LaserShip

E-COMMERCE SHIPPING:

FEELING THE NEED... THE NEED FOR SPEED

White Paper on E-Commerce Shipping Needs Survey
January 2019

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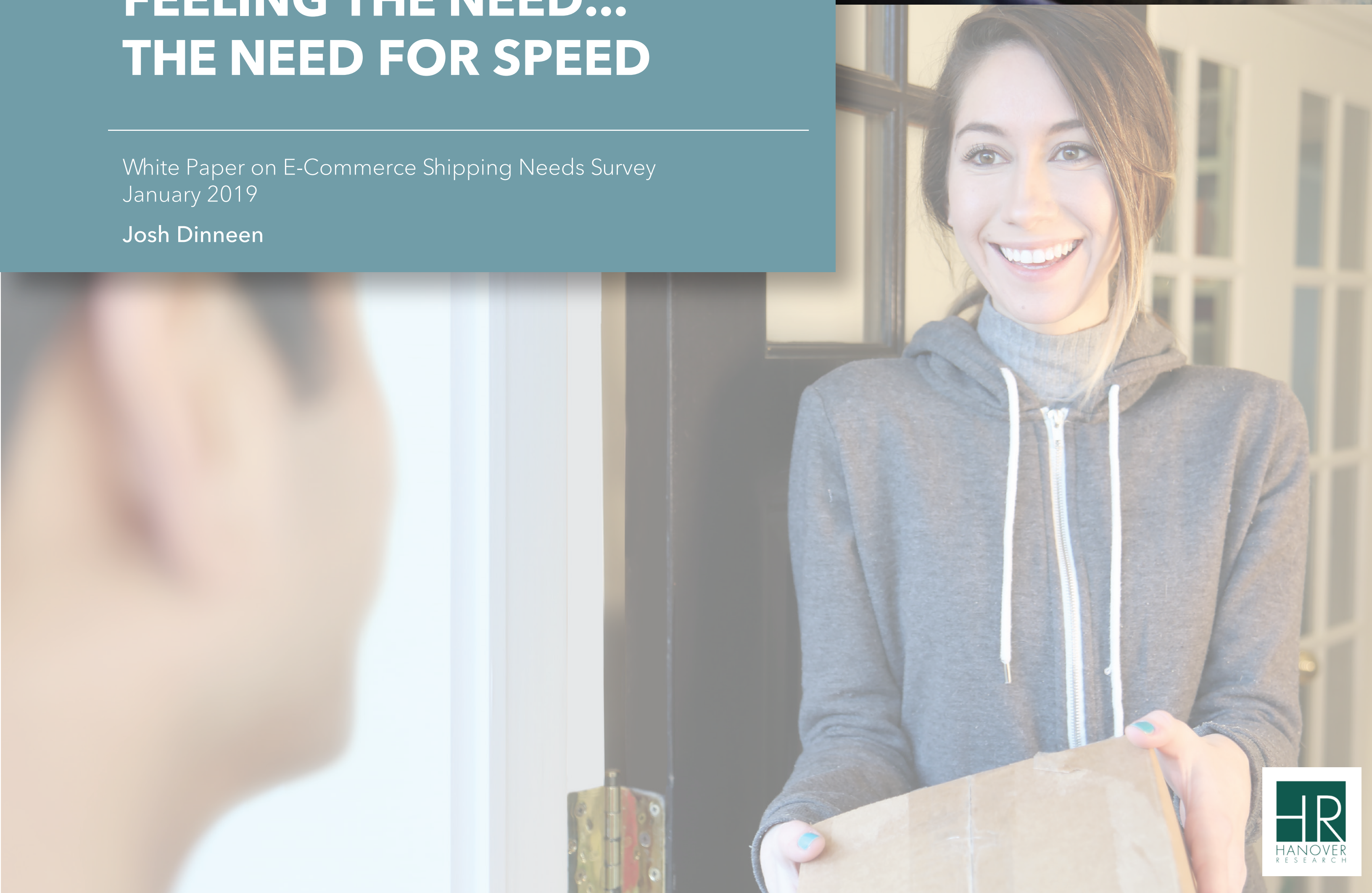
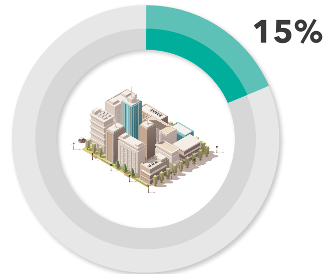


