

AS FEATURED IN

# DIGITAL RETAIL

COMMERCE 360

# THE ANNUAL FULFILLMENT REPORT

OCTOBER 2022



Compliments of



## EXECUTIVE SUMMARY

# CHANGING SHOPPING BEHAVIOR AND INVENTORY PROBLEMS SHAPE ONLINE FULFILLMENT

In 2020 and 2021, consumers were often happy to find an item they wanted online, and their behavior reflected it. In 2022, retailers are often overstocked with merchandise when consumers face tighter household budgets due to the worst inflation rates in more than 40 years and elevated fuel prices.

A data point from an August 2022 survey of almost 1,100 U.S. online shoppers from Digital Commerce 360 and Bizrate Insights shows the impact of improved product availability, paired with shifting consumer behavior. 41% of those surveyed reported paying for shipping because “free shipping was not offered, and I wanted the product.” That’s a significant drop from 2021 when 59% of respondents paid for shipping for the same reason, and 2020 when 54% did.

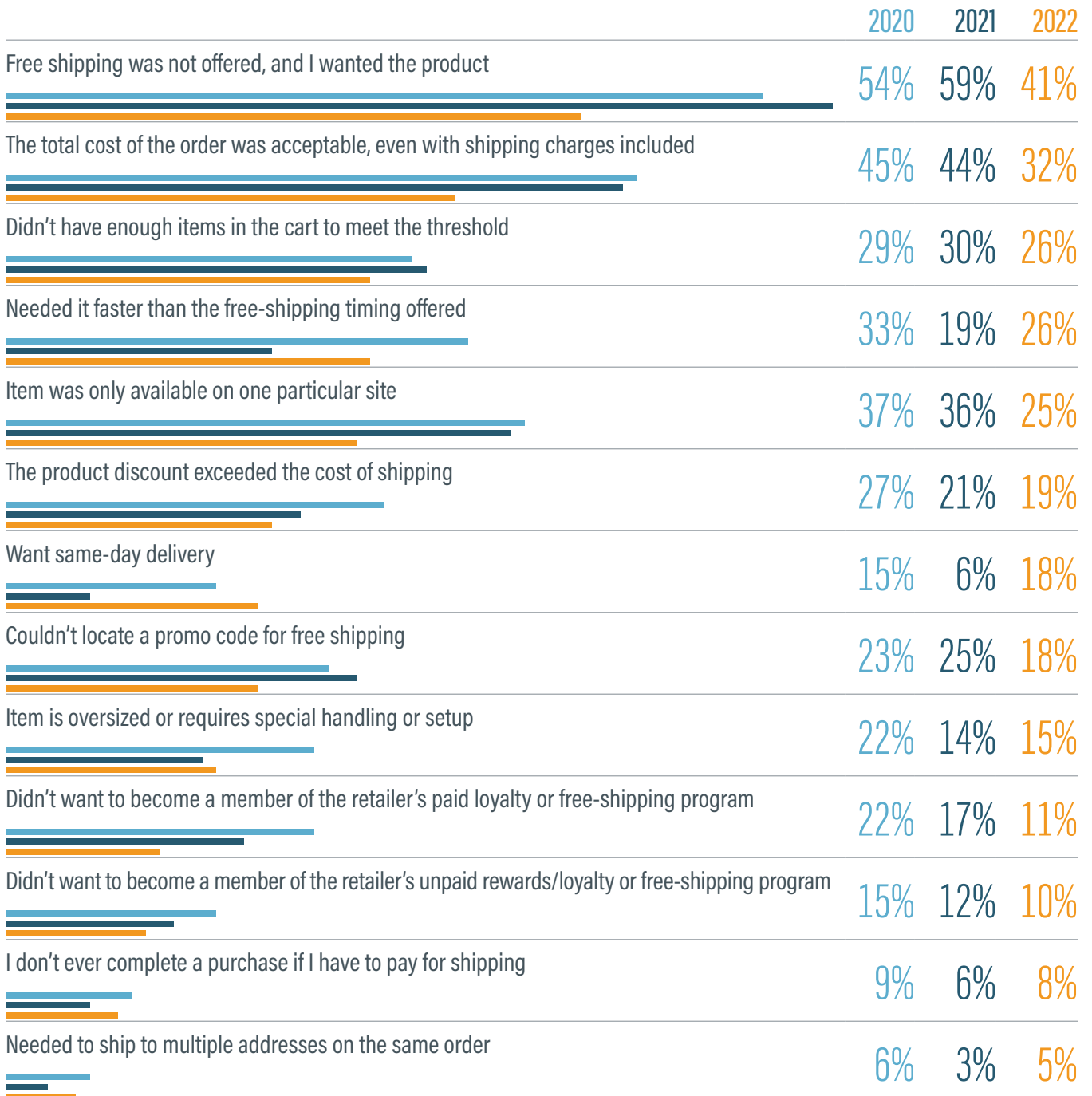


## CONSUMER INSIGHTS



## WHY CONSUMERS PAID FOR SHIPPING IN 2022

What are the reasons you may decide to pay for shipping when shopping online? (Multiple responses allowed.)



Source: Digital Commerce 360 and Bizrate Insights surveys of: 1,097 shoppers, August 2022; 1,029 shoppers, May 2021; 989 shoppers, March 2020

## FREE SHIPPING

Numerous Digital Commerce 360 consumer surveys show that free shipping is always popular with consumers. For example, a January 2022 Digital Commerce 360 survey of 1,108 online shoppers found that 76% said it was something that would make them more likely to make an online purchase — making it the most-cited factor. But that doesn't mean retailers can afford to offer it to everyone on every order.

### CONSUMER INSIGHTS

#### ONLINE ORDER EXPERIENCE

Which of the following have been part of your online order experiences in the past 6 months? (multiple responses allowed)

Took advantage of free shipping	63%
Paid for shipping	36%
Ordered Amazon same-day delivery	35%
Ordered items for same-day delivery from a website that also has physical stores (e.g. Target, Best Buy, The Home Depot)	20%
Ordered groceries for home delivery	19%
Ordered non-grocery items online for pickup at a physical store	18%
Agreed to wait longer for my order so it could be combined with other orders, or otherwise improve sustainability of the shipment	17%
Ordered groceries for store pickup	17%
Ordered food using an app-based delivery service (e.g. Instacart, DoorDash, Roadie)	17%
Ordered same-day delivery from a website besides Amazon that does not have a physical store (e.g. Wayfair, Overstock.com)	15%
Paid for expedited shipping	9%
