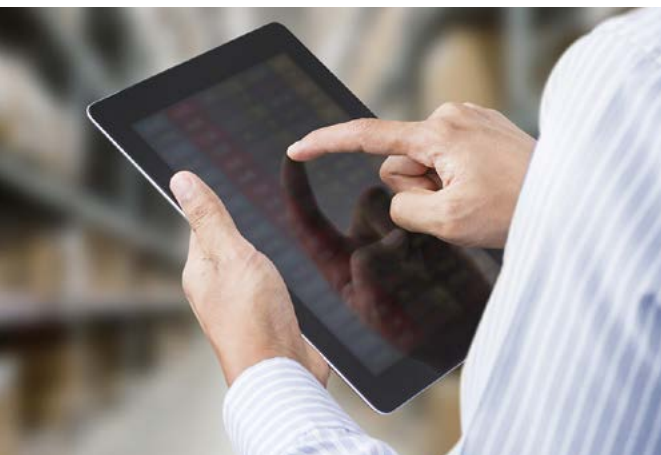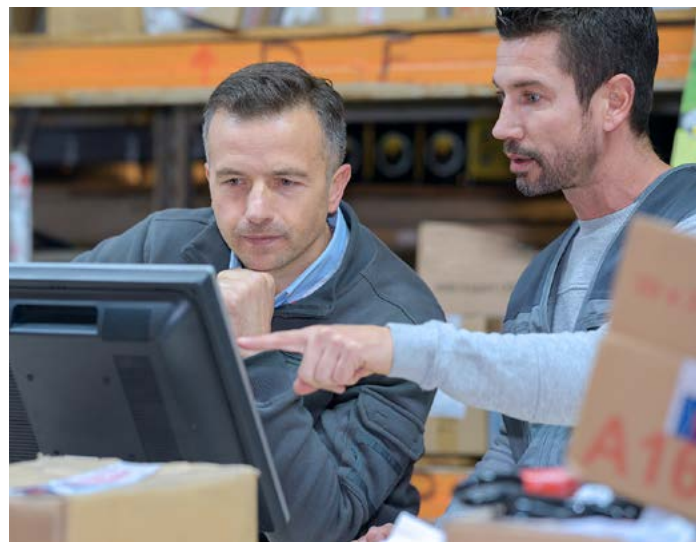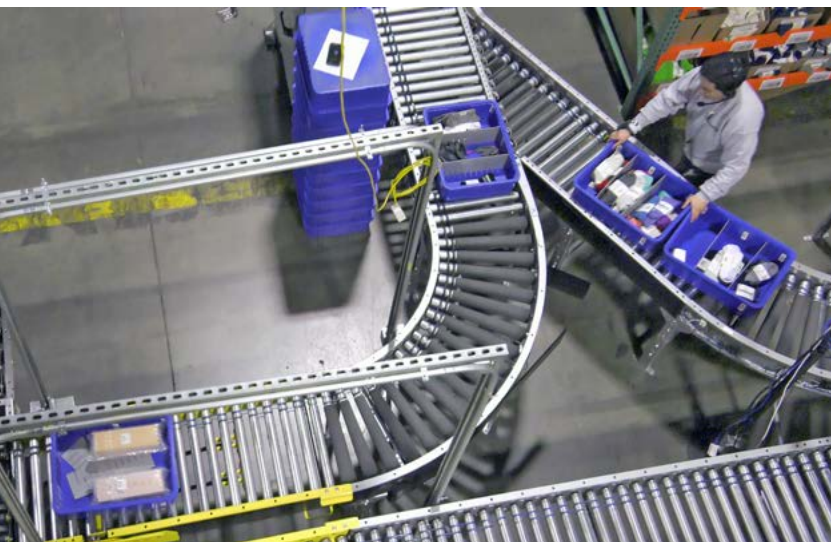# DIGITAL COMMERCE 360

ARE YOUR FULFILLMENT OPERATIONS GOOD ENOUGH?

Survey reveals fulfillment strategies of mid-market e-retailers as consumer expectations rise

From the editors of Internet Retailer

I. INTRODUCTION

Online sales continue to drive a growing share of retail revenue, but not all e-retailers are in a position to capitalize on this market opportunity. And one of the biggest roadblocks is their back-end fulfillment operations.