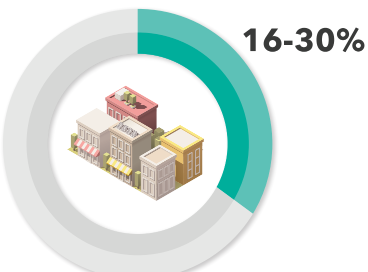
E-COMMERCE SHIPPING: **FEELING THE NEED…THE NEED FOR SPEED**

In the growing e-commerce market—representing an estimated 15% of all retail sales in 2018[1], with $525.69 billion[2] in sales, up 15.9% from 2017[3]—shoppers are being conditioned to receive and return their items fast and free. Retailers like Amazon and Walmart, and subscription services like Stitch Fix's personal styling service and Young Living Essential Oils' YL Go continue to push the envelope with delivery options, and consumers have come to expect all retailers to provide the same caliber of service and shipping.



E-commerce market represents 15% of all retail sales

Retailers' Holiday Season



According to a report from Mastercard SpendingPulse, retail sales grew 5.1% year-over-year to $850 billion during the 2018 holiday season.[4] These key months represent anywhere between 16 - 30% of retailers' total sales for the year, depending on the sector.[5] To get a pulse on consumers' last-mile shipping sentiments, what they value in shipping services, and how those attitudes affect purchasing decisions, LaserShip commissioned a study from Hanover Research to survey over 1,000 online shoppers in the U.S. The results reveal that people have specific expectations from retailers about shipping costs and delivery times, that expectations vary by generation and shopping frequency, and that shipping costs and delivery times influence where they shop.

KEY TAKEAWAYS

Free is Key	Consumers don't want to pay to have items brought to them and they will abandon shopping carts or switch retailers to find the delivery options they want.
Speed Rules	Shoppers want their merchandise quickly and younger generations are willing to pay a premium for that convenience.
Free Returns Differentiate	Most consumers consider the availability of free returns when evaluating which retailers to shop with.

[1]*Digital Plays a Role in More than Half of US Retail Sales*, Digital Commerce 360, December 2018. https://www.digitalcommerce360.com/2018/12/21/digital-plays-a-role-in-more-than-half-of-retail-sales/
[2]*The Future of Retail 2019*, EMarketer, December 2018, https://www.emarketer.com/content/the-future-of-retail-in-2019
[3]*"E-Commerce Retail Sales Hit $453.5 Billion in 2017, as Brands Invest in Omnichannel."* CBREUS, February 2018. http://www.cbre.us/real-estate-services/real-estate-industries/retail-services/research-and-insights/us-marketflash-e-commerce-2017
[4]Thomas, L., *Retail Is Having Its Best Holiday Season in 6 Years*, CNBC, December 2018. https://www.cnbc.com/2018/12/26/retail-is-having-its-best-holiday-season-in-6-years.html
[5]*Nrf Forecasts Holiday Sales Will Increase Between 4.3 And 4.8 Percent*, https://nrf.com/media/press-releases/nrf-forecasts-holiday-sales-will-increase-during-2018-season

CONSUMERS EXPECT FREE AND *FAST*

Today, consumers are very comfortable buying online. Seventy-nine percent of consumers are shopping from their desktop computers, with the remainder shopping on mobile devices – smartphones and tablets.[6] More than 70% of Generation Z and millennials who responded to the survey use smartphones to make purchases online, and more than half of all respondents use a smartphone to shop online. A third of the respondents in this survey are more satisfied with the online experience, while half are equally satisfied with both online and in-store shopping. Regardless of the device shoppers use to order their items, a key part of the e-commerce experience is how they receive their merchandise from the retailer, making shipping integral to the overall e-commerce buying experience.