Ordered non-food items using an app-based delivery service (e.g. Instacart, DoorDash, Roadie)	8%
Paid extra for a more sustainable delivery method	5%
None of these	6%

Source: Digital Commerce 360 and Bizrate Insights survey of 1,116 online shoppers, August 2022



# Integrating robotic technology helps retailers better manage the fulfillment process

An executive conversation with **Carlos N. Ysasi**, senior vice president of system integration, VARGO

As COVID-19 sent shockwaves through ecommerce, the pandemic hit the supply chain especially hard. Many retailers – faced with higher- than-usual fuel costs required to transport orders, as well as declining sales due to inflation – have found themselves holding more inventory than they expected to. Managing that inventory and meeting customers' delivery expectations while keeping costs in check has become a top priority for most merchants today. To discuss how retailers can leverage models like fulfillment-as-a-service and parcel shipping services to better compete, Digital Commerce 360 spoke with Carlos N. Ysasi, senior vice president of system integration at VARGO.

## How would you describe today's consumer expectations around fulfillment and how do those expectations affect retailers?

Consumers' expectations were already rising well before the pandemic, but when COVID-19 hit, those demands skyrocketed. Customers have become accustomed to receiving products they order online in two days, one day, same day and in some cases, even within hours – and retailers must be able to meet those expectations. The good news is retailers have the processing capacity to fulfill these orders. But the bad news is that there's still a limited amount of labor in the market to handle it.

## What are the biggest fulfillment challenges retailers are facing today?

Inflation, coupled with the high cost of transportation due to rising fuel prices, means retailers' bottom lines are taking a hit. Many are finding it critical to prioritize offsetting these diminishing margins – and they're looking for different ways to do that – such as optimizing fulfillment.

By optimizing fulfillment processes, retailers are able to drive up efficiency while reducing labor costs. They're looking for creative ways to utilize their existing infrastructure. Although storage space is filling up, processing capacity is still available.

## What strategies or technologies have helped them most?

Models like "fulfillment as a service" and leveraging "parcel shipping services" are helping retailers better compete or at least level the playing field. And these strategies are vital to meeting customers' rising expectations around next-day, same-day and even one-hour shipping.