Mid-market companies, in particular, struggle to keep up with consumers' demand for fast, accurate, free delivery. The pace of change is daunting, calling on e-retailers to think and act fast. Change is inherently risky, of course, but failure to change in this environment could threaten the very viability of one's business.

To get a read on the warehouse fulfillment strategies of mid-market retailers, Internet Retailer recently surveyed 100 companies who ship 3,000 or more packages monthly. This report summarizes the results of the survey and offers comments on whether existing strategies are satisfactory given the pace of change.

Executive Summary

- Online sellers rate high-performance fulfillment operations as extremely important to their success, but many are not satisfied with their own operations. Dissatisfaction is particularly high among the 50% of respondents who deliver orders from a single warehouse—a strategy that limits delivery speed and increases the percentage of costly, high-zone parcel shipments.

- When asked if their current fulfillment network was sufficient to meet future delivery-time requirements, 31% of respondents said "no" and another 13% said they weren't sure.

- Almost all offer free shipping for customers who meet certain criteria, and 84% absorb at least some of these shipping costs. This shines a bright light on the need to control parcel shipping costs, which continue to rise.

- 2 of 3 responding companies ship both B2C and B2B, underscoring that we live in an omnichannel world. Fulfillment operations must be adept at handling the demands of both B2B and B2C orders, and the complexity of seamlessly integrating both.

- 41% of companies said they outsource some fulfillment work to Fulfillment By Amazon (FBA). The vast majority use the service for just their Amazon orders. Because of FBA's high storage fees and strict rules, more than a handful of responding companies are looking for other options to fulfill Amazon orders.

- The ability to scale was rated as a key success factor, and some are addressing expansion requirements through relationships with outside fulfillment partners.

II. FOOD-FOR-THOUGHT QUESTIONS

As you read this report, it is an opportune time to benchmark your company against how other mid-market e-retailers handle fulfillment. These are just a few of the questions we encourage you to ask yourself in weighing strategic options for your company.

- Can ecommerce companies continue to grow and compete with only one fulfillment center?

- Is my current fulfillment operation optimized for omnichannel distribution?

- Is my infrastructure scalable? Can the network grow to get closer to customers? Can facility throughput expand to deal with sharp sales spikes?

- Will an inability to meet a two-day delivery requirement reduce my competitiveness?

- Will USPS's new, zone-based pricing structure inhibit my profitability?

- Am I carefully measuring the performance of my fulfillment operation?

- Is there a better option than FBA for fulfillment of Amazon orders?

III. SURVEY FINDINGS

Order-to-Delivery Cycle Time

How fast do e-retailers deliver? Much faster than in the past, when five to seven days was considered an acceptable time to deliver an online order. Today, 43% of our respondents said they typically deliver an order within two days. However, that leaves 57% who average three or more days for delivery.

On one hand, this seems slow, especially after Amazon recently stated its intention to shift from two- to one-day shipping for Prime orders. On the other hand, these longer delivery times are consistent with shippers' use of lower-cost postal consolidation programs like FedEx SmartPost and UPS SurePost, which require added processing time.

Order to Fulfillment Time
What is your current order-to-delivery time for standard B2C orders?

|	
1 day	13%
2 days	30%
3 days	28%
4+ days	29%
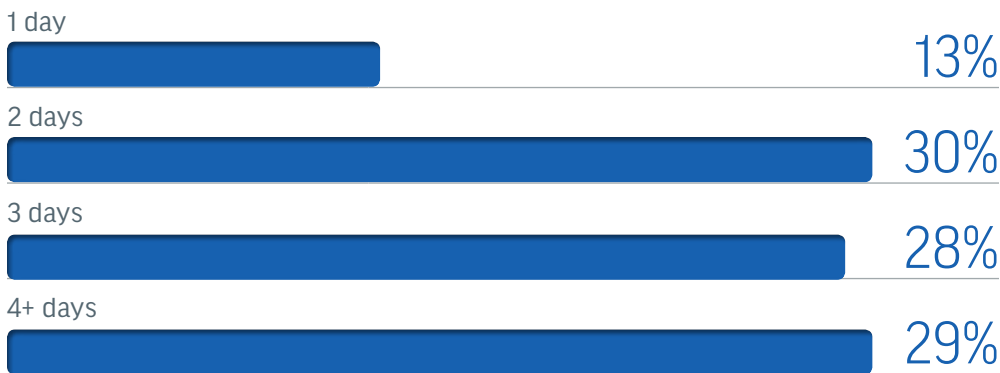
Is Your Fulfillment Operation Adequate?

