

Original Research by

# internetRETAILER<sup>®</sup>

## Delivery drives business

Strategies and tactics from online retailers about how they stay in touch with their customers' wants and needs while keeping fulfillment costs in check.



## EXECUTIVE SUMMARY

# The right moves

Knowing how and when customers want to receive their online orders drives sales and loyalty.



**Ryan P. Kelly,**  
Senior Vice President,  
Sales, Strategy, and  
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FedEx

**MAKING THE SALE IS FAR FROM THE FINAL STEP** in an online transaction. The product still has to arrive promptly and intact. Unless shoppers are satisfied with when, where and in what condition their product arrives, the merchant risks a high return rate and losing customers.

While the cost of shipping is important to

consumers, they also increasingly want options as to when and how their online orders can be delivered and returned. Not every retailer must offer a full buffet of options that include two-day delivery, same-day delivery or delivery within a few hours. But it is important to study how to best fulfill online orders and from where to do so, and then figure out the shipping method that delivers to customers at the right time and in the right place.

For example, retailers that operate stores may fulfill online orders from those locations, and they may offer in-store pickup and returns of online orders. Retailers also may look to expand their fulfillment center network by opening new warehouses or renting space in locations closer to their customers.

As consumer expectations shift, retailers have to adjust and evaluate their fulfillment and shipping options. Here are some ways they can do that:

- ▶ Set expectations from the start. Be clear about when customers can expect to receive their order and what

expedited delivery would cost. Show shipping options early in the shopping process and don't wait until the checkout page to show if a product is eligible for free or fast delivery. Outline realistic delivery times (say, 3-5 days for standard shipping) and, ideally, beat them (get it there in 2 days).

- ▶ Returns matter, especially in certain categories such as apparel. Be clear on how a shopper can make a return, and keep the process as simple as possible, perhaps with a prepaid return label.

- ▶ Enable customers to track their order's progress to its final destination, whether that's a shopper's home, their office or a convenient FedEx pickup location.

- ▶ Pick your packaging to optimize delivery and trim costs. An inch here and an ounce there add up quickly.

- ▶ Location, location location—it applies to e-commerce as well as real estate. The closer a product is to a customer, the faster it can arrive and the less it will cost to ship.

- ▶ Choose providers that can help you achieve your goals. Delivery services act as an extension of your business and reflect on you.

The retailers featured in this report are striving to stay in touch with their customers' wants and needs while keeping their costs in check. They know that getting the fulfillment and delivery process right influences whether customers complete a transaction and whether they return to make future purchases. That final step in the purchase journey leaves a lasting impression, and they want to make it a good one.

**Ryan P. Kelly**  
Senior Vice President, Sales, Strategy, and Communications, FedEx

# SMART ONLINE FULFILLMENT AND RETURNS

Setting and meeting—or better yet, exceeding—delivery expectations goes a long way with customers.

Click and forget? Not a chance. Just because shoppers click the Buy button doesn't mean they're going to forget about their order until it arrives on their doorstep. Consumers want to know where that package is in transit and when it will arrive. And they will look carefully at shipping options before they tap that Buy button, putting pressure on every retailer to offer shipping options that will please its customers, including offering them convenient ways to receive an order that may go beyond having it dropped off at their homes.

Increasingly, consumers are demanding free shipping, and expecting orders to arrive quickly. Keeping up with those expectations requires an online retailer to weigh the costs and rewards of their fulfillment services. Stakes are high: A recent survey on behalf of delivery management vendor Metapack of more than 3,500 consumers found that 50% have abandoned an online shopping cart because they didn't like the delivery choices.

That same survey found that 77% of consumers expect to see delivery options displayed on the product page. Results are from a survey of 3,577 consumers from the United States (520), France (512), Italy (511), The Netherlands (510), Germany (509), Spain (509) and the United Kingdom (509) conducted Aug. 4-11 on behalf of MetaPack, whose software for online retailers integrates with parcel carriers in the United Kingdom, including FedEx.

Shipping costs will prompt shoppers to bail on a purchase at an even higher rate. A January 2017 report from payments vendor FuturePay surveyed 1,500 U.S. online shoppers and found that 86% said shipping fees have caused them to abandon their online shopping cart.

