during Best Buy’s fourth-quarter earnings call.

Systems

Merchants do not appear to be in the market to make new systems purchases in 2014, but are willing to upgrade what they already have.

More than one-third (34.1%) of MCM Outlook 2014 respondents said they have no plans to make a system purchase in 2014. However, nearly half the respondents (47.2%) said that upgrades of existing systems take top priority in 2014. Of those respondents, 16% said installation of new systems takes top priority in 2014.

Brenner says he sees only two reasons for upgrading or replacing existing systems: if they cut costs or if they allow you to better serve your customers.

“I believe the key to a successful system is to find a company that can modify their system easily to adjust for customers unique needs,” Brenner says. “If your current software vendor can modify your current system to fit your needs, then this type of upgrading is almost always better than replacing your current system.”

The biggest problem with replacing your current system is what you don’t know about the new system, Brenner says.

“Many times people look for the features they want in a new system and don’t adequately document the features that work well in their current system,” Brenner says. “People take for granted that a new system will do what they are doing today and just add benefits they are looking for. This is rarely the case, a lot of times it is a give and take with a new system.”

The majority of respondents (56.4%) said they have order management systems in place, and 16.5% said they plan to add an OMS in 2014. One-fifth of the respondents said they are looking to add a customer relationship management system in 2014, while 44.4% said they already have a CMS in place. ■