Sellers feel a high-performance fulfillment operation is central to their success. They rated this factor an average 8.77 on a 10-point scale. In fact, nearly half answered "10" to this question, showing the critical importance of getting orders to customers quickly and accurately.

Importance of Fulfillment Operation to Success

On a scale of 1 to 10, where 10 is extremely important and 1 is not important at all, how important is a high-performance ecommerce fulfillment operation to the success of your business?

10=Extremely Important	49%
9	21%
8	15%
7	5%
6	7%
5	3%
4	2%
3	1%
2	0%
1=Not Important	0%
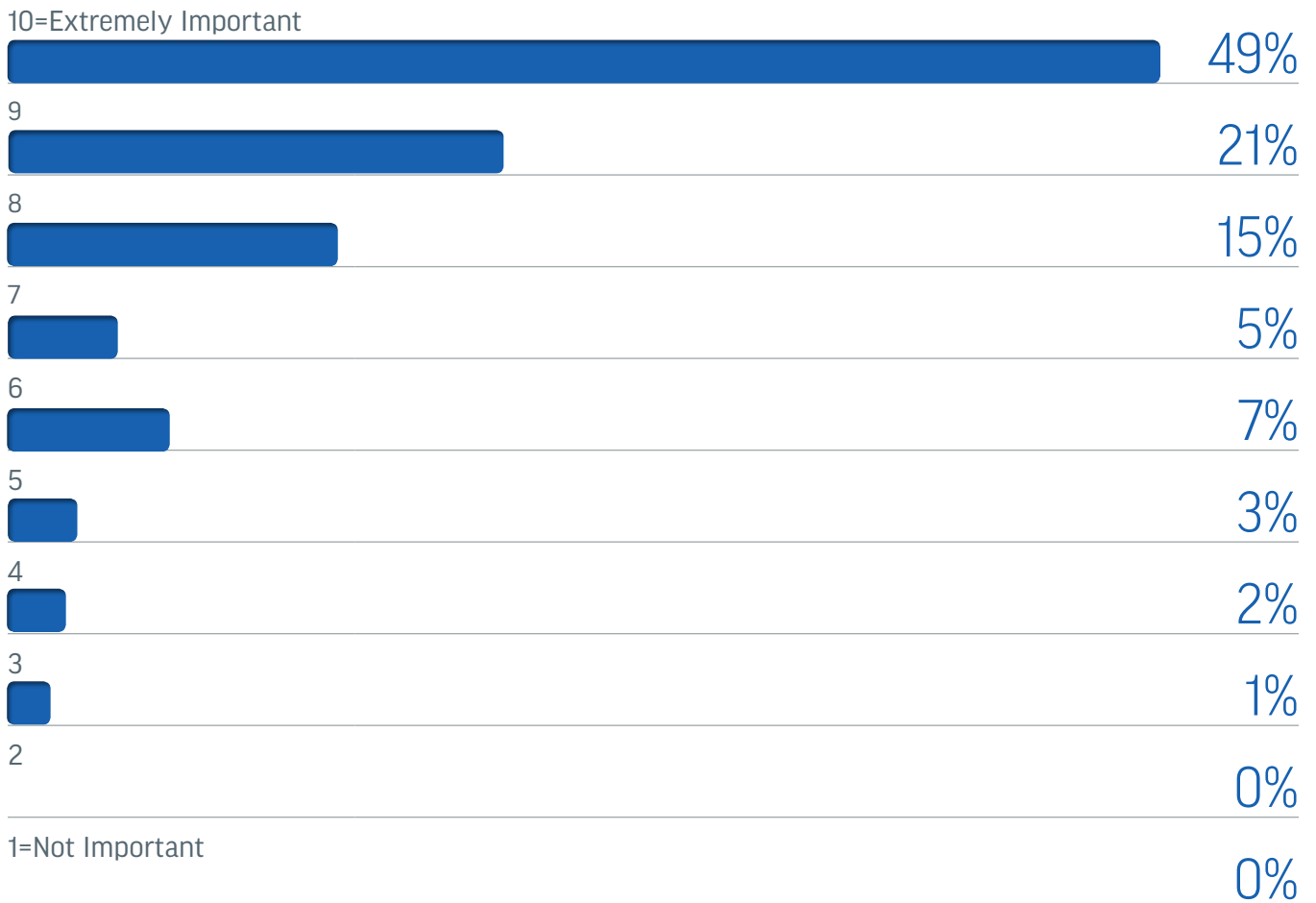
But, when asked to evaluate the performance of their own fulfillment operations, they gave themselves an average score of only 7.31. This **performance gap** suggests that actual fulfillment operations are falling short of what online retailers would like them to be.