As has been the case for years, consumers say they value free shipping over all other delivery options.

## CONSUMER SURVEY

Which of the following delivery options is most important?



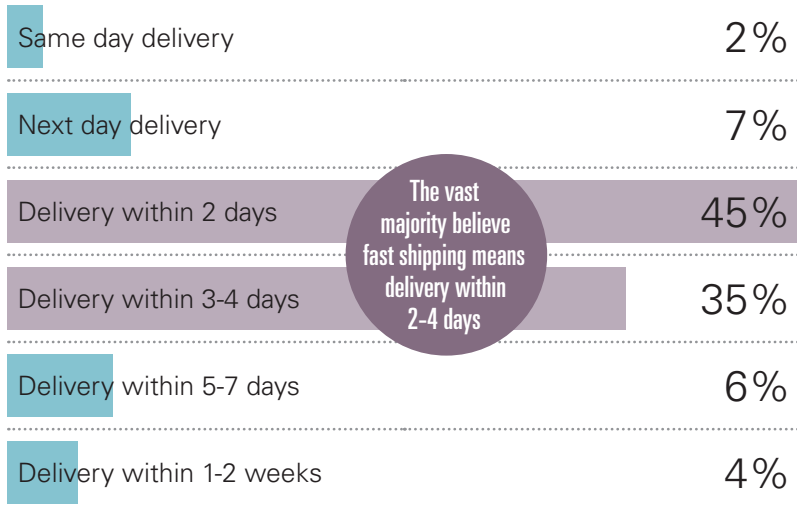
Source: Bizrate Insights survey of 1,108 consumers for Internet Retailer, July 2017

## CONSUMER SURVEY

Which is more important to you when shopping online?



Which do you consider to be 'fast shipping?'



Source: 2017 Holiday Survey, Deloitte LLP

When given a choice between free and fast shipping, 88% of consumers said free was most important compared with 12% who chose fast, according to a Deloitte LLP survey of 5,085 U.S. consumers conducted Sept. 6-18. In the MetaPack survey, 59% of online shoppers said free delivery would determine which website they shopped, up from 47% the year before.

Retailers are trying to keep pace. Among the Internet Retailer 2017 Top 1000, which ranks North American retailers based on their annual web sales, 76.5% offered free shipping in 2016 on at least some orders, up more than

10 percentage points from 65.4% that offered it in 2015 and the 64.8% that did so in 2014.

Free return shipping, however, is far less common: Only 11.8% of Top 1000 merchants offered that service in 2016, up from 10.1% in 2015 and 8.7% in 2014, according to Internet Retailer data.

Amazon.com Inc. has reshaped how consumers view fast delivery with the increasing popularity of its Prime loyalty program that features two-day shipping for no additional cost. Amazon Prime typically costs \$99 a year and has an estimated 90 million customers in the U.S. as of Sept. 30, 2017. A large number of consumers know they can get free two-day shipping on Amazon, and that puts pressure on other retailers to offer similar options. "Nearly 80% of Americans define two days or less as fast, and about a quarter of them want a same-day delivery option at checkout," says Brian Philips, CEO of FedEx Office.

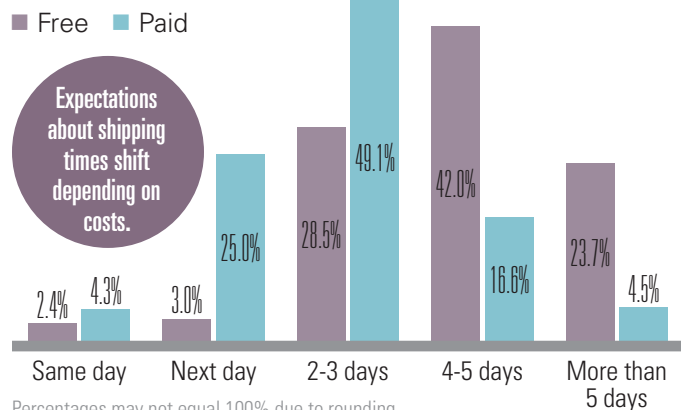
There's fast and then there's ultrafast delivery, which usually means the order will arrive within an hour. More than half (54%) of respondents in the Metapack survey want online retailers to offer the one-hour option, up from 30% who said so a year ago. This option is most appealing to shoppers ages 27-38, with 68% saying they want one-hour delivery as a choice. Among the seven countries in the survey, interest was strongest in Spain (85%) and the U.S. (70%).