Parcel carriers, such as Fed Ex and UPS, expect to constrain the amount retailers can ship per day during the 2022 holiday shopping season. This is causing retailers to re-evaluate their distribution networks. They're beginning to move away from the traditional regional facilities to a more market-focused strategy. This approach has been in the works for past couple of years, but this holiday will really push the needle.

As the capacity and uncertainty among the big parcel shipping carriers continues to constrain the supply chain, retailers are looking toward diversity and regionalizing their carrier contracts. Many are also investing in technologies such as autonomous mobile robots (AMRs) and goods-to-person solutions, which are still driving the industry.

## How can retailers implement these strategies and technologies now?

They should partner with a technology provider, such as VARGO. VARGO's warehouse execution system (WES) product continuous order fulfillment engine (COFE), bridges the gap between warehouse management system (WMS) waving processes and robotic warehouse technologies. This approach simplifies the enhancements and customizations typical with a WMS install. The WMS upgrade path is drastically simplified and chances for a successful software implementation increase significantly. One of the most effective ways to integrate robotic technology to the fulfillment process is to hook it to a warehouse execution system, such as VARGO's WES. Integration is easier and much more flexible.



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## RETURNS AND FAST SHIPPING

Returns have become a significant headache in ecommerce, cutting into profit and straining resources. The sheer volume of returns also puts additional pressure on an already overloaded supply chain, pushing prices higher for shipping, warehousing, and labor.

Yet retailers remain committed to giving shoppers the ability to return goods with minimal hassle and often for free. Digital Commerce 360's research shows that more than 40% of the apparel retailers in the Top 1000 provide free return shipping.

## INVENTORY ISSUES

Retailers scrambled to stock enough inventory in 2020 and 2021. In 2022, they often had too much inventory – or the wrong mix – for market conditions. But the ecommerce industry is not complacent.

According to second-quarter earnings reports, some of the nation's largest retailers resorted to offering promotions to sell off all their slow-moving products. The discounting has hurt retailers' bottom lines and caused many to scale back their sales and earnings projections for the rest of 2022.

With the holiday season approaching, retailers ended the first half of 2022 in need of space – in fulfillment centers, warehouses, and stores – for their peak season inventories.

Walmart saw shifts in consumer demand coming and canceled billions of dollars' worth of orders from suppliers late in 2021. But it still had a glut of inventory during Q1 and Q2 of the current fiscal year, the retailer reported.



Walmart and rival Target also sold slow-moving merchandise at steep discounts to make room for in-demand products. Others, like Kohl's, packed away some items to sell during the holidays when demand should grow.

As the 2022 holidays approached, retailers were optimistic about having inventory to meet peak-season demand, even while dealing with supply chain challenges and rising costs. But, while free shipping is costly, retailers keep offering it — though usually with strings attached, such as dollar-value thresholds.

## BOPIS AND CURBSIDE PICKUP

Americans like to pick up online orders, and retail chains are happy to oblige. Among the 201 retail chains ranked among the Top 1000, nearly three out of four offered buy online, pick up in store (BOPIS) as of early 2022, and more than half provided curbside/drive-up services for orders purchased online.

That's a huge difference compared with pre-pandemic times when only 8.9% of the Top 1000 retail chains offered curbside pickup of online orders.

BOPIS was already popular before the COVID-19 pandemic, but retailers' adoption of the service has grown substantially since the beginning of the crisis. Undoubtedly, some shoppers started using pickup options to stay safe during the COVID-19 pandemic's peak. But once customers got used to the idea, many liked it.

In a March 2022 survey of 1,132 online shoppers by Digital Commerce 360 and Bizrate Insights, time savings and convenience were the top two reasons for using BOPIS or curbside pickup.





## OUTSOURCING AND LOGISTICS COSTS

Online retailers say third-party logistics providers can help them focus on the core of their businesses — functions like merchandising, marketing, and product development — while leaving warehousing, packing, and shipping to specialists.