One weak spot: *Many companies don't have enough warehouse coverage across the U.S. to fulfill orders quickly and efficiently. Nearly a third were certain that their distribution network is not adequate, and another 13% weren't sure.*

Rating of Current Fulfillment Operation

Is your current fulfillment warehouse network sufficient to meet your customers' current and future delivery time requirements?

Yes
56%

No
31%

Don't know
13%
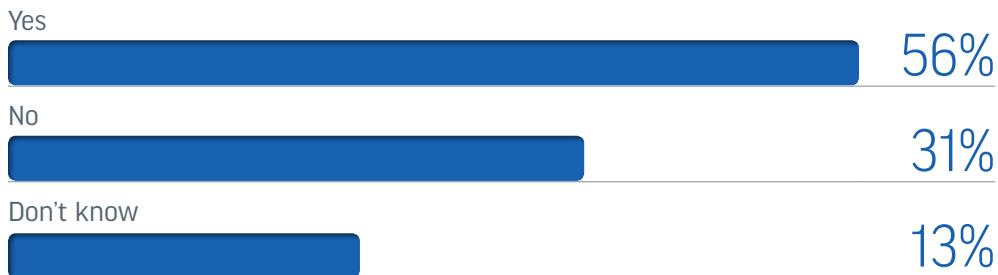
Of those 44% concerned about the adequacy of their fulfillment network, more than half, 55%, operate only a single distribution center. Little wonder they are concerned. This strategy makes it impossible to meet a two-day, nationwide, delivery requirement using efficient ground transportation. It also requires a high percentage of costly high-zone parcel shipments.

Adding to the challenge, the U.S. Postal Service (USPS) in 2019 introduced zone-based pricing to its First-Class Package Service. Before, sellers of smaller products weighing less than a pound could take advantage of uniform USPS pricing, regardless of distance. Now USPS will charge more when shipping longer distances.

In addition to customer service and cost downsides, a single-warehouse strategy also poses considerable risk to sellers. Severe weather, a system failure or other local event can cripple a company's operation if there is no back-up facility to ship orders. The results could be catastrophic.

Top Fulfillment Operations Challenges

The pressure on companies to excel at fulfillment was clear when respondents were asked to rate the importance of various operational challenges to their business success. For the top three challenges—ensuring order accuracy, meeting customer demands for rapid fulfillment and controlling shipping costs—all scores came in above 8.5 on the 10-point scale. Most other challenges were given average scores above 7. Clearly, fulfillment directors are being asked to perform well across *every* dimension of their operation. The exception: global shipping seems less of a priority, at least at this time, for our mid-market survey group.

Which Fulfillment Challenges are Most Important?

On a scale of 1-10 where 10 is most important and 1 is not at all important, how important are each of the following operational issues to your business success? (weighted average)

Delivering consistent operational performance (accurate orders, shipped on time, etc.)
8.78