Consumer expectations are changing, but shoppers do understand that they're likely to pay more for faster delivery.

Only 5.4% of online consumers surveyed in July 2017 by Bizrate Insights for Internet Retailer expected to get a package that ships free the same-day or the next day, whereas 29.3% thought they should be able to get their order that fast if they pay for it. But another

CONSUMER SURVEY

How quickly do you expect items to be delivered?



Expectations about shipping times shift depending on costs.  
Percentages may not equal 100% due to rounding  
Source: Bizrate Insights survey of 1,108 consumers for Internet Retailer, July 2017

28.5% expect to get orders that ship free within two to three days, no doubt a sign of the Amazon Prime impact on consumers' thinking. Still, nearly two-thirds of the shoppers surveyed said they would wait at least four days for an item—if they could get free shipping.

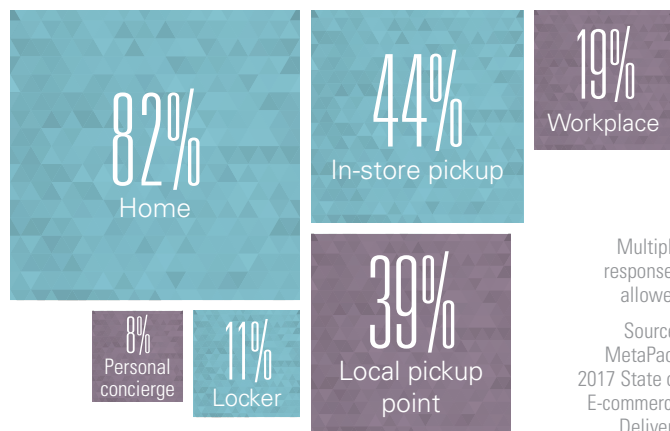
Regardless of whether shipping is free or not, and no matter whether an order is set to arrive in four days, two days or the same day, consumers want to know the delivery status of their parcel: 90% of those surveyed by MetaPack said they typically track their online orders.

But there is a shift going on in where consumers want their orders to go. While most want it shipped to their home, which was selected by 82%, demand for home delivery was down noticeably from 92% of consumers who said so last year. That no doubt is a reflection of the additional options online retailers are offering, including delivery to lockers, retail stores and other convenient locations.

The shift also may stem from concerns about package theft, often called "porch piracy." Research shows 75% of U.S. consumers are concerned about porch piracy, according to a study commissioned by Vivint Inc., a smart

CONSUMER SURVEY

Where do you want to receive delivery of online orders?



Multiple responses allowed

Source: MetaPack 2017 State of E-commerce Delivery

home services provider, that surveyed more than 2,000 people in the third quarter of 2016. FedEx Hold At Location service offers shoppers convenience and the knowledge that their package is being held in a secure location. The FedEx Hold At Location network included 11,000 retail locations—some of them open 24 hours—at the end of 2017.

Delivery matters: 59% of consumer surveyed say they buy more and more frequently from e-retailers that offer faster, easier, fault-free and "utterly transparent" delivery, according to MetaPack. Retailers that fall short on shipping run the risk of not only losing a customer but damaging their reputation with potential shoppers. Nearly half (48%) of consumers ages 18-26 have voiced their displeasure about a delivery experience on social media platforms such as Facebook, Twitter and Instagram, the study finds. Among all survey respondents, 43% say they have used social media to vent about delivery.

## The value in free shipping and returns

Retailers have gotten the message that shipping cost, speed and reliability are



‘We don’t want our customers to feel like they’re being nickel and dimed, so free shipping and returns is part of the package.’

—**Deepa Gandhi**, co-founder and chief operating officer, Dagne Dover

important for online shoppers. And they want customers to be able to return items easily. The challenge is to please customers while not cutting deeply into profit margins. Every retailer must consider the trade-offs, and the growing number of services available that can meet customer expectations. The examples that follow illustrate how five retailers are addressing the challenge of online fulfillment.

