



MCM OUTLOOK

OPERATIONS + FULFILLMENT

Special Deliveries and Happy Holidays are Key to Customer Satisfaction

BY DANIELA FORTE

If there is anything we learned at all from 2014, it's that merchants need to be different from their competitors in all facets of the business, especially when it comes to shipping and delivery. Customers want free shipping; whether a merchant can provide that is the deal breaker.

Here is a snapshot of 2015 MCM Outlook results:

Free Shipping: A Hit or Miss?

Free shipping is what customers want, but it's not something every merchant can afford to provide. Merchants who do offer free shipping offer it as an incentive, but more often than not it is hurting their bottom line.

Survey results revealed that 38.7% of merchants said the cost of free shipping is baked into the price, while at the same time it is a cost borne to the company.



Angie Stocklin, co-founder and chief operating officer for One Click Ventures, which owns e-commerce eyewear shops

Felix + Iris, Sunglass Warehouse, and Readers.com, said the company does offer free shipping and they do lose money on it.

"We use it as a marketing tool to our customers," said Stocklin. "Our packages are really lightweight and inexpensive to ship anyway. The first few years we did a free shipping threshold, we definitely have a better conversion rate when we offer a free shipping threshold."



Tim Holody, chief operating officer for Seta Corporation, said it does the exact opposite. It provides a profit for the company be-

cause you get a response lift from the consumer.



At Brooks Brothers, Michael Moseman, the director of the customer contact center, said free shipping doesn't entirely offset the cost incurred.

"We don't change the price of our items from that standpoint," said Moseman. "When we do free shipping, we

are subsidizing 100% of freight cost, we don't see an increase above that base line."



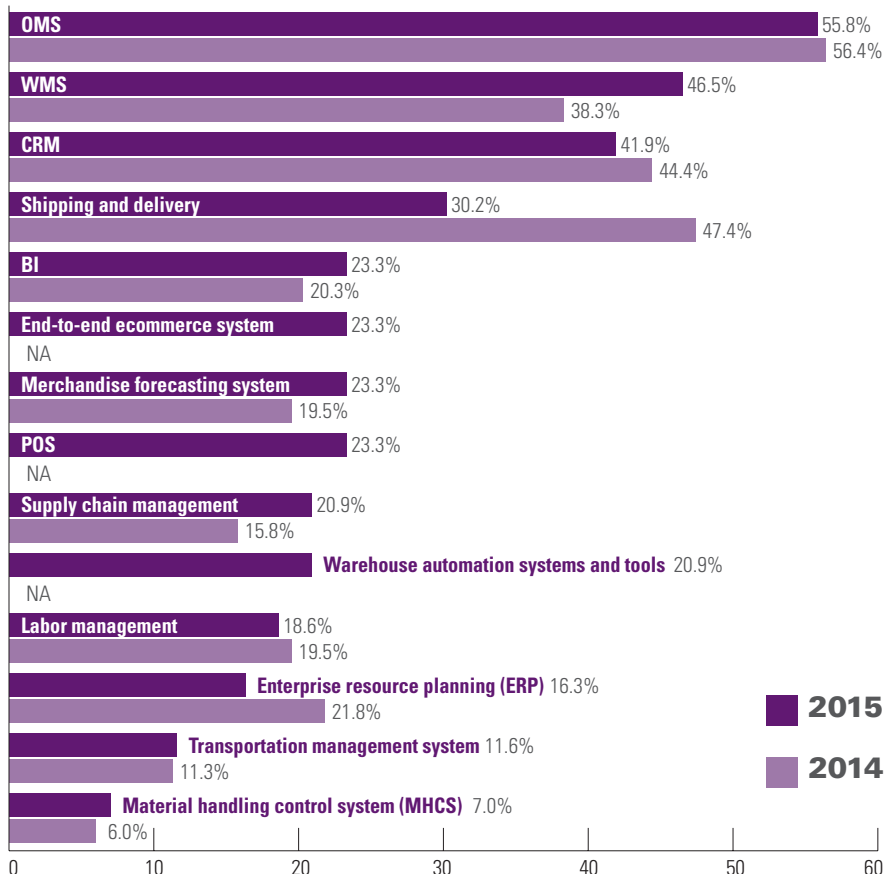
Aaron Hall, vice-president and head of purchasing for PartySuppliesDelivered.com, said free shipping definitely hurts the bot-

tom line, because free

shipping he said, is only free for the customer, while he still has to pay the shipping bills.

