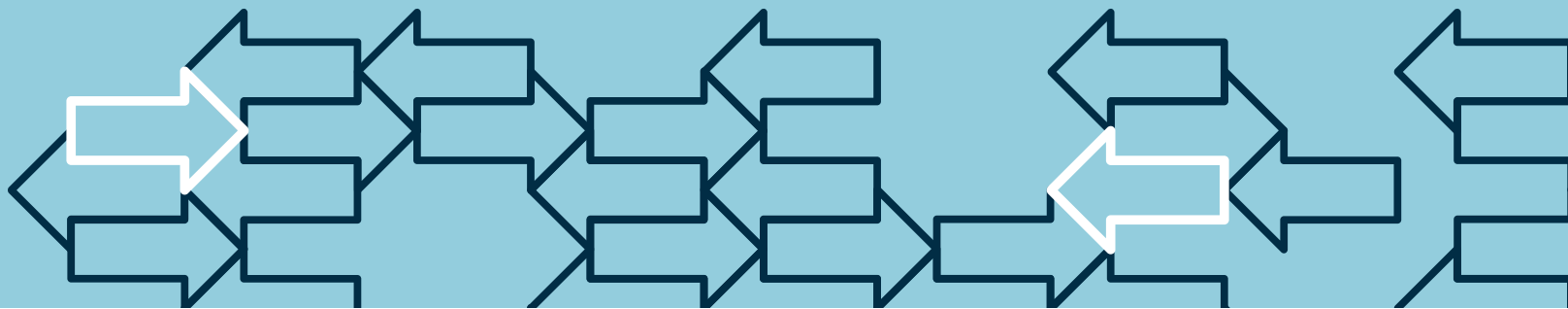


MARCH 2018

Top trend in shipping? More consumers want fast and free



Consumers are increasingly seeking the convenience of fast, free shipping. But having a delivery person stock the fridge when they're not home? That, according to a recent AlixPartners survey, might be crossing the line.

THE AMAZON EFFECT

By now, the observation that online shoppers expect fast, free delivery hardly comes as a surprise. Nearly every day brings news of moves by retailers and logistics providers aimed at meeting those expectations while controlling shipping costs. Amazon, for example, is building out its logistics infrastructure to offer last-mile delivery services to third-party sellers on its retail platform (and eventually, perhaps, to sellers outside its network). The move allows Amazon to monetize its excess delivery capacity, just as Amazon Web Services allows the company to monetize its excess computing capacity by offering IT services to third parties. It may also help Amazon defray its own rising fulfillment and delivery costs, which have climbed steadily since 2009, to \$25.2 billion and \$21.7 billion, respectively, in 2017.

Amazon aside, fast, free delivery has become table stakes for many online retailers, as consumers' expectations evolve. For example, according to the AlixPartners survey, the maximum delivery time the average shopper will accept has fallen to 4.5 days, down from 5.5 in 2012. The finding underscores how strongly market leaders such as Amazon and Walmart influence shopper expectations. To satisfy them, retailers are scrambling to expand their networks of warehouses and distribution centers with a focus on those near large population centers to facilitate rapid order fulfillment and delivery, relying on third-party carriers to handle the last leg of the delivery route. This development represents a shift from earlier years, when retailers invested in distribution centers often located in rural areas, where real estate and labor costs are cheaper. The new approach to distribution network design may create opportunities to consolidate the highly fragmented and low-margin last-mile delivery business. Intensifying demand for last-mile solutions will likely push less sophisticated local delivery providers to professionalize their operations or exit the business.

HOW CONSUMER BEHAVIOR IS EVOLVING

To learn more about online shoppers' behavior and delivery expectations—and what they imply for retailers and logistics providers—AlixPartners has surveyed a cross-section of consumers in every region of the US, since 2012. The responses of the 1,015 consumers who completed the survey in November 2017 for our 2018 report can help retailers and logistics providers anticipate how the online retailing business will evolve in the near term and determine how their own operations will have to evolve in response. Taken together, the findings depict a competitive environment that is growing increasingly complex and at the same time offers compelling opportunities to claim a share of the fastest-growing segment of the retail business.