At Dagne Dover, an online-only retailer of upscale handbags and totes, the average order value is in the mid-\$200 range, and customers expect free standard shipping and free returns, says Deepa Gandhi, co-founder and chief operating officer. “Our most inexpensive item is \$25, so we just make shipping free across the board. We don’t want our customers to feel like they’re being nickel and dimed, so free shipping and returns is part of the package. It continues to be something people are happy with.”

The retailer is growing fast, doubling its business each quarter, Gandhi says, and with 2017 revenue on track to be three to four times higher than in 2016, it’s important to keep service levels high as it grows. Dagne Dover tells shoppers that standard free shipping can take five to seven days, but 90% of orders are delivered in two to four days, she says. “We like to underpromise and overdeliver.”

Dagne Dover was among the first retailers to sign up for FedEx® Fulfillment, which launched in February 2017 and is aimed at handling e-commerce fulfillment and delivery services for small and medium businesses. Delivery times are speedier now that Dagne Dover has shifted some of its most popular products to

a second FedEx Fulfillment center outside of Los Angeles. The retailer moved inventory to that second site in September after running a test in the second quarter, Gandhi says.

FedEx Fulfillment is best suited for companies that manage anywhere from 50 to 2,000 orders per day, FedEx chief marketing officer Raj Subramaniam said on an earnings call.

Most Dagne Dover products are still shipped from the FedEx facility in Indianapolis, but “we have a significant number of customers from the West Coast, and now it costs less for us to send orders within California,” Gandhi says. “We were at the right scaling point to move some of our inventory.”

Utilizing multiple fulfillment centers makes it easier to meet and surpass customers’ delivery expectations, but it’s important to assess when is the right time to divide inventory and use more than one location, says Dagne Dover’s Gandhi. “The rule of thumb, as your business is scaling, is to review those needs on an annual basis. Year over year, you’re at a fundamentally different place, so you need to sit down and reassess. We have new, higher volumes, so what rates can we get? We’re really digging into our [shipping] zones and trying to be smart. In certain zones we’re shipping to regularly, it has to be more efficient. Next year, we will take a look at that.”

The e-retailer next year may also reconsider updates to its packaging. It currently uses about 10 box sizes because it wants the packaging, which FedEx Fulfillment puts together, to be as close as possible to the sizes of the bags and purses it sells so as not

to incur added dimensional weight charges. Putting a small purse in a large box could result in extra fees based on the size of that box under dimensional weight rules major carriers have put into place. “We’ve gotten very specific with our sizes,” she says.

As for immediacy, same-day shipping is not a high priority right now, but the retailer is always listening to customer feedback, Gandhi says. Dagne Dover offers FedEx Standard Overnight® and FedEx Ground® service in the continental U.S., and FedEx two-day service in all 50 states. The retailer also uses FedEx SmartPost®, which handles fulfillment in conjunction with the U.S. Postal Service, for orders in Puerto Rico.

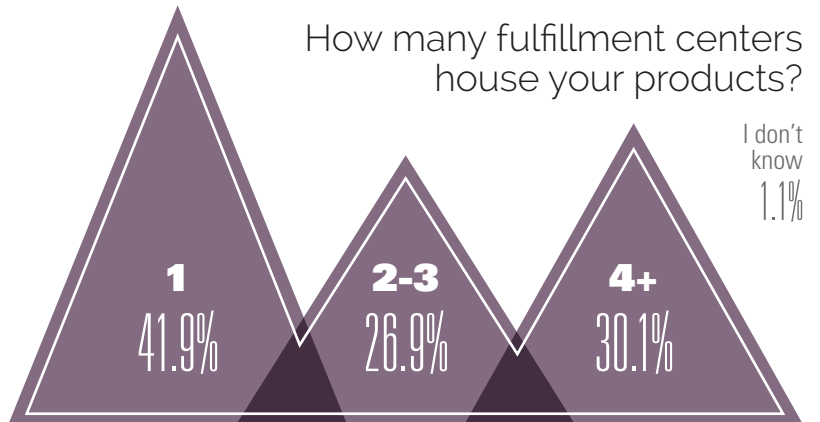
Customers tell Dagne Dover that its delivery is surprisingly fast, Gandhi says, “and to deliver that kind of surprise goes a long way on loyalty. We use the delivery experience to connect with customers.”

