



Enterprise Shipping Solutions

Whitepaper

Retail Shipping Strategies

2008 Industry Survey Findings



Introduction

Kewill conducted the Retail Shipping Strategies Survey in 2008. The survey identifies current practices, captures significant trends and establishes operational performance benchmarks for parcel shipping in the retail industry.

The 2008 Retail Shipping Strategies Survey was performed to better understand where parcel shipping logistics is today and how it is evolving. The survey provides insight into the adoption of leading practices. By capturing significant trends, it also places the research findings into an overall context and provides recommended best practices for parcel shipping in retail.

Respondents Profile

The 2008 Retail Shipping Strategies Survey was distributed to over 500 logistics and operations executives at leading retailers. Companies responding to the survey ranged in size from less than \$10 million to over \$378 billion in annual revenues. Average annual revenue among all respondents was \$11 billion. 50% of retail organizations participating in the survey were in the Top 500¹.

In addition, over 50% of respondents shipped over 2,500 packages a day and were a mix of on-line retailers only and multi-channel merchants – 32% of respondents operated an on-line store, catalog and retail store operations. Nearly 40% of the respondents were from the Apparel, Footwear and Jewelry sector.



Executive Summary

For retailers the role of parcel shipping on their order fulfillment and operational costs remains a challenge and requires continuous attention to ensure customer service levels are “right-sized” while minimizing costs. Furthermore, for Internet orders where residential deliveries are dominant, the options for shipping have changed dramatically in the last year. The combination of excessive fuel costs, slower US economic activity, and changes in the US small package carrier market all create opportunities for retailers to improve their operational and financial performance.

The 2008 Retail Shipping Strategies Survey revealed that logistics executives are concentrating on operational excellence while meeting profitability and customer service objectives. Key opportunities for retailers’ parcel shipping operations include the following:

- International markets can provide an opportunity to spur additional growth particularly with the weakened dollar.
- Smaller retailers should take the lead from larger retailers who maintain a wider selection of carriers within their shipping portfolio to support complex needs and provide enhanced fulfillment options to consumers.
- Regional carriers represent an opportunity to cut costs and improve service.
- Integrated technology can enable faster fulfillment and improved customer experience for tracking, delivery notifications and returns processing.
- Relationships with carriers should be maximized to take advantage of new services and provide support during peak season shipping.

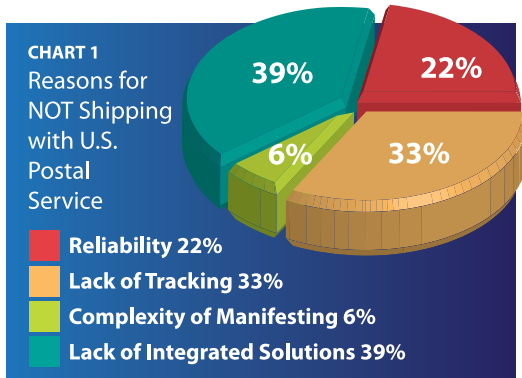


Carrier Selection

The 2008 Retail Shipping Strategy Survey finds that on average, retailers use 2-3 different carriers. It also shows that the more orders a retailer ships the wider carrier selection they offer - retailers shipping over 2,500 packages a day average 3.53 carriers and retailers shipping less than 2,500 a day average 2.74. Interestingly retailers in the Food & Gift Basket sector used the most carriers averaging over 4 carriers.

High volume shippers are also more likely to use regional carriers. 43% of retailers shipping over 10,000 packages a day used a regional carrier, compared to 20% of retailers shipping 250-2,500. And none of the retailers surveyed that shipped less than 250 packages a day used a regional carrier.

85% of respondents ship with the U.S. Postal Service, however only 13% consider the U.S. Postal Service their primary carrier. The majority of retailers use either UPS (45%) or FedEx (33%) as their primary carrier.



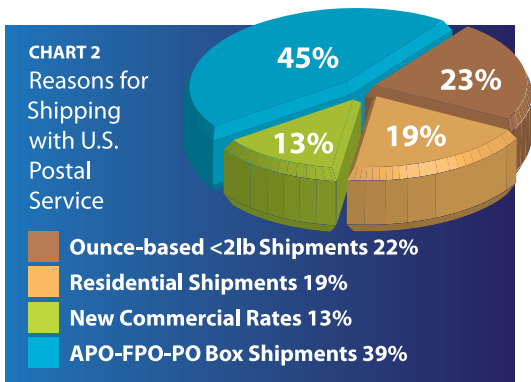
The choice of primary carriers for international shipments are fairly similar UPS (34%) and Fedex (32%). While the U.S. Postal Service and DHL are more likely to be primary carriers for international shipments than for domestic shipments. 9% of respondents use DHL as their primary carrier for domestic shipments, while 15% use them as their primary carrier for international shipments.

Chart 1 indicates the primary reason retailers do not ship with the U.S. Postal Service is the lack of an integrated and easy to use solution (39%), followed by the lack of tracking (33%).

“As fuel costs continue to rise and the economy continues to tighten, more companies need to re-examine how they ship. Integrating the USPS in this mix is crucial to maximizing cost savings. With electronic Postage and shipping software vendors, companies can take advantage of cutting edge technology that makes it easy and convenient to access the products and savings offered by the U.S. Postal Service.”