Which systems does your company currently use?

(Select all that apply)



What is Important to Customers?

When it comes to delivery, customers are torn between faster transit times and free or reduced shipping as a level of importance.

The survey revealed that 48.8% of merchants said both faster transit times and free or reduced shipping was important to customers.

Holody said for his customers it's pretty much split on the level of importance, and it depends on the customer.

"Faster delivery is more important around the holidays, it's calendar driven," said Holody. "I think customers will opt for slower delivery, if they are getting it free or reduced rate."

Stocklin said at One Click Ventures, average delivery time is two-and-a-half days, the cost of first-class mail, and if the customer doesn't reach the free shipping threshold, it's a \$2.95 cost.

"We're lucky enough to offer pretty fast and pretty inexpensive shipping," said Stocklin.

Stocklin said their company is unique in that their packages are pretty lightweight and they are able to use the U.S. Postal Service. Their packages are three to five ounces on average. She added that they have the luxury of using First Class Mail.

For Brooks Brothers, free and reduced shipping is what is important to their customers. Moseman said a large block of customers are okay with standard delivery times, as long as they didn't have to pay for it.

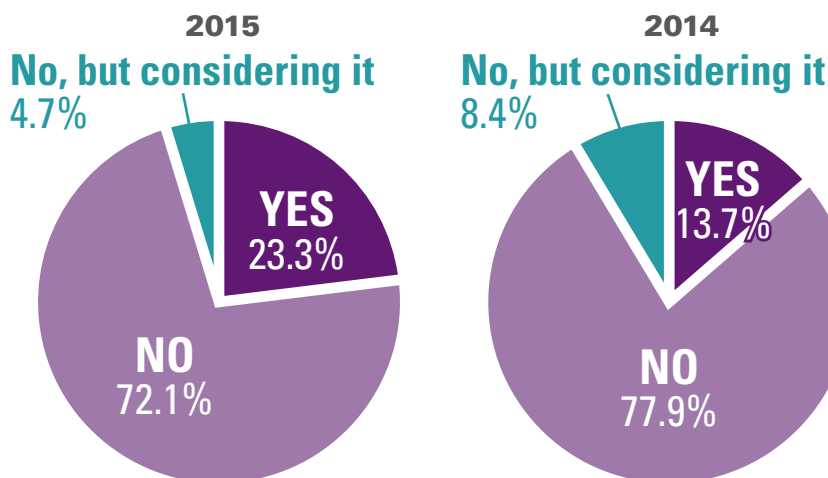
Hall said for his business he is seeing the customer wanting different things depending on what or when they order.

"If a customer is a good planner and orders far in advance of their event, free shipping is the most important thing to them," said Hall. "If they are a procrastinator, fast shipping options are essential. We had a recent customer place a \$5 order and then select 'Next Day Shipping' for \$30."

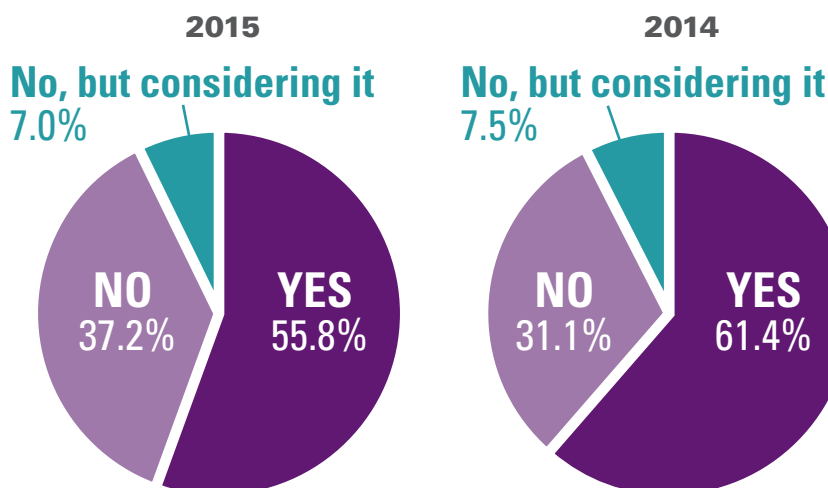
Hall said it depends on the particular customer needs, but for the industry as a whole, he is seeing a huge trend toward free shipping.