A Continued Trend: Consumers Demand Free Shipping

Consumers take shipping and delivery into consideration while online shopping; and they're willing to move to the next online storefront when a retailer's available shipping options don't meet their expectations. Half of shoppers surveyed have abandoned a shopping cart because of high shipping fees. Furthermore, the top reason (43%) consumers stop buying from an online retailer entirely is because of the high cost to get the products delivered.

With retailers like The Gap and Chewy, and subscription services like Blue Apron and Hello Fresh, consumers are getting their desire for quality products delivered to their door for free. They're also taking the expectations built from those experiences with them as they decide where to shop for other merchandise. After competitive product pricing, free or discounted shipping is the next most important consideration for shoppers, 80% of whom report that it is at least very important, with half saying it is an extremely important consideration. Moreover, 75% of shoppers cite a free returns policy as being at least very important, and more than half of shoppers surveyed consider fast delivery options to be at least very important.

50% Have abandoned a shopping cart due to high shipping costs.

43% Have stopped shopping at an online retailer due to high shipping costs.

80% Find free/discounted shipping to be at least very important.

Top 3 reasons shoppers are dissatisfied with the shipping experience:

- **30%** Expensive shipping cost
- **27%** Deliveries arrived late
- **24%** Slow delivery time/ lack of expedited options

[6]https://www.comscore.com/Insights/Press-Releases/2017/2/comScore-Reports-109-Billion-in-Q4-2016-Total-Digital-US-Retail-E-Commerce-Spending-Up-18-Percent-vs-Year-Ago

The Need for Speed

Consumers are excited about speed and convenience. The advent of Uber and Lyft initiated a behavioral shift that increased the value of experience and convenience, and people– increasingly the younger generations– are willing to pay for it. This is further substantiated thanks to companies like Grubhub and Uber Eats, who have put an end to the days when Chinese food and pizza dominated lunch and dinner delivery. Today, you can have breakfast delivered even if you don't live in a metropolitan area. This evolving macro shift has conditioned consumers to expect retailers to offer faster and more innovative shipping options. Nearly two-thirds (63%) of consumers expect their newly purchased items to be delivered within three days, and half of online shoppers choose to pick up their items in-store to avoid waiting for long direct-to-home delivery time frames.[7]

63%

Expect items to be delivered within 3 days

50%

Choose to pick up their items in-store to avoid waiting for delivery

Slow delivery times and lack of expedited shipping options are the third largest cause of dissatisfaction with the shipping experience (see Table 1), and how fast the product arrives is twice as important to consumers than whether or not the product arrives damaged. Younger shoppers are most likely to care about how fast their products arrive, and least likely to care about whether or not there is damage, while those preferences are reversed among baby boomers.

Table 1: Why not satisfied with shipping experience

Expensive shipping cost	30%
Deliveries arrived late	27%
Slow delivery time / lack of expedited options	24%
Could not track order	22%
Could not pick ideal shipping	13%
Damaged products	12%

[7] *US Omnichannel Retail StatPack 2018: Marketer and Consumer Trends, eMarketer*

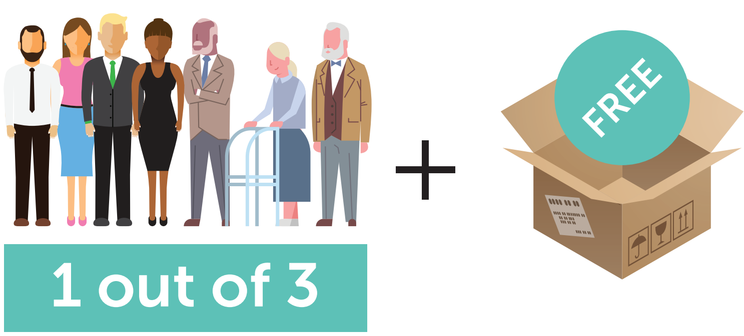
A third of those surveyed ranked fast delivery as the most important consideration when shopping online. This trend also appears to be generational, as younger shoppers are showing a proclivity for purchasing from retailers with fast delivery options– and they will pay for it (Table 2).