The survey results drive home the message that free shipping can make or break a retailer. That's no exaggeration: 96% of survey respondents said that the availability of free shipping impacts their purchase decision, and 73% said that it has a great impact on their decision (figure 1). What's more, free shipping doesn't just affect what consumers buy—to a growing extent, it determines where they browse. More than 70% of shoppers decide their shipping preference before checkout, and nearly 60% of shoppers browse for products based on their preferred shipping options. The allure of free shipping is so great, in fact, that about a quarter of shoppers (26%) will buy from a retailer that offers free shipping, even if they would

pay a bit less to buy the same item from another retailer that imposes shipping charges. These findings strongly support the conclusion that delivery options, and specifically the availability of free shipping, drive online purchase behavior.

Free isn't all that consumers expect from their shipping, though. They also expect fast. As mentioned above, our survey shows that the average consumer expects delivery within 4.5 days, and Amazon Prime members are even more demanding. The 56% of survey respondents who have signed up for Amazon Prime expect their deliveries to arrive within 3.8 days—nearly a day less than non-Prime members will accept (figure 2.) Demand for same-day delivery is increasing, but at 4.1% of online purchases (up from 2.7% in 2016), goods for same-day delivery still account for only a small share of total purchases.

Even as demand for free shipping increases and shipping times decline, a growing number of consumers are buying online and picking up their purchases in stores. It used to be that long delivery times and high shipping costs, as well as the immediate need for a product, drove the choice to buy online and pick up in-store, but that's becoming less frequently the case. Consumers are increasingly opting for online purchasing and in-store pickup because merchants offer them discounts or a broader assortment of products if they do so (figure 3).

FIGURE 1: FREE SHIPPING IS STILL CRITICAL TO PURCHASE DECISION

Q When ordering an item for delivery, how does the choice of free shipping impact your ordering decision?

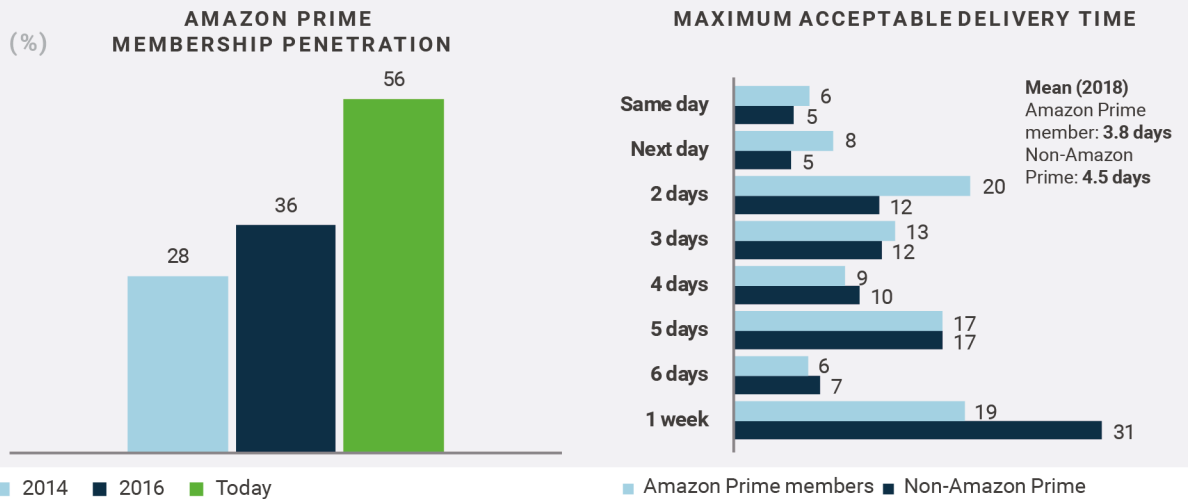


■ 2012 ■ 2014 ■ 2016 ■ Today

Source: 2012 data was from the survey conducted in March 2012; 2014 data was from the survey conducted in August 2014; 2016 data was from the survey conducted in April 2016; today's data was from the survey conducted in November 2017

FIGURE 2: NEARLY HALF OF AMAZON PRIME MEMBERS WANT ITEMS IN THREE DAYS OR LESS

Q Are you or any member of your household an Amazon Prime member? When buying an item for delivery, what is the maximum delivery time you are willing to accept in order to receive free shipping?