Meeting customer demands for rapid fulfillment
8.63

Controlling parcel shipping costs
8.59

Creating a scalable fulfillment strategy
7.77

Controlling warehouse costs
7.69

Managing labor
7.08

Managing ecommerce returns
7.07

Global shipping capabilities
5.42

As a means to meet the above challenges, e-retailers are increasingly data-hungry and appreciate having real-time data–on inventory, orders and costs–that keeps them in control of fulfillment operations.
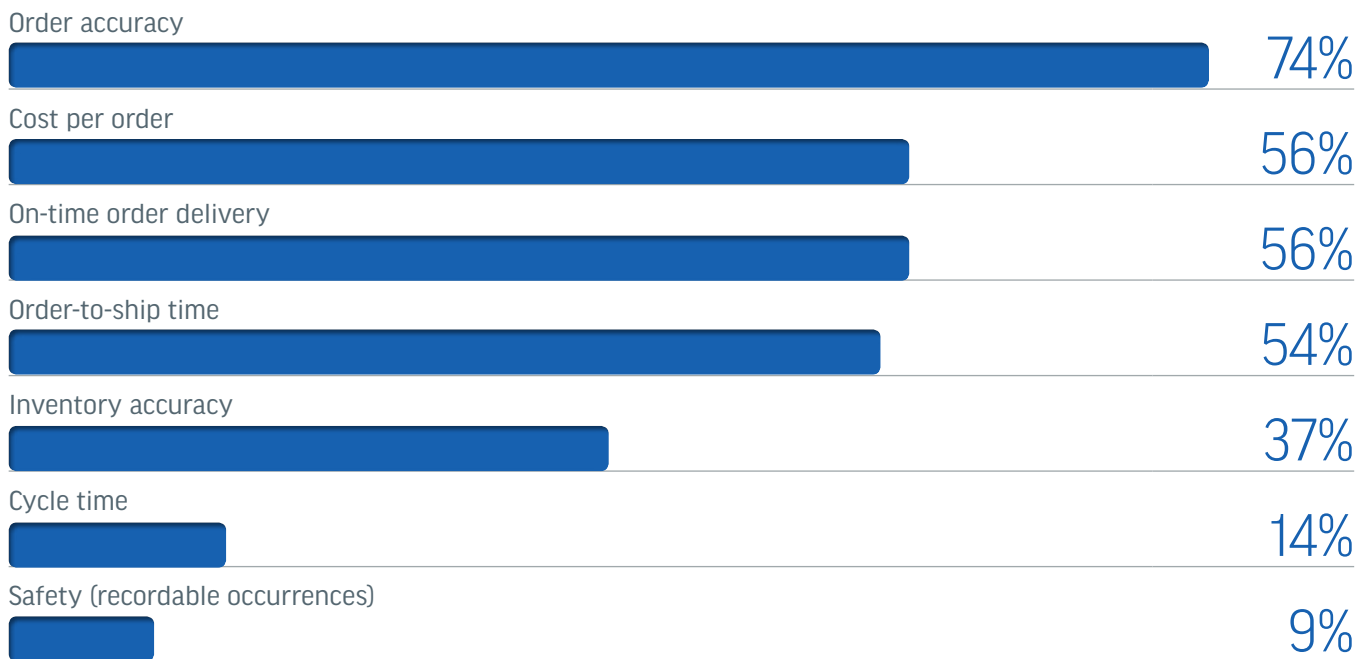
Are You Measuring the Right KPIs?

When it comes to key performance indicators for fulfillment (KPIs), order accuracy stood out as the most critical fulfillment metric, among those cited. Metrics that evaluate costs and address delivery timing are also a focus for the majority of sellers.

Which Fulfillment KPIs are most important?

What KPIs are the most important ones you use to judge the performance/success of your fulfillment operation? (Respondents chose their top 3 KPIs)