Table 2: Delivery Speed

	EVER PAID FOR FASTER DELIVERY	LIKELY TO PAY FOR:		
		Same Day	Next Day	Two Day
Gen Z / Young Millennials	47%	40%	32%	31%
Millennials	43%	32%	26%	20%
Generation X	39%	29%	26%	19%
Baby Boomers	26%	13%	12%	9%

These shoppers are more likely than their older family and friends to have already paid to receive their products faster, and are more likely to prefer all the different expedited options – same-day, next-day, and two-day delivery. Baby boomers, on the other hand, are much more likely to wait longer and opt for free options – 92% prefer free standard shipping.

Millennials and Generation Z will comprise 70% of the workforce by 2020, increasing their wallet share of online shopping.[8] The evidence is pointing to speed gaining prominence in the value stream. As these demographics change and the younger, more tech-savvy consumers grow in buying power, the desire for fast shipping will continue to put pressure on retailers to offer expedited delivery options.



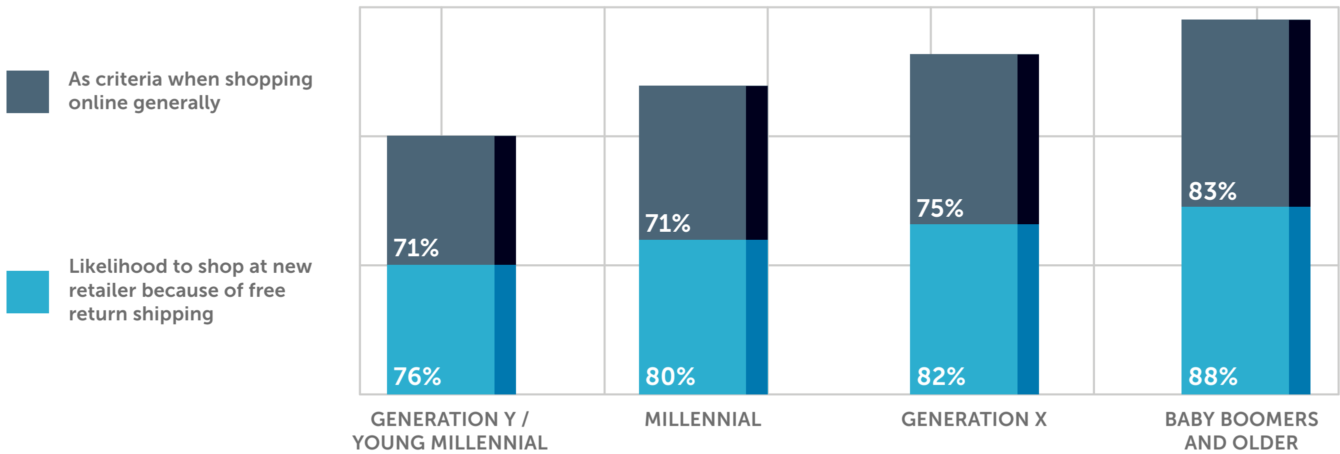
A third of online shoppers surveyed rank fast delivery as the most important consideration when shopping online.