Source: 2014 data was from the survey conducted in August 2014; 2016 data was from the survey conducted in April 2016; Today's data was from the survey conducted in November 2017

FIGURE 3: SHIPPING COSTS, INSTANT NEED, AND DISCOUNTS ARE TOP REASONS FOR IN-STORE PICK-UP

Q What would be reasons that you would consider picking up your order in store?



Source: 2016 data was from the survey conducted in April 2016; Today's data was from the survey conducted in November 2017

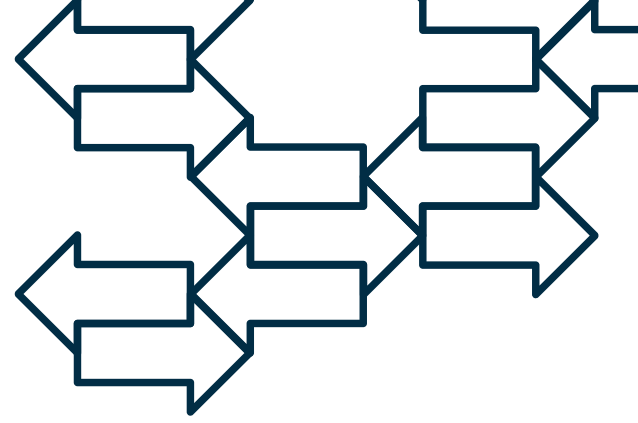
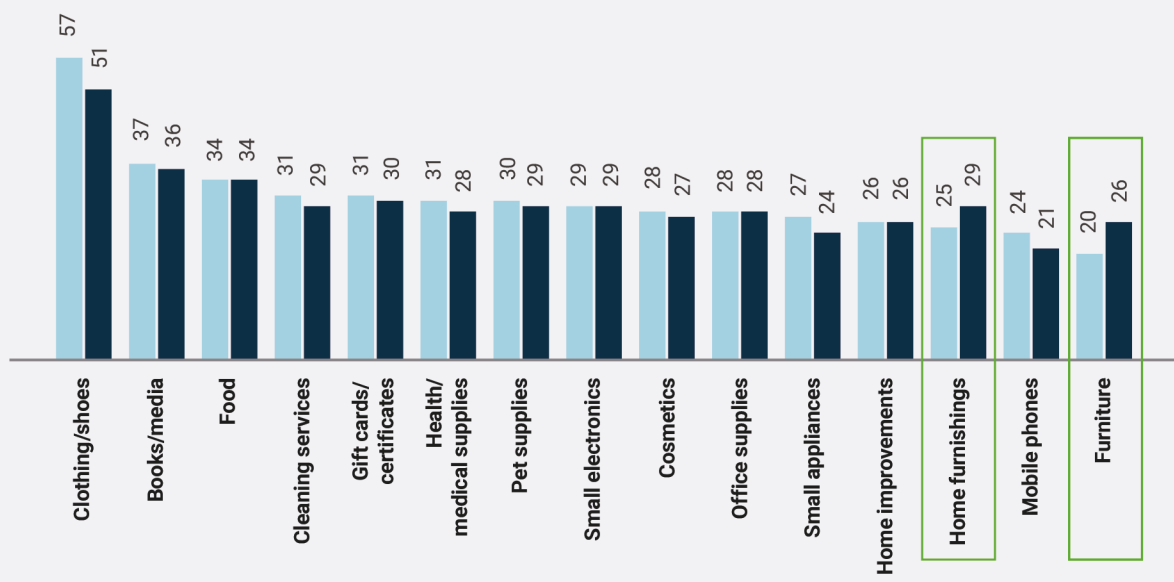


FIGURE 4: SHOPPERS PLAN TO SPEND MORE ON HOME FURNISHINGS AND FURNITURE IN THE NEXT 12 MONTHS

Q Please select all of the product categories you plan to purchase for delivery in the next 12 months.