"With so many brick and mortars catch-

Do you use an outside service for fulfillment?



Do you drop ship merchandise?



ing up to the internet and realizing that they need to be price competitive with their internet rivals, free shipping is becoming very important," said Hall.

The Most Popular Delivery Option

Merchants today are offering various delivery options to customers, and what merchants are finding is that two-day delivery is the most popular among their customers.

Respondents said the delivery option they offer most to customers is two-day delivery (85%) and behind that is next-day delivery (77.5%).

Stocklin said they offer UPS and USPS options at checkout. For domestic and international packages together, first-class mail is the largest at 84% of customers.

Hall said the most popular delivery option that he offers is the cheapest. He said he calls it "economy shipping" which is shipping with either the U.S. Postal Service or UPS, whichever is less expensive for his business and generally takes zero to one day longer for delivery than the next cheapest option.

Holody said most people still want standard delivery, which is free shipping.

"UPS Mail Innovations is the product

we use. It's a hybrid product where we send off the product to UPS [and] UPS sorts and then hands it off to the Post Office for the final delivery mile to the customer," said Holody. "The only time when customers opt for upgraded shipping is around the major holidays, when 80% [of customers want] standard delivery."

Drop Shipping

While merchants include drop shipping as part of their business, it only represents a small amount. Retailers are doing drop shipping on a small scale.

Stocklin said the company does drop ship for two of their product lines, which represents 1% of what they sell.

"We drop ship two different product lines and stock everything else here," said Stocklin. "These two product lines are too expensive to keep in house."

Seta Corp. is a family owned jewelry business which has operated for the last 40 years. They do a lot of drop shipping for other major retailers.

"We sell our jewelry through our marketplace partners, multichannel merchants and catalog companies," said Holody.

Holody said 50% to 55% of what is drop shipped is through partnerships and 40% to 45% is under the banner of Palm Beach Jewelry, PalmBeachJewelry.com, along with their catalog business.

"I think the biggest thing that drop shipping does is eliminate the inventory risk for our partners. We have a distinct advantage because jewelry is small and lightweight," said Holody. "We primarily use UPS, we don't have multiple distribution centers, and we have everything under tight controls here."

Drop shipping represents less than 3% of total merchandise for Brooks Brothers. The merchant does do drop shipping on a small scale for some of its specialized products.

Moseman said drop shipping allows Brooks Brothers to provide customers some unique products that don't make sense to carry in inventory. One example is stationery around the holiday season.

"People order it and stock up, but our stores don't inventory stationery. The stores

have a process where they can contact our DTC teams and generate an order of that product, that kind of product comes through our DTC channel," said Moseman.

Hall said there are several merchants that drop ship for PartySuppliesDelivered. However, with most merchants he still uses a combination of drop shipping and warehousing.

Hall said as far as offer items, drop shipped versus warehoused is about 60% drop ship versus 40% warehoused. Overall sales though their site is about 15% drop shipped, and 85%

