MULTICHANNEL MERCHANT

MCM OUTLOOK SPECIAL REPORT

# Merchants Looking to Differentiate in the Last Mile, Returns, Outsourcing

By **Tim Parry**

Online sales during the 2017 holiday season hit $108.2 billion, a rise of nearly 15% over the same period in 2016, according to calculations made by Adobe Digital Insights. While that is great news for the economy, not all ecommerce and omnichannel merchants are jumping for joy. It's been estimated that about 50% of digital sales this holiday season came from one single retailer.

Amazon.

Yes, Amazon saw its net sales rise 38% to $60.5 billion in the fourth quarter of 2017, which includes the entire holiday season. Which means that once again, it's Amazon's world, and the rest of the ecommerce ecosphere is living in it.

Omnichannel merchants of all sizes have been sellers on the Amazon marketplace, and many have also elected to use Fulfillment By Amazon (FBA). In the fall of 2017, Kohl's took it a step further and began accepting returns of Amazon-purchased merchandise in its stores.

More than one-third (34.9%) of operations executives surveyed by Multichannel Merchant for MCM Outlook 2018 said the biggest "Amazon effect" is the pressure to ship faster, with 23.3% saying it was pressure to offer free shipping. Respondents were about evenly split in terms of those offering free shipping in 2017 (45.7% do, 43.5% don't), with another 11% saying they're considering it.

In this report we'll take a look at trends and statistics in three key areas impacting ecommerce and direct-to-customer operations: The last mile, customer returns and outsourcing of fulfillment services.


## Sprinting to the Last Mile

Merchants are continually looking for ways to optimize the expensive final leg or "last mile" of delivery as they look to decrease shipping costs. Most respondents to the MCM Outlook survey indicated they are tapping the United States Postal Service (USPS) and its so-called hybrid offerings: UPS SurePost (cited by 32.4% of respondents) and FedEx SmartPost (29.7%).

While SurePost and SmartPost are popular among merchants who ship to residential addresses, regional carriers such as OnTrac and Pitt Ohio are popular choices with shippers who send big-ticket items and larger freight items. The use of local couriers (cited by 13.5% of respondents) and regional carriers (8.1%) are on the rise.

The "Uberfication" of crowdsourced package delivery is also gaining traction. Both Uber and Lyft offer package delivery options for retailers who want to offer same-day delivery, and Amazon has its Prime Now offering in

CONTINUED ON PAGE 2

## FEATURED IN THIS REPORT

many markets, including one-hour service. Deliv has been growing rapidly as well, using hundreds of malls across the country as order collection points to handle customer deliveries for dozens of retailers. For its part, Target acquired same-day delivery provider Shipt in 2017 to shorten the last mile, while Walmart is tapping its own store associates for local fulfillment.

Amazon is reportedly launching Shipping With Amazon (SWA) in 2018, its own "shipping-as-a-service" offering, which would help get shipments from merchants' own facilities to their customers.

In a February 2018 research note, Baird analysts said Amazon has been testing third-party package delivery for several years, adding it already employs contract drivers in markets where Prime Now is offered and has been quietly shipping from third-party warehouses.

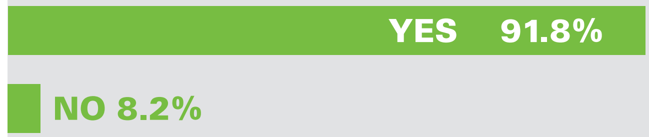
"SWA represents a natural extension of third-party logistics services, particularly in markets where Amazon has the delivery density to offer a competitively priced alternative to UPS and FedEx," Baird said in the note.

## MCM Outlook Survey 2018: By the Numbers

Multichannel Merchant conducted its MCM Outlook survey in January 2018, with 75% of respondents identifying as direct-to-customer or ecommerce sellers. Here are some additional findings from the survey:

- 9.45%: The average percentage of packages shipped outside the U.S. (down from 11.2% in 2017)
- 21.7%: The percentage of respondents who plan to offer same-day delivery in 2018 (down from 26.1% in 2017)
- 29.2%: The percentage of respondents who say they ship from stores (up from 25.7% in 2017)
- 46.7%: The percentage of respondents that charge customers for returns (up from 39.1% in 2017)
- 46.8%: The percentage of respondents that drop ship merchandise (down from 56.3% in 2017)
- 57.6%: The percentage of respondents who said their omnichannel business was profitable in 2017 (up from 45% in 2016)
- 62.2%: The percentage of online orders that were fulfilled in respondents' stores for in-store pickup (up from 61.5% in 2017)
- 82.1%: The percentage of respondents who plan to upgrade their IT systems in 2018 (up from 68.6% in 2017)
- 87.5%: The percentage of respondents whose stores handle ship-from-store while the store is open (up from 81% in 2017)

**Will Amazon Move More Aggressively Into Shipping/Logistics?**




*Source: MCM Outlook Survey 2018*

Nearly all respondents to the MCM Outlook survey (91.8%) said they believe Amazon will move more aggressively into shipping and logistics in 2018.

While logistics moves by Amazon tend to induce panic in UPS and FedEx investors fearing lost business, if not the carriers themselves, Boxed.com vice president of transportation Joe Bobko said SWA may have the most impact on the USPS, as it typically represents the densest piece of the delivery business.

"Instead of going into UPS SurePost or FedEx SmartPost, it appears Amazon is going to try to convince its third-party sellers to have their packages delivered from its distribution centers in its cargo vans to offer a very localized delivery," Bobko said.

The wild card is rural delivery, Bobko said, since Amazon's distribution centers are closer to cities. This would act to lessen the impact of SWA on volumes handled by the three major carriers. Bobko also sees it as a way for Amazon to take some of the holiday season delivery strain off the three major carriers, perhaps relying on it during those peak times.

A growing trend to address last-mile fulfillment is store pickup of online orders, or click and collect. While adoption has been stronger in Europe than the U.S., it has been growing rapidly here as a win-win solution that offers both supply chain efficiency for the retailer and convenience and choice for the customer. To make it even more convenient, many are offering curbside pickup services, using apps that notify shoppers when an item is ready.

Pickup lockers and local convenience stores as pickup points are another growing practice, with thousands of locations operated by Amazon, UPS, FedEx and others.

In the MCM Outlook survey, 26% of respondents with stores said they plan to add in-store pickup of online orders in 2018, up from 18% for 2017.

## Reaching Out for Fulfillment Help

Whether they are using FBA or a 3PL, merchants of all sizes are looking to outsource fulfillment. Sixteen percent of MCM Outlook respondents said they are using an outside service or 3PL for fulfillment, with another 2.3% considering it. According to the survey, 62.2% of respondents operate just one distribution center – which does not include ship-from-store locations used for omnichannel fulfillment.

Perry Belcastro, vice president of fulfillment services for 3PL provider Saddle Creek, said his firm is seeing a heightened level of activity and interest from merchants.

"That's because a stronger economy has led to more consumers making purchases online, which helps with overall industry growth," Belcastro said.

There are many advantages to using an outsourced fulfillment provider, and the reasoning may not be obvious based on the size and scale of your business.

One prevalent reason to outsource fulfillment is putting merchandise closer to your customers, which speeds up the delivery time, said Bobko.

For example, a merchant with its own fulfillment center on one coast may want to outsource fulfillment on the other coast to make two-day delivery possible to every zone.

Or, if a merchant has a fulfillment center in the middle of the country, it may want to work with one fulfillment provider on the East coast and another on the West coast, to maximize delivery coverage.

Thomas Anderson, vice president of supply chain services for LJM Consultants, said having merchandise closer to the customer also means lowered shipping costs.

"Operating your own distribution center can be cost-prohibitive for startups," Anderson said.

Anderson points out that warehouse management system (WMS) software can cost upwards of $20,000 a month. Then there's the cost to purchase and maintain forklifts, conveyer belts and other equipment, as well as labor, insurance, real estate and taxes, among other things.

Anderson said that doesn't mean a 3PL is a cheap proposition, but it can be more cost-effective than doing it yourself.

That also depends on your shipping volume as well. If you're shipping 10,000 packages a month, you may be able to handle a DIY approach with your own team. But as growing volumes lead to increasing strain on systems and personnel, it may be time to think about outsourcing.

Belcastro said a lot of retailers decide to outsource fulfillment so they can focus on what they do best: Their brand, product development, social media, marketing and growing their businesses.

"They see warehousing as the ugly part of business, and that's something they feel they don't have competence in," Belcastro said.