■ In the last 12 months ■ In the next 12 months

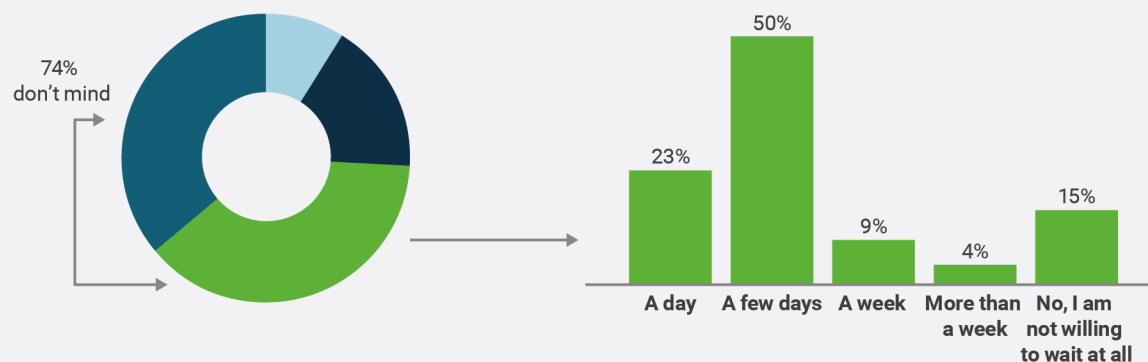
Source: Today's data was from the survey conducted in November 2017

At the same time, as our survey shows, the range of products that consumers are willing to buy online continues to expand. Two product categories, clothing and shoes, and books and media, continue to account for the largest share of purchases, but demand for home delivery of staples such as groceries is growing fast. And resistance to buying large or bulky products is waning, as evidenced by the growth in the number of survey respondents who say they plan to buy home

furnishings and furniture online within the next 12 months (figure 4). Furniture sellers will need to move quickly to devise offers that include free shipping and develop the infrastructure needed to assure prompt delivery. Last-mile carriers with capacity to handle oversized, non-standard package sizes have an opportunity to fill the gap opened up by the largest logistics providers' reluctance—or outright refusal—to handle those packages.

FIGURE 5: MAJORITY OF SHOPPERS DON'T MIND THEIR ORDER ARRIVING IN MULTIPLE PACKAGES

Q When buying multiple items, does it matter if shipment arrives in multiple packages over the course of multiple days?



- Yes, I would start ordering from a competitor if it happened more than once
- Yes, but it won't deter me from placing another order with that vendor
- No, I don't mind as long as the shipping was free for the extra deliveries, 38%
- No, I don't mind at all, 36%

Source: Today's data was from the survey conducted in November 2017

TRENDS TO WATCH

The results of this year's survey point to a few emerging trends. Demand for value-added services such as installation, assembly, or technical services has increased sharply. For example, in 2014, only 35% of survey respondents expressed some or a great deal of interest in services such as installation or assembly (for a fee) when buying large appliances; 52% of respondents to the latest survey expressed such an interest. This development offers retailers of furniture, home electronics, and white goods to differentiate themselves with their service and convenience rather than compete only on price and selection.

Another striking finding is that 74% of online shoppers surveyed don't mind receiving multiple packages to fulfill a single order, as long as delivery is free. The number of multi-package orders has grown in recent years with the expansion of online product assortments, the growth of multi-vendor marketplaces, and the increase in deliveries originating from multiple warehouses. However, 73% survey respondents indicate they're willing to wait a bit longer for delivery of multi-item orders in a single shipment—provided shipping is still free (figure 5). That finding strongly suggests that retailers can reduce their freight costs—and retain customer orders—by consolidating shipments. Not every delivery innovation has found favor with consumers, however—even when the innovation is tested by retailing leaders such as Amazon and Walmart.