[8]Bennett, M., *A Breakdown of the Five Generations of Employees in the Workplace,* Navex Global, 7 February 2017, https://www.navexglobal.com/blog/article/formal-introduction-five-generations-employees-your-workforce/

Many Happy Returns

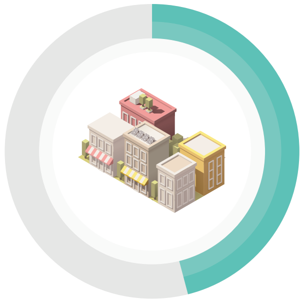
Return policies rank with outbound shipping as a significant factor that consumers use to evaluate retailers and the shopping experience. Three quarters of those surveyed look for the ability to return items for free when choosing where to buy online, and a third cite a poor return policy as something that makes them dislike the online shopping experience in general. Older generations are slightly more likely to consider the availability of free returns while shopping, though it's clearly important to consumers of all generations and will continue to be a differentiating factor for the foreseeable future. (Table 3)

Table 3: Free return policies: Very and extremely important



While returned items are still a small percentage of the overall market – in the U.S. an average of 10% of all retail sales are returned[9] – they are significant to the retailers processing those returns. That 10% represents over $351 billion[10] of returned goods that U.S. retailers have to accept and manage. For the 2018 holiday season, the National Retail Federation predicts $72 billion worth of merchandise will be returned.[11] More than half of retailers (68%) find accepting returns for online orders a challenge, with one in five calling that challenge significant because managing returns is costly and eats into profit margins.[12]

Almost half of all retailers (46.7%) charge for returns, up from 39.1% in 2017,[13] to offset the financial impact of accepting and processing returned products. This puts those retailers out of step with consumers' clear preference for free return policies.



46.7% of all retailers charge for returns.

75% of shoppers look for the ability to return items for free when choosing where to buy.

[9] *2017 Returns in the Retail Industry*, Appriss Retail, https://appriss.com/retail/wp-content/uploads/sites/4/2017/12/2017_Consumer-Returns-in-the-Retail-Industry-Report.pdf
[10] *2017 Returns in the Retail Industry*, Appriss Retail
[11] *Consumer Returns in the Retail Industry*, 2018, Appriss Retail, https://appriss.com/retail/wp-content/uploads/sites/4/2018/12/AR3018_2018-Customer-Returns-in-the-Retail-Industry_Digital.pdf
[12] *Reinventing the Supply Chain: The Future Of Fulfillment Vision Study*, Zebra Technologies
[13] *MCM Outlook Special Report: Merchants Looking to Differentiate in the Last Mile, Returns, Outsourcing*, MultiChannel Merchant

Consumer Profiles

Shoppers fall into different classifications based on demographics and buying frequency; and these shoppers have different expectations for their e-commerce shipping experience.

AVID SHOPPER

7+ Online Purchases (per 3 months)

DEMOGRAPHICS

MALE 50% | FEMALE 50%

GENERATION Z	21%
MILLENNIAL	22%
GENERATION X	30%
BABY BOOMERS & OLDER	26%
> $75,000	56%
College Degree	72%
Employed Full Time	56%
Married	53%
No Children	54%

INTERMEDIATE SHOPPER

4-6 Online Purchases (per 3 months)

DEMOGRAPHICS

MALE 41% | FEMALE 59%

GENERATION Z	24%
MILLENNIAL	28%
GENERATION X	23%
BABY BOOMERS & OLDER	25%
< $75,000	49%
College Degree	65%
Employed Full Time	50%
Married	50%
No Children	71%