## Figuring out what makes sense

At Bean Box, an online retailer of coffee beans, freshness reigns supreme. The Seattle-based company sources beans from small-batch Seattle-area roasters and ships orders within 48 hours of roasting—with most orders destined for areas outside of Washington State. It sells mostly from its site, beanbox.co (80% of sales), and on Amazon (20%), though during the holidays Amazon accounts for up to 40% of orders, co-founder Matthew Berk says.

Bean Box handles fulfillment in-house and uses the U.S. Postal Service for standard delivery because it’s the most cost-effective service for parcels that weigh less than a pound, Berk says. FedEx handles expedited orders, regardless of whether orders come via its site or Amazon. The online-only retailer uses Amazon’s Seller Fulfilled Prime service, which allows sellers with excellent delivery records

### RETAILER SURVEY



Source: Internet Retailer survey, July 2017

to handle warehousing and delivery and still flag their products as Prime.

For most of the year, the retailer has an average of 40 expedited orders per week, and that jumps to about 200 during the holiday season, he says. Bean Box charges \$9.99 for two-day delivery and \$29.99 for overnight delivery. “We’ve tested different price points for expedited shipping, and there seems to be some magic zone where the shipping cost needs to be a certain percentage of the overall product,” Berk says. “On a \$100 gift basket, adding \$30 [for shipping] is easy. On a \$20 basket, adding \$10 is hard. We usually see one-day shipping on deluxe items.”

To handle higher volume, especially during the holidays, Bean Box has invested in more packaging automation, updating its machinery to free up employees to focus on more high-value tasks instead of simply ensuring coffee beans flow into bags, Berk says. “In May, we did some hard math around how many people we have doing what, how many packaging machines we have and how many bags we output,” he says. “We joked that we had crossed the ‘I Love Lucy’ line—the scene where the assembly line is moving faster than the people. We had semi-automated packaging machines operated by people, and this [fully automated] process has been a sea change for us. Now our people can do the creative stuff like making the boxes beautiful.”

## RETAILER SURVEY

What is your average delivery time, from click to door?



Source: Internet Retailer survey, July 2017

The e-retailer also is in regular contact with its carriers to discuss optimizing its packaging and rates. “We’ve developed relationships with USPS and FedEx, and we work on our shipping plans with both of them,” Berk says.

Amazon has created the expectation in consumers’ minds that all shipping can be free and fast, says Rob Schmults, senior vice president of e-commerce and customer relationship management at women’s apparel retailer Talbots.

“If you roll back the tape and say ‘Why did Amazon place such an emphasis on fast and free shipping?’ you can see that the rationale is to offset a competitive advantage that physical retailers have—they have the store,” Schmults says. “It’s been interesting to me to watch the number of store-based retailers who have said ‘Amazon is doing this and we have to do this too.’ They pick up their ball and go play on Amazon’s field, and that’s generally not a good idea if you can instead play on your own field.”

Talbots has devised a shipping program that it believes makes sense for its business. For customers who want free shipping or need an item quickly, the retailer offers buy online, pick up in store service at its approximately 500 locations in the U.S. and Canada. It also ships online orders from stores, Schmults says. It charges a flat \$8 fee for standard shipping (three to seven days), \$12 for premium (two to

five business days) and \$18 for FedEx express orders (two days). Many of the retailer’s standard shipping parcels arrive in two days, he says.

Talbots does not offer same-day service, Schmults says, and there are no immediate plans for it.

At Running Room, a Canada-based omnichannel retailer of running shoes, e-commerce accounts for about 10% of its sales, but it is growing, says Jason Stanton, chief merchandising officer. More than half (55%) of Running Room’s online orders are tagged by the customer for in-store pickup. The retailer has 110 stores in Canada and eight in the U.S.