Order accuracy
74%

Cost per order
56%

On-time order delivery
56%

Order-to-ship time
54%

Inventory accuracy
37%

Cycle time
14%

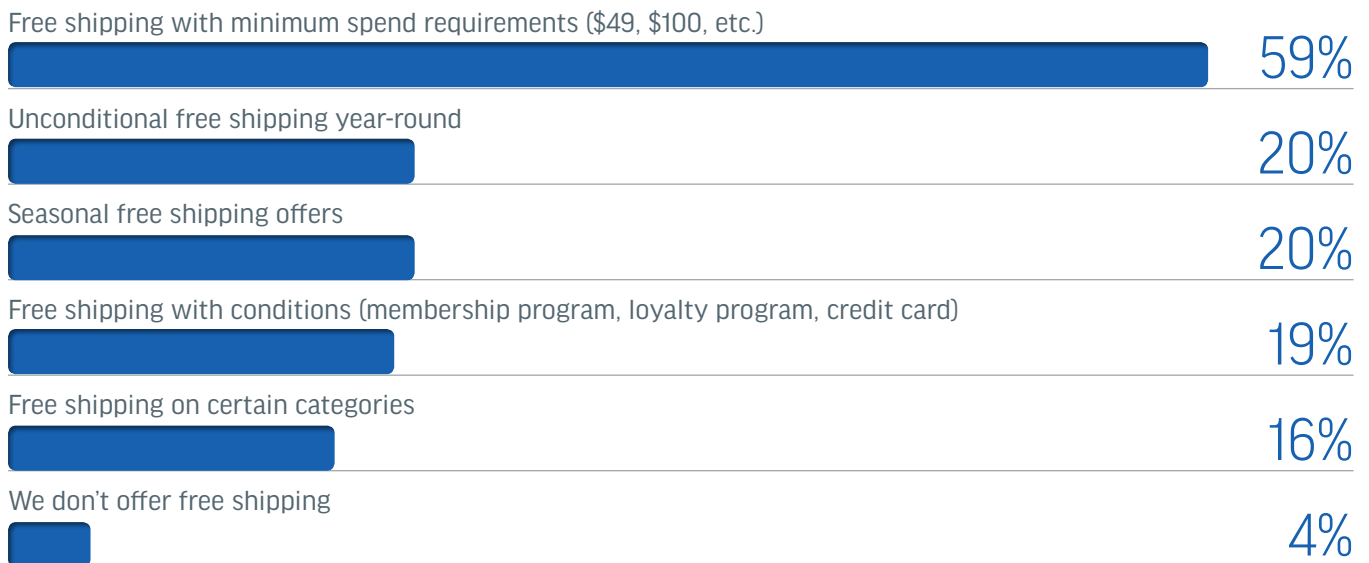Safety (recordable occurrences)
9%

'Free' Shipping

One of the critical decisions online sellers must make is whether and how to offer free shipping. Consumers increasingly expect to get online orders shipped free, especially during the holiday season. During Thanksgiving week 2018, 81% of purchases made from desktops in the U.S. shipped for free—up significantly from 74% just one year earlier, according to comScore, which tracks consumers' online shopping activity.

Given this expectation, it's not surprising that almost all merchants offer free shipping in some form. Only a minority, 20%, ship all orders for free.

Of course no shipping is truly FREE. Someone pays. In this case, it's the seller, with 84% absorbing at least some of the cost. This explains why our survey group rated "controlling parcel shipping costs" as their 3rd highest operational priority. It's also noteworthy that 19% provide free shipping in return for certain consumer behavior, such as using the retailer's credit card or signing up for a loyalty program. Clearly, many retailers are trying to defray the cost of shipping by obtaining other benefits derived from the added personal data they get about shoppers.

Free Shipping Policies
How would you describe your approach to free shipping?

Free shipping with minimum spend requirements ($49, $100, etc.)
59%

Unconditional free shipping year-round
20%

Seasonal free shipping offers
20%

Free shipping with conditions (membership program, loyalty program, credit card)
19%