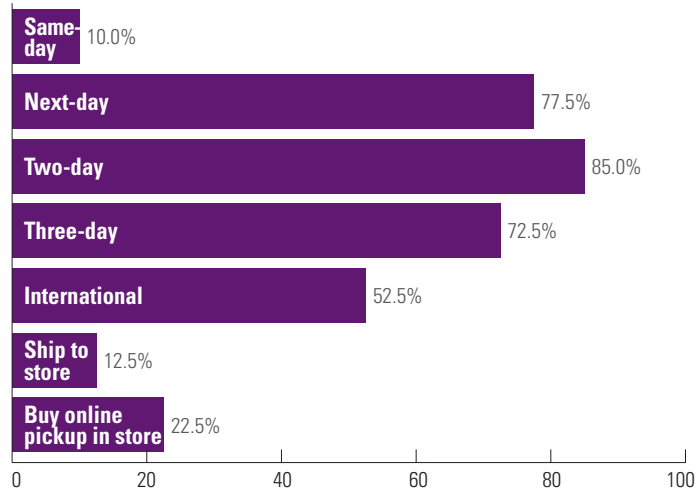
warehoused.

"Drop shipping allows me to offer a larger selection of items without taking the risk of actually purchasing the items before they are sold," said Hall. "It also can give customers the impression that you are a larger company than you really are."

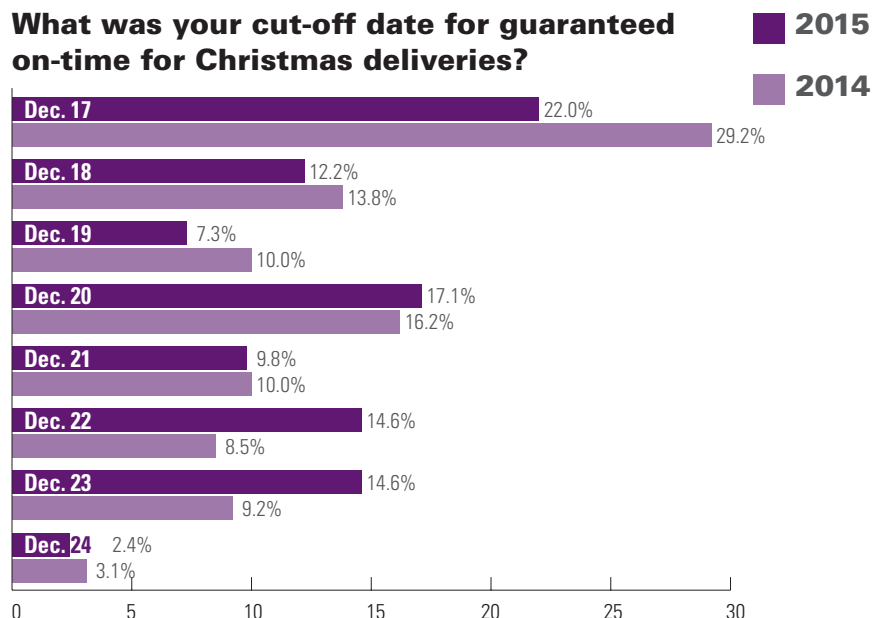
A Happier Holiday

The 2014 holiday season was indeed a quieter one, there weren't any major delivery issues like so many retailers saw in 2013.

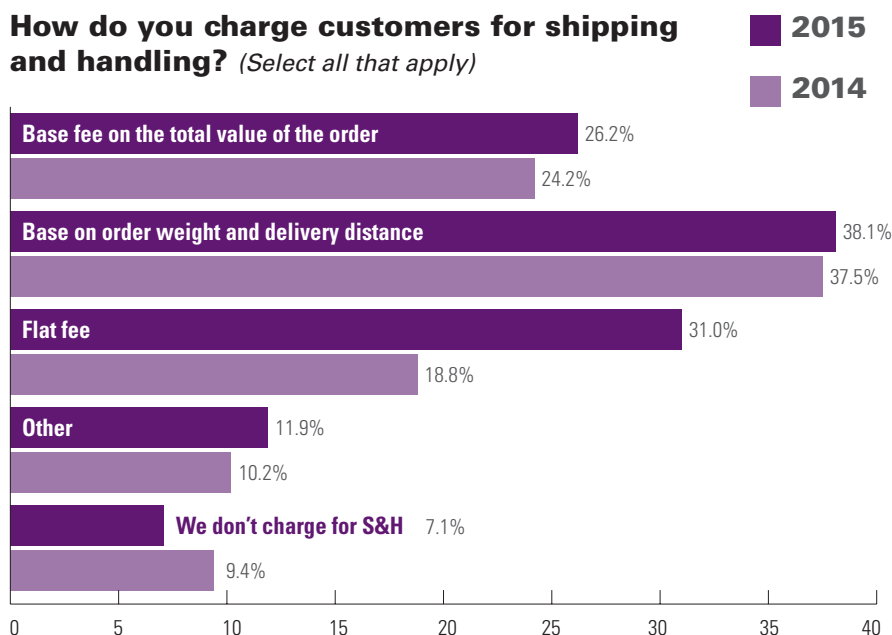
What delivery options do you offer your customers? (Select all that apply)