Both companies now offer shoppers the option of having packages delivered within their homes—placed inside the front door or unloaded directly into the refrigerator—after the space has been secured by means of a special lock and video recording equipment. A full 60% of survey respondents said they weren't at all interested in inside deliveries when they are not at home, and only 15% are willing to pay for the necessary security equipment. Given the low potential for consumer uptake of the service, most retailers may decide to pass on investing in security measures that consumers don't want at any price.

PROXIMITY IS THE NAME OF THE GAME

The survey findings carry far-reaching implications for retailers and logistics providers. The most significant include:

- Free and fast is a must. The availability of free shipping plays a large role in consumers' purchase decisions, requiring retailers to offer it just to pass through online shoppers' search filters. This requirement has put many retailers under strain. For example L.L.Bean, which built its business on home delivery and strong customer service and support, recently announced that it would tighten its famously generous return policy and restrict free shipping to orders of \$50 or more. Other retailers as well are trying to set policies that strike a balance between meeting customer expectations and controlling shipping costs.

- Retailers need to stay close to their customers—literally. The demand for speedy delivery requires retailers to store their inventories near consumers—not just to meet consumers’ expectations but also to keep a lid on their own freight costs. That makes planning and management markedly more difficult, but retailers can’t afford not to tackle the problem, because stock-outs or delayed shipments often prompt consumers to abandon their shopping carts and go elsewhere. That’s a big concern for retailers and even more so for consumer-goods producers that aspire to expand their direct-to-consumer businesses and are seeing sharp rises in their cost of lost sales.
- Online sellers must master product segmentation. Most online sellers will likely opt to hold only their most popular stock keeping units (SKU) in distribution centers near their customers to enable

same—or next-day delivery. They will use strategic distribution centers in lower-cost markets to hold a wider assortment of goods offered with a variety of shipping methods. And many will likely offer an extended assortment of SKUs to be sold online and picked up in-store, or leverage dropship partners to handle last-mile delivery.

In the era of online shopping, proximity to the greatest number of shoppers has become the equivalent of the ‘best shelf’ in brick-and-mortar retailing. Retailers that can satisfy consumers’ increasing demand for free and fast shipping will likely position themselves not just to retain their share of the fastest-growing retail segment, but also to increase it. And carriers that can operate at scale in areas of high shopping density can carve out a valuable niche for themselves in the retailing ecosystem. **A**

CONTACT THE AUTHORS:

Jim Blaeser, Marc Iampieri and Roshan Varma

FOR MORE INFORMATION, CONTACT:

Marc Iampieri

Managing Director

+1 646 746 2430

mlampieri@alixpartners.com

Jim Blaeser

Director

+1 212 297 1599

jblaeser@alixpartners.com

Roshan Varma

Director

+1 646 428 9120

rvarma@alixpartners.com

ABOUT US

In today’s fast paced global market timing is everything. You want to protect, grow or transform your business. To meet these challenges we offer clients small teams of highly qualified experts with profound sector and operational insight. Our clients include corporate boards and management, law firms, investment banks, investors and others who appreciate the candor, dedication, and transformative expertise of our teams. We will ensure insight drives action at that exact moment that is critical for success. *When it really matters.*SM alixpartners.com

The opinions expressed are those of the author and do not necessarily reflect the views of AlixPartners, LLP, its affiliates, or any of its or their respective professionals or clients. This article regarding Top trend in shipping? More consumers want fast and free (“Article”) was prepared by AlixPartners, LLP (“AlixPartners”) for general information and distribution on a strictly confidential and non-reliance basis. No one in possession of this Article may rely on any portion of this Article. This Article may be based, in whole or in part, on projections or forecasts of future events. A forecast, by its nature, is speculative and includes estimates and assumptions which may prove to be wrong. Actual results may, and frequently do, differ from those projected or forecast. The information in this Article reflects conditions and our views as of this date, all of which are subject to change. We undertake no obligation to update or provide any revisions to the Article. This article is the property of AlixPartners, and neither the article nor any of its contents may be copied, used, or distributed to any third party without the prior written consent of AlixPartners.

©2018 AlixPartners, LLP