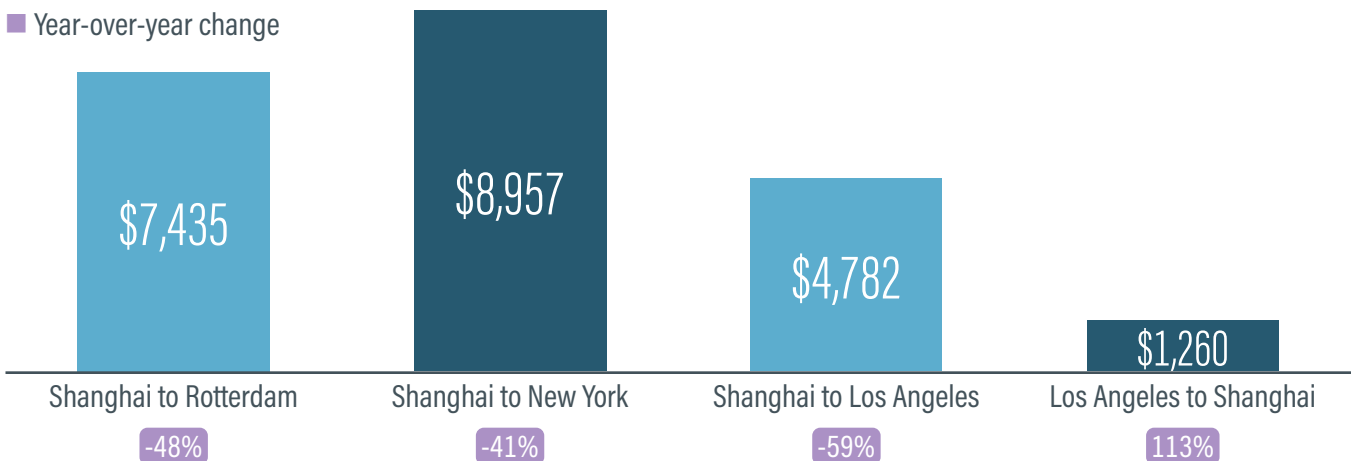
Finding the right provider is not always easy. Retailers say it's vital to carefully consider whether their product lines allow them to outsource their logistics operations. And after that, the next step is to vet potential service providers to ensure a good fit thoroughly.

Data from the Council of Supply Chain Management Professionals and the consulting firm Kearney show U.S. business logistics costs rose 22.4% in 2021. Those costs reached \$1.85 trillion, or 8% of 2021's \$23 trillion GDP.

However, data from U.K.-based Drewry Shipping Consultants Ltd. show that spot rates for transporting international shipping were down dramatically in September 2022 compared to a year earlier.

### THE COST OF INTERNATIONAL SHIPPING DROPS

The average spot prices for shipping 40-foot containers along selected routes, as of Sept. 4, 2022



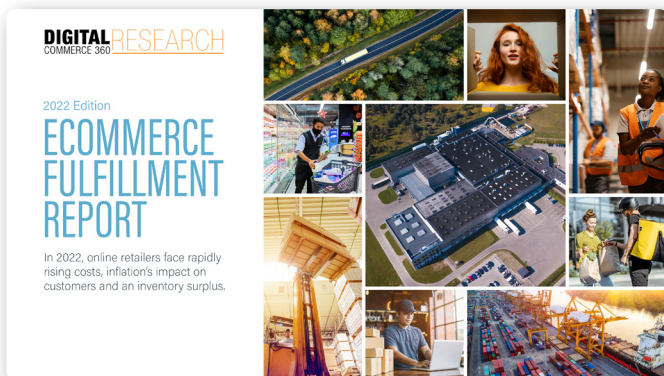
Source: Drewry Supply Chain Advisors, 2022

## LEARN MORE:

The 2022 Ecommerce Fulfillment Report analyzes how retailers are adjusting to yet another “new normal.” For many merchants with stores, omnichannel services were the key to digital growth in 2021, as customers took advantage of opportunities to pick up orders and get them delivered on the same day.

The 2022 Ecommerce Fulfillment Report also includes the following:

- ▶ The exclusive consumer survey results reveal what customers value most, their evolving shopping habits and ever-changing expectations.
- ▶ Real-life case studies of retailers adapting to change.
- ▶ Breakout sections on the fulfillment operations at Amazon, Target, and Walmart.
- ▶ Results of Digital Commerce 360’s “mystery shopper” experience with same-day delivery.
- ▶ An update on logistics and supply chain issues.
- ▶ 20+ charts and graphs detailing fulfillment, consumer shopping behavior and more.



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James Melton is a senior editor at Digital Commerce 360. His main task is to put data in context for readers — in the form of research reports, along with website and magazine stories. A long-time business writer and editor, he started out covering local business in the Detroit area. James has a B.A. in journalism from Wayne State University.



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## ABOUT DIGITAL COMMERCE 360 RESEARCH

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