Free shipping on certain categories
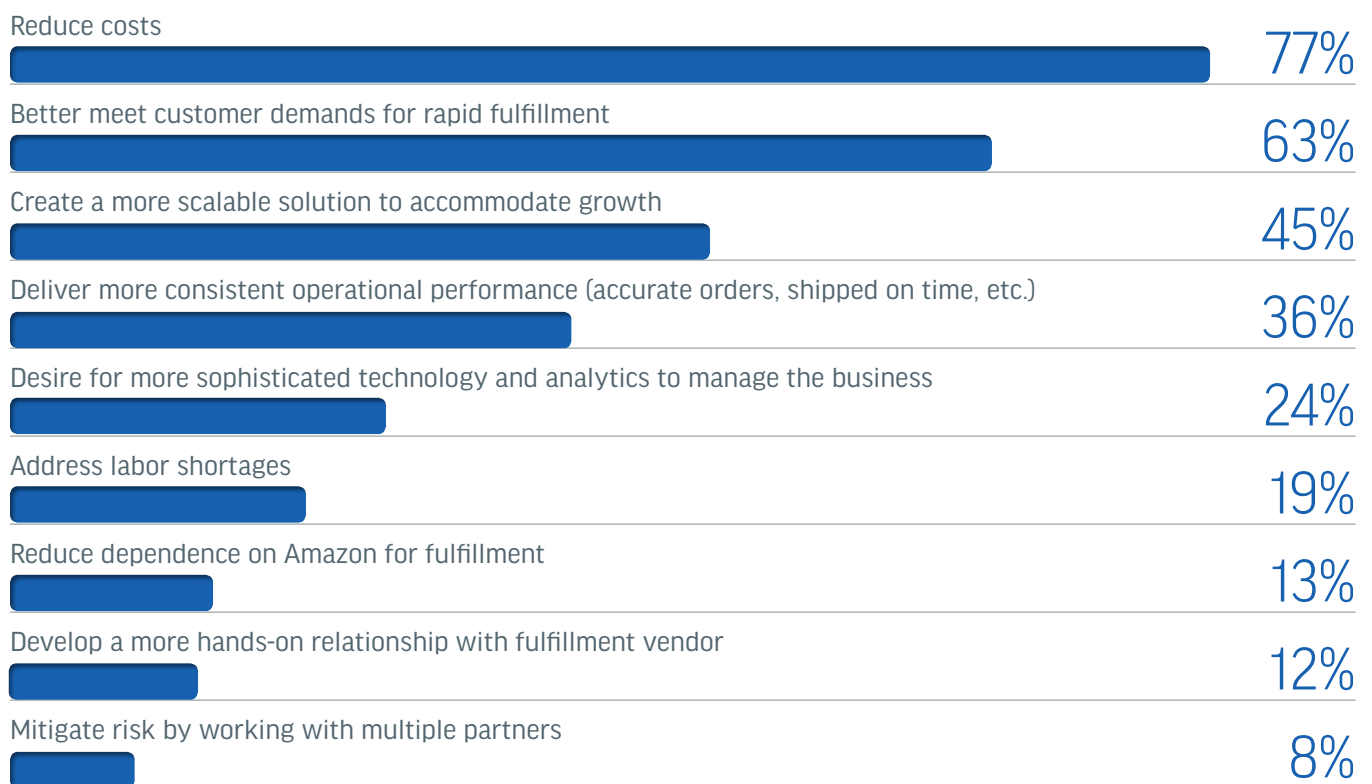**16%**

We don't offer free shipping
4%

What Would Drive E-retailers To Change Fulfillment Strategies?

Why might mid-sized e-retailers change the way they fulfill orders? Cutting costs was the top choice, followed by being better able to scale fulfillment operations to support sales growth. Customer demands should not be forgotten either and expectations will only grow over time.

Top Reasons to Change Fulfillment Strategy

Which of the following are reasons that you might change your fulfillment strategy or partner?

Reduce costs

77%

Better meet customer demands for rapid fulfillment

63%

Create a more scalable solution to accommodate growth

45%

Deliver more consistent operational performance (accurate orders, shipped on time, etc.)

36%

Desire for more sophisticated technology and analytics to manage the business

24%

Address labor shortages

19%

Reduce dependence on Amazon for fulfillment

13%

Develop a more hands-on relationship with fulfillment vendor

12%

Mitigate risk by working with multiple partners

8%

It's worth noting that 13% would like to reduce their dependence on Fulfillment by Amazon. Our survey revealed that four in 10 sellers use FBA for at least a portion of their fulfillment needs. 72% use FBA only for fulfilling Amazon orders, while 28% leverage FBA for fulfilling both Amazon orders and orders from their own website or other sales channels.

Dissatisfaction with FBA stems from high storage costs and inflexible policies. What many sellers don't realize is that Amazon's own Seller Fulfilled Prime program allows them to display the Prime badge on products even if they fulfill orders themselves or through a qualified third-party logistics provider. They simply need to pass a trial period proving that their own fulfillment solution can satisfy Amazon's two-day delivery promise for Prime orders.

Propensity To Outsource Fulfillment

About half, 54%, of the e-retailers we surveyed handle fulfillment themselves, while the other half outsource or use a combined insource/outsource strategy. The number of e-retailers that outsource fulfillment is growing.

Outsourcing allows sellers to focus on building market share, while the all-important back-end fulfillment operation is in the hands of experts. The rise in fulfillment outsourcing has also been fueled by the market's desire for:

- **Lower parcel costs.** 3PLs manage parcel delivery for many customers and can negotiate volume-based discounts on behalf of smaller-volume shippers.