**What is the Effect of Amazon on your Business?**


*Source: MCM Outlook Survey 2018*

However, some retailers feel they can hire logistics professionals and keep full control of the supply chain. There is no less control when you use a qualified 3PL, Belcastro said, but not every business sees it the same way.

In its Q4 2017 U.S. Industrial and Logistics executive summary, real estate services firm CBRE noted that the overall U.S. commercial space vacancy rate (including warehouses) is extremely low at 4.5%. The report further noted that four out of the five lowest availability rates are in California: San Francisco (3.5%), Oakland (3.6%), Los Angeles (4.5%) and Orange County (4.6%). Conversely, three of the five regions with the highest availability rates were in Texas: San Antonio (12.6%) Austin (11%) and El Paso (10.8%).

But even in markets where the available warehouse stock is abundant, the numbers may be deceiving, Belcastro said. While a merchant may only need 100,000 square feet of distribution space, most real estate firms aren't willing to subdivide a vacant 500,000 or 1 million-square-foot facility to make it happen. That's when a merchant may want to turn to a 3PL instead.

Belcastro adds that 3PLs typically already have capacity, warehouse space, networks and resources available, and can share staff across multiple accounts. 3PLs can also deploy technology that may be too expensive for a merchant to handle on their own.

The use of a 3PL also allows flexible labor to accommodate for spikes in growth and volume peaks, as other merchants using the same 3PL may have different demand periods in their business.

## Returns A Key to Strong Customer Experience

A rise in ecommerce sales translates into a rise in ecommerce returns. Among respondents to the MCM Outlook survey in 2018, an average of 4% of all ecommerce orders were returned. And study after study has shown that an unfavorable returns policy at checkout can lead to increased cart abandonment.

While reverse logistics can be a complex and expensive process, returns have a major impact on the overall customer experience. How they are handled can make or break repeat business, and a return snafu often ends up as fodder for negative social sharing. To set themselves apart, many retailers offer free returns and generous policies, although this is changing. Iconic outdoor seller L.L. Bean, for example, dialed back its overly-generous returns policy in February 2018 due to customer abuse.

According to the MCM Outlook survey, 46.7% of respondents said they charge for ecommerce returns, up from 39.1% the year before.

"It's one of the conveniences online merchants need to consider, but you see merchants who make it difficult for the consumer," Belcastro said.

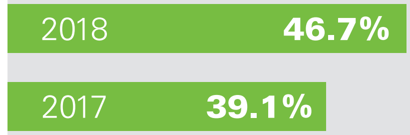
Bobko adds that making returns an effortless process can help win customer loyalty. "Consumers have moved on from trying items on in a retail store dressing room to buying the same item in assorted sizes, then returning the ones that don't fit," he said.

But how can merchants make the returns process both consumer friendly and efficient at the same time?

*"(Returns are) one of the conveniences online merchants need to consider, but you see merchants who make it difficult for the consumer."*

*- Perry Belcastro, vice president of fulfillment services, Saddle Creek Logistics*

**Percentage of Merchants Charging for Ecommerce Returns**




*Source: MCM Outlook Survey 2018*

Including a return label with the shipment seems to be a no-brainer. But Bobko said technology allows merchants to kick it up a notch. Now they can send customers online to print out a shipping label, and pre-authorize the return. This gives the customer his or her refund faster – even before the package arrives at the returns destination.

"The consumer wants the money back as soon as possible," Bobko said. "When the merchant knows the merchandise is on its way back, in some cases the credit will be issued."

What's more, when the customer processes the return online, the carrier is prompted to pick that package up at their home, place of business or elsewhere, which saves them a trip to the carrier's store.

Merchants with physical locations should encourage in-store returns, Anderson said. That's because it generates foot traffic and gets the customer to potentially buy more merchandise. Therefore, Anderson said Kohl's should be applauded for its partnership with Amazon.

"Kohl's is strategically positioned to accept returns, and that could be a good benefit for Amazon," Anderson said. "I can imagine that Kohl's returns turn into purchases. Amazon would pay for Kohl's to process the returns, and Kohl's would benefit from the upsale."

After Christmas 2017, Walmart rolled out a new mobile returns process that bridges the physical/digital divide. Using Walmart's mobile app, customers can start the returns process on their smartphone and complete it by scanning a QR code in the store.