“This is a highly serviced industry, and we have decades of a ‘sit and fit’ relationship with consumers. As they transition and find the ease of shopping online, they still want a bit of ‘sit and fit.’ We want to get orders to the consumer as quickly and cleanly as possible, and they still want to talk with us for expertise and to try on the shoe,” Stanton says. Online orders shipped to stores are free; otherwise the threshold for free ground shipping is \$150. Canada Post handles Canadian orders, while FedEx is Running Room’s U.S. carrier.

And just as many runners like to track their miles, customers want to be able to track their orders. Running Room is working with Canada Post to better communicate to customers where their order is, Stanton says. Canada Post and the retailer’s system have become better integrated over the past two years through a “never-ending upgrade of IT services,” he says.

In November, Wine.com added thousands of pickup locations, bringing its total to more than 10,000 in the U.S. The wine e-retailer offers date-specific delivery and local pickup options that include FedEx Office stores, Walgreens and Duane Reade drugstores and several grocery



# 'Returns are equally as important as free shipping. Everyone expects it.'

—**Jason Stanton**, chief merchandising officer, Running Room

chains, such as Safeway and Albertsons-owned stores. Many of these locations are open nights and weekends, or 24 hours, the retailer says. Pickup site options show up during the checkout process. Wine.com customers have had more than a half million bottles delivered via local pickup service. "Now we'll deliver to a location near you, for pickup on your schedule—no more waiting to sign for your wine delivery," CEO Rich Bergsund said.

## Completing the loop

While free shipping continues to be a primary concern for online shoppers, returns are an increasingly big part of e-retailers' business. Studies find the return rate hovers around 8% for store purchases, but anywhere from 20% to 30% for online sales, depending on product category.

"Returns are equally as important as free shipping. Everyone expects it," Running Room's Stanton says. In Canada, where it does the bulk of its business, the retailer includes a free Canada Post return shipping label with online orders. Customers also can make returns to stores.

The retailer in the fall of 2017 launched a loyalty program, Running Room Advantage, which for a \$20 annual fee entitles members to free shipping without the standard \$150 minimum order. The program, available only in Canada, also offers early access to shoe launch dates and special sales. "We want to put our stake in the ground in the shipping game," Stanton says.

A customer making a return to Dagne Dover logs into her account to start the process. She

will receive a label to use on the original box, or can request a box to make a return. A return can take a week to 10 days to complete because the retailer follows an inspection and quality control process, Gandhi says.

Talbots includes a prepaid FedEx SmartPost label with its online orders, though it imposes a \$6.95 handling fee that's charged against the original payment method. Customers also may return online orders to stores.

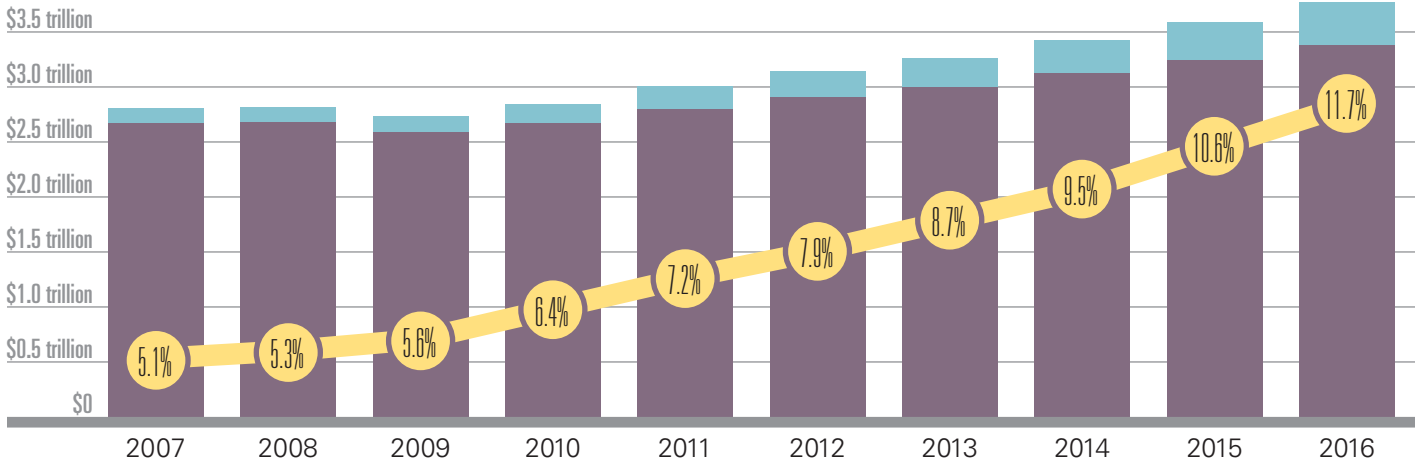
To help facilitate returns for a host of retailers, Walgreens and FedEx in January 2017 announced a plan to accept return shipments at the drugstores, where a Walgreens employee will accept pre-labeled and pre-packaged FedEx packages. Customers also can have a FedEx shipment delivered to the store, where it will be kept in a secure location for up to five business days.

FedEx is now in more than 7,500 Walgreens locations in the U.S. That translates into 80% of the U.S. population being within nine minutes of a FedEx location that can hold packages for pickup, chief financial officer Alan Graf said in September during the carrier's fiscal Q1 earnings call.

FedEx has more than 55,000 locations in its retail convenience network. "This network includes nearly 700 FedEx ShipCenter locations [and] close to 2,000 FedEx Office locations, some of which are located inside Walmart stores," Graf said. There are more than 8,100 FedEx OnSite locations where customers can drop off and pick up packages, including Walgreens, Kroger and Albertsons. The network also includes 5,600 FedEx Authorized ShipCenter® locations,

## A decade of U.S. e-commerce growth

■ Total retail sales<sup>1</sup> ■ E-commerce sales ■ E-commerce penetration



1. Factoring out the sale of items not normally purchased online such as fuel, automobiles and sales in bars and restaurants. Source: Internet Retailer, U.S. Commerce Department

which are third-party pack-and-ship stores; 1,500 Office Depot/OfficeMax locations; and approximately 40,000 drop boxes, he said.

### Conclusion: Fulfillment's growing importance

Optimizing delivery is more important for retailers every year because of the steady growth in online shopping, which shows no signs of slowing down.

Online retail sales to consumers in the U.S. totaled \$394.9 billion in 2016, according to the U.S. Commerce Department, a 15.6% jump compared with 2015. It was the biggest increase in three years, and easily eclipsed the 2.6% growth in retail sales in U.S. physical stores in 2016. Web sales also continue to increase their share of total retail sales, accounting for 11.7% of 2016 retail sales after factoring out the sale of items not normally purchased online, such as fuel, automobiles and sales in restaurants. In the past decade, e-commerce has more than doubled its share of retail sales, up from 5.1% of total retail sales in 2006.

What's more, that growth in online sales has continued in 2017. Consumers purchased

\$107.00 billion worth of retail products on the web in the third quarter, an increase of 15.5% compared with \$92.64 billion in the third quarter of 2016, according to the U.S. Commerce Department.

Through the first three quarters of 2017, online sales have totaled \$310.16 billion, government data shows. Factoring out the sale of gas and automobiles, which are items not typically purchased online, total retail sales through the first three quarters of 2017 reached \$2.525 trillion. Using those figures, the online portion of total retail spending through the first nine months of 2017 would be approximately 12.3%. Internet Retailer believes this is the most accurate way to calculate the online component of U.S. retail sales.

Just as online shoppers don't click and forget about their order, retailers must keep tabs on how their fulfillment and delivery service aligns with consumer expectations. A parcel's arrival finishes off the purchasing process and leaves a lasting impression on customers. To attract and keep customers, retailers must meet—or better yet, exceed—expectations to generate loyalty and improve sales. ■

The image shows a FedEx carrier in a blue uniform and purple shirt, seen from behind, holding a brown cardboard box with the FedEx logo. The carrier is standing on a porch, looking towards a woman who is smiling and walking towards the open front door of a house. The woman is wearing a red cardigan, a yellow and white patterned scarf, and dark pants. The interior of the house is visible through the doorway, showing a living room with a fireplace and a metal shelving unit. A potted plant with white and purple flowers sits on the porch near the door.

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