- **Scalability.** Scaling is easier with a 3PL that already has advanced systems and a national warehouse network.

- **Variable rate structures.** 3PLs can adjust space and labor to economically manage sales ebbs and flows. In this way, fulfillment costs can parallel the revenue of e-retailers who are growing, but not always at a predictable pace.

Order Fulfillment Execution

Who currently handles your order fulfillment execution?

In-house
54%

Outsourced
19%

Combination in-house and outsourced
27%

According to Armstrong & Associates, outsourcing of ecommerce fulfillment operations is growing at 18% per year and the size of this market will hit $21 billion in 2020. One impetus for this rapid growth is the need for facility expansion to meet increased demand for one-, two- and three-day delivery.

Says Harry Drajpuch, CEO of Amware Fulfillment, which operates 15 B2C fulfillment centers nationwide, "3PLs give mid-market ecommerce companies the ability to scale quickly without the capital investment. The facility and systems infrastructure already exists."
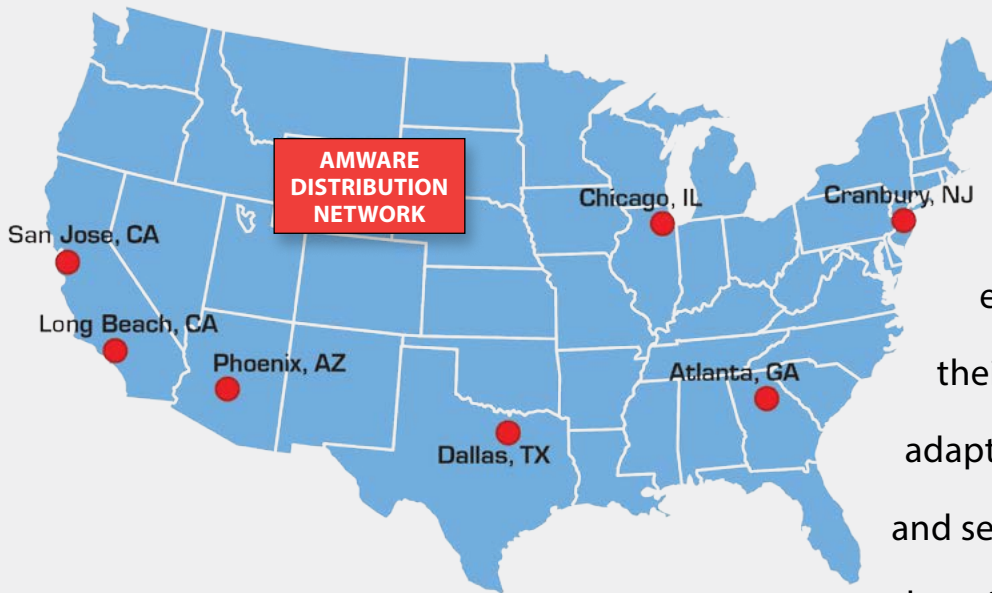
Can Your Fulfillment Operation Meet Rising Consumer Expectations?

Consumers are demanding more and more from online sellers. They want detailed information on product options, a quick, easy purchase process and fast, free delivery. It's a tall order and e-retailers are coming around to the fact that differentiation on the basis of product or price is difficult, if not impossible. Today, success is more about delivering a great customer experience, from start to finish. That's why mid-market e-retailers are placing increasing importance on back-end fulfillment operations that get the right order delivered on time and in perfect condition.

In this e-retailing landscape—where fulfillment is becoming such a critical success driver—is your business where it needs to be? ●

ABOUT AMWARE FULFILLMENT

Amware's national network of order fulfillment centers, combined with a flexible, "however you want it" approach, gives direct-to-consumer brands the freedom to grow – without limits. With our focus on scalable fulfillment, we're structured to support brands at every stage of their evolution, adapting quickly and seamlessly to changing order volumes and requirements. Our operation spans 7 campuses and 15 facilities that are ideal for high-volume B2C fulfillment.

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Long Beach, CA
Phoenix, AZ
Dallas, TX
Chicago, IL
Cranbury, NJ
Atlanta, GA

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