***- Amine Khechfe, General Manager, Endicia
- A Newell Rubbermaid Company.”***



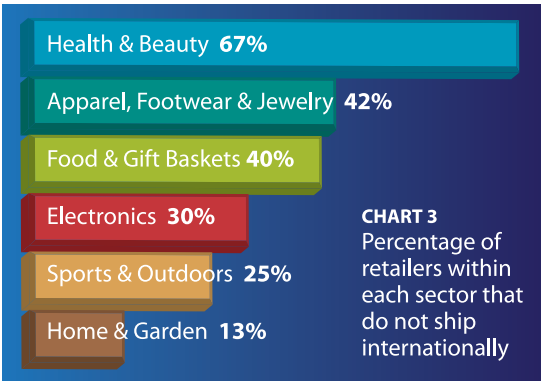


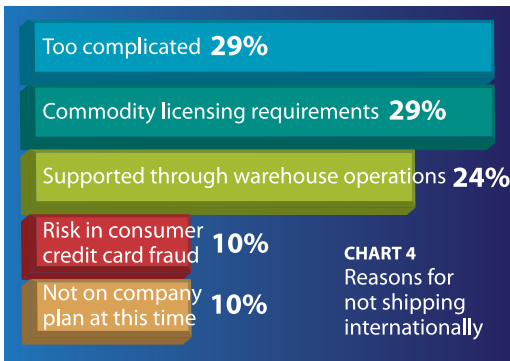
Nearly half of the survey respondents said they use the U.S. Postal Service for APO/FPO and P.O. Box shipments (Chart 2), 23% of respondents said they use the U.S. Postal Service for smaller ounce-based and shipments under 2lb, interestingly only 19% use the U.S. Postal Service for residential shipments, typically a strength for the U.S. Postal Service.

International Shipments

Nearly two-thirds of the retail organizations taking part in the research (64%) said they ship internationally with just 33% not currently shipping overseas. The remaining 3% have overseas fulfillment operations. Although most retailers are shipping internationally, over 50% said that less than 5% of their orders were going to international customers.

While 100% of retailers in the Books, Games and Music, and Tools, Auto and Industrial sectors fulfilled international orders; retailers within the Health & Beauty sector are most likely not to ship internationally with just 33% saying they fulfilled international orders (Chart 3). This trend



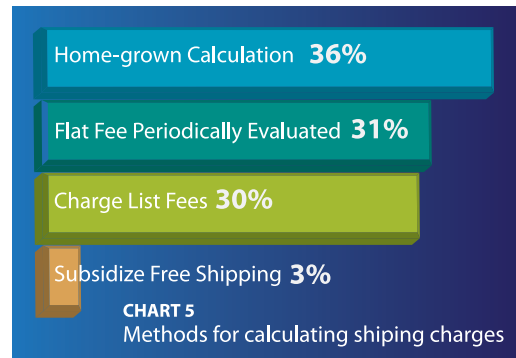


is most likely due to the complexity of license/commodity restrictions for shipping cosmetics and beauty supplies across borders. The top inhibitors for retailers not fulfilling international orders were complexities of international shipments (29%) and the commodity licensing requirements (29%), as shown in Chart 4.

Shipping Strategies

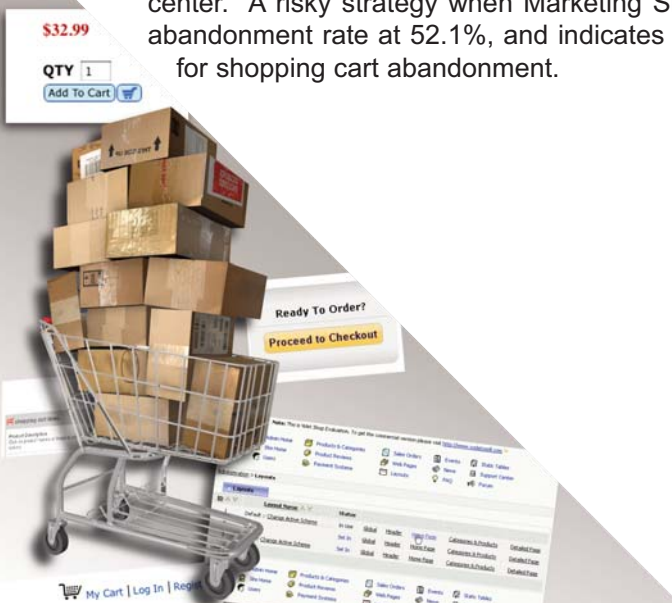
Shipping & Handling Charges

A majority of retailers use shipping & handling charges to cover embedded costs (42%), while 39% use free shipping based on order size as their primary shipping strategy. The study reveals that the calculation of shipping charges is an opportunity for retailers to gain better control of shipping costs. Over two-thirds of retail organizations taking part in the research offer static costs to consumers using either a home-grown calculation (36%) or a flat fee (31%) - illustrated in Chart 5.



To keep abreast of market fluctuations and rising fuel costs it is imperative that rate calculation is dynamic and covers items such as accessorial fees and fuel surcharges. Dynamic shipping cost calculators can also be used to increase customer loyalty by offering discounts over time, the more a customer purchases the lower shipping costs become.

19% of retailers responding to this research said they used their shipping operations as a profit center. A risky strategy when Marketing Sherpa² puts the average ecommerce shopping cart abandonment rate at 52.1%, and indicates that high shipping costs are one of the top reasons for shopping cart abandonment.



Service Levels