What was your cut-off date for guaranteed on-time for Christmas deliveries?



How do you charge customers for shipping and handling? *(Select all that apply)*



"I think that we're going to see another season where shipping methods and costs are going to be a differentiator for companies. I don't see that trend changing its current trajectory," said Moseman.

In 2013, ecommerce spending had reached \$46.5 billion, which was great for retailers. What wasn't so great was getting items delivered to customers on time.

Moseman said the pressure for retailers is only going to grow, there are businesses that are hyper-efficient, and they use it as a distinct advantage.

"Trying to understand what is best for your customer may be different for what is best for someone else's customer," said Moseman.

Dec. 17 was the most-popular cut-off date offered by merchants for guaranteed on-time delivery during the 2014 holiday season (22%), while 17% of merchants chose Dec. 20 and 14.6% of merchants chose Dec. 22 and 14.6% chose Dec. 23 was their cut-off date, according to the survey.

Though not as major an issue as it was in 2013, the promise on on-time delivery during the 2014 holiday season was still not perfect. According to the MCM Outlook 2014 results, 82.5% of merchants had 0% to 4% of packages fulfilled by their cut-off date

for guaranteed on-time delivery reach the recipient on time.

At One Click Ventures, the company was as conservative as possible. The retailer offered a cut-off date for orders on Dec. 17, since a majority of their products are first class mail, which is not a guaranteed service.

Stocklin said a small amount of orders received by the cut off did not reach the recipient on time.

"We had zero complaints in 2014 [and] we fared very well in 2013 compared to a lot of people I talked to," said Stocklin.

Stocklin said they have not decided on a cut-off date yet for holiday 2015, but they anticipate using a conservative date again.

Stocklin added that when it was necessary to appease the customer, they have refunded shipping if the company has time and the item is really important.

Holody said at Seta Corp., the cut-off date was Dec. 22 and they plan to do the same for 2015. He said the percentage fulfilled by the cut-off date that did not reach the recipient on-time was 1.5%

"We have great delivery, we were very fortunate, we didn't really have that problem with delays," said Holody.

Holody said in the off chance they need to appease a customer, they do so with some

type of accommodation such as a gift card for a future purchase or some other kind of allowance for the customers.

Hall said the cut-off date for standard shipping for his company was Dec. 18, but they offered next day delivery up to Dec. 22.

Hall said that less than 1% fulfilled by the cut-off date did not reach the customer on time.

"Both UPS and the U.S. Postal Service made huge strides in 2014 compared to 2013," said Hall.

Hall said he couldn't appease customers whose orders did not make it on time.

"Not even a full refund will make someone happy when they are expecting something to arrive as a present," said Hall, who added that the cut off for holiday 2015 will be Dec. 20 for standard delivery and Dec. 22 for next day.

A majority of the respondents of the survey said the percentage of their customers who did not receive their items in time was 0-4% (82.5%).

Systems Retailers Are Using

Retailers have plans to upgrade their current systems and are currently using order-management systems over the warehouse management system.

Retailers said they currently use an order management and fulfillment system (55.8%), which is slightly lower than 2014 at 56.4%. In 2015, a warehouse management system ranked higher at 46.5% over 2014 where 38.3% retailers said they use WMS systems. Plans for IT for 2015 include upgrading their current systems (78.6%).

Multichannel Merchant's MCM Outlook 2015 survey was fielded between Feb. 17 to March 10, 2015 with 175 qualified respondents. ■

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