CASUAL SHOPPER

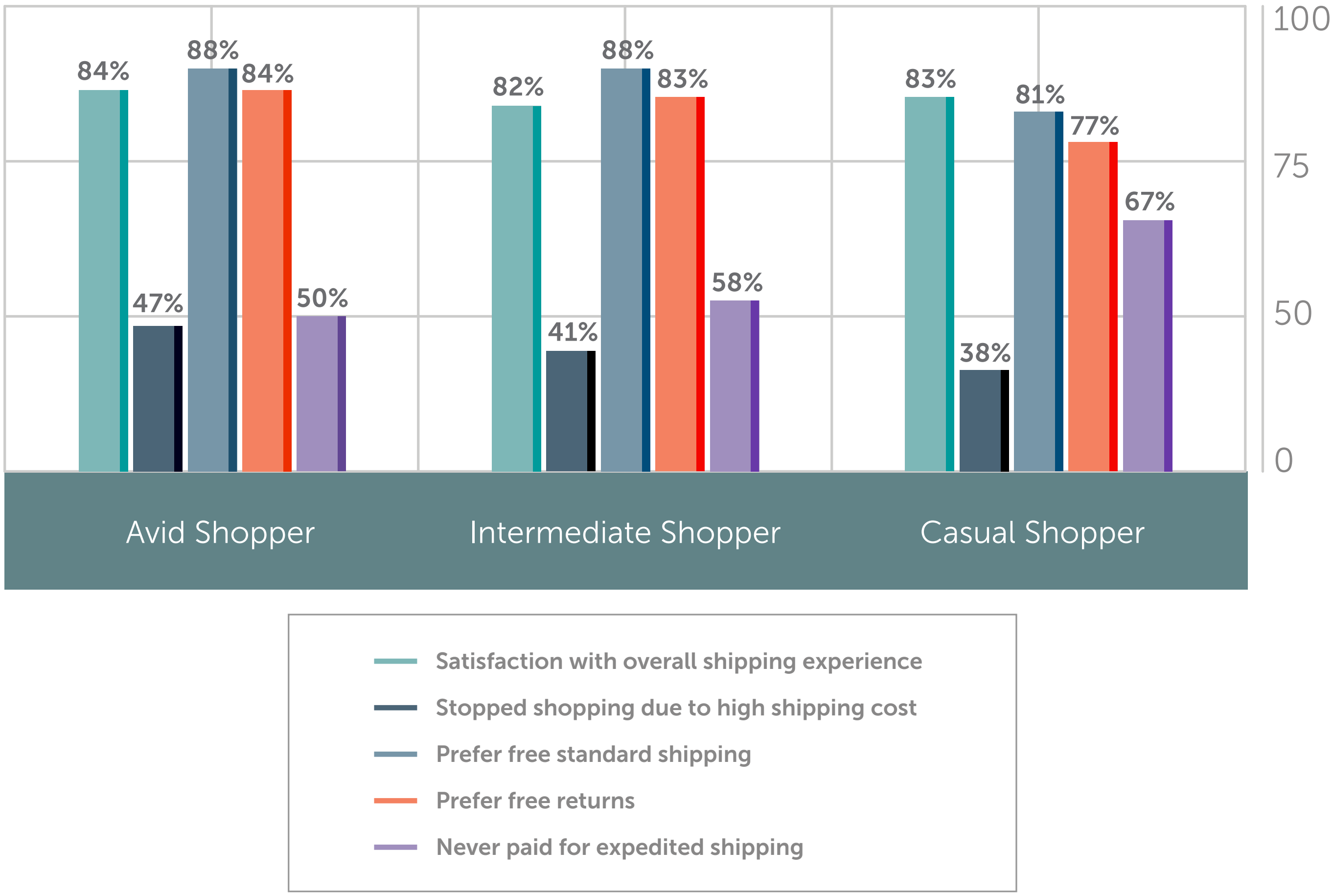
2-3 Online Purchases (per 3 months)

DEMOGRAPHICS

MALE 49% | FEMALE 50%

GENERATION Z	25%
MILLENNIAL	11%
GENERATION X	24%
BABY BOOMERS & OLDER	40%
< $75,000	47%
College Degree	57%
Employed Full Time	39%
Married	49%
No Children	74%

Avid shoppers are quite sensitive to shipping costs – they are more likely than other shoppers to abandon a retailer because of high delivery fees. Casual shoppers, on the other hand, are less likely to be put off by high standard shipping costs and much more likely to be deterred by having to pay for faster delivery.



BEST PRACTICES: THE FUTURE OF SHIPPING

This year, Generation Z and millennials will represent 32% and 31.5 % of the population,[14] respectively, and will surpass baby boomers in size of U.S. population.[15] As the younger cohort becomes a larger percentage of the population and their buying power increases, their shopping behavior will drive the e-commerce and shipping experience. To position themselves for the future, retailers will benefit from following these three best practices:

Offer free shipping:

Consumers have made it clear that free or very low-cost shipping is a differentiator when choosing where to shop. Therefore, to continue to attract and keep customers in today's e-commerce environment, retailers must always have an option for free shipping. It's no longer acceptable not to give consumers that choice.

[14] Miller, Lee J. and Wei Lu, *Gen Z Is Set to Outnumber Millennials Within a Year*, Bloomberg, 20 August 2018 https://www.bloomberg.com/news/articles/2018-08-20/gen-z-to-outnumber-millennials-within-a-year-demographic-trends
[15] *Millennials Projected to Overtake Baby Boomers as America's Largest Generation*, 1 March 2018, Pew Research, http://www.pewresearch.org/fact-tank/2018/03/01/millennials-overtake-baby-boomers/

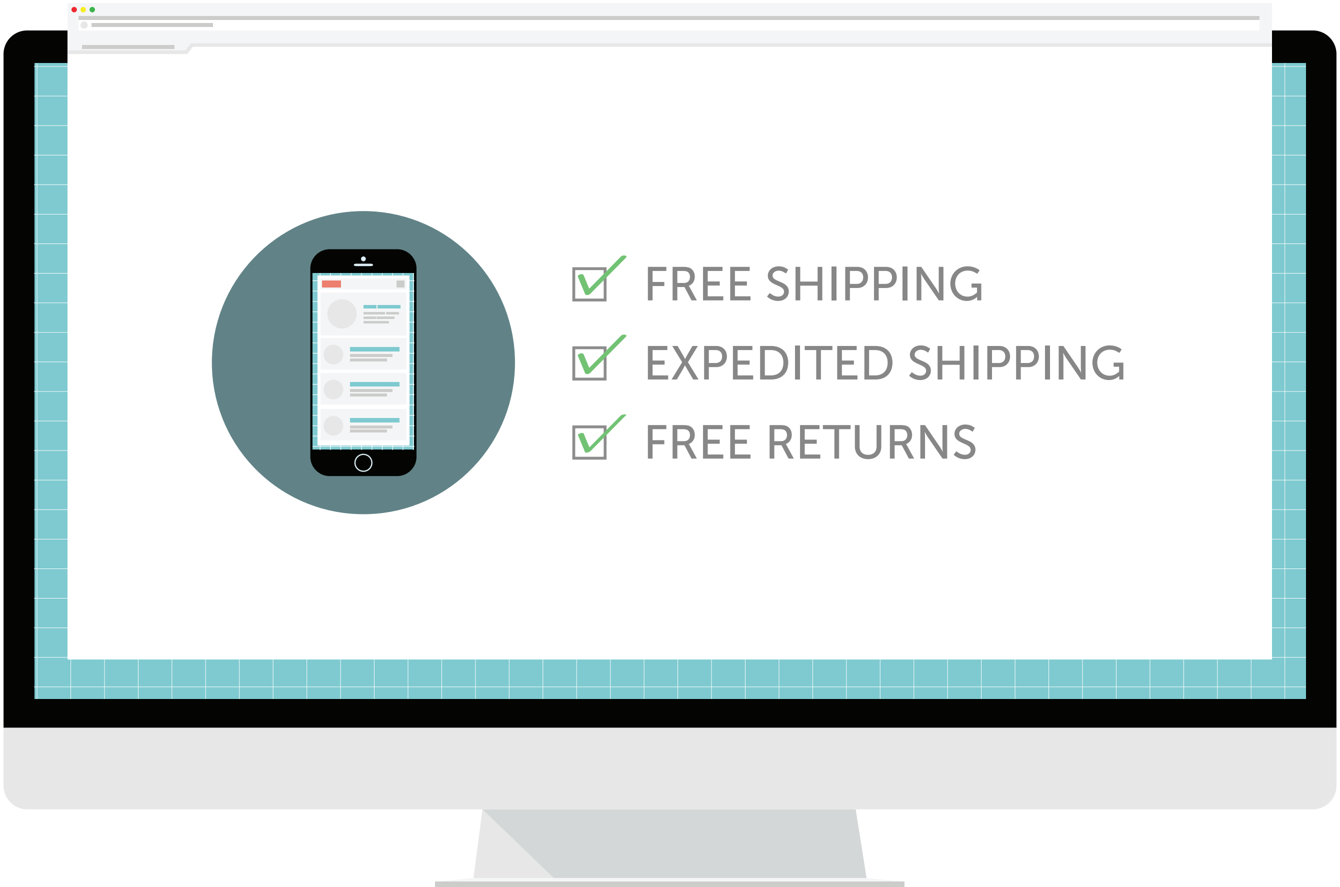
Offer expedited shipping:

The younger generations have spoken – getting it fast matters, even if they have to pay for the convenience. As the market shifts around them, baby boomers and Generation Xers are starting to show more willingness to pay for that speed as well. As the younger generations grow in buying power, however, the convenience factor will push up against the desire for free delivery. Retailers need to get ahead of the competition, as eventually there is likely to be a confluence of free and fast that will require retailers to find ways to offer free expedited shipping.

Offer free returns:

With three-quarters of consumers saying that the ability to return items for free factors into their decision on where to shop in the first place, retailers need to find a way to offer free return shipping or otherwise make it very easy for consumers to send back unwanted items.

As evidenced by what shoppers value in delivery options and how it impacts their decisions, there is still a gap between what retailers are charging for shipping and returns and what shoppers want. The customer experience ranges far beyond just clicking on the purchase button. Retailers cannot ignore what consumers are telling them about fast and low-cost delivery and returns. As the volume of younger generations in the market increases, retailers need to stay ahead of the curve. Fast and free shipping is here to stay!



ABOUT THE AUTHOR:

Josh Dinneen is Senior Vice President of Commercial Development at LaserShip, an e-commerce delivery provider with more than 60 locations throughout the Eastern and Midwest US, where he oversees revenue strategies, sales, marketing and call center operations. Prior to his current role, Josh was Vice President of Supply Chain at LaserShip, where he was responsible for the creation of LaserShip's e-commerce hub and spoke delivery network.

ABOUT HANOVER RESEARCH:

Founded in 2003, Hanover Research is a global market research and analytics firm that delivers market intelligence through a unique, fixed-fee model to more than 1,000 clients. Headquartered in Arlington, Virginia, Hanover employs high-caliber market researchers, analysts, and account executives to provide a service that is revolutionary in its combination of flexibility and affordability. Hanover was named a Top 50 Market Research Firm by the American Marketing Association in 2015, 2016, 2017, and 2018, and has also been twice named a Washington Business Journal Fastest Growing Company. To learn more about Hanover Research, visit https://www.hanoverresearch.com.

DEFINITIONS

Generation Z / Young millennial	18-35 years old
Millennial	26-34
Generation X	35-54
Baby Boomers and older	55 +

	Purchases last 3 months	Income	College degree	Employed full-time
Avid shoppers	7+	> $75,000 (56%)	72%	56%
Intermediate shoppers	4-6	< $75,000 (49%)	65%	50%
Casual shoppers	2-3	< $75,000 (47%)	57%	39%

METHODOLOGY

The findings in this report are based on a survey commissioned by LaserShip and conducted by Hanover Research of 1,014 U.S. online shoppers about shipping and delivery experiences. The survey included responses from Generation Z (23%), millennials (22%), Generation X (26%), and baby boomers and older (29%). Geographically, shoppers represented urban (26%), suburban (57%), and rural (15%) areas. By shopping behavior, respondents were classified as casual (20%), intermediate (41%), and avid (39%). Percentages may not add up to 100% due to rounding. Some respondents chose not to answer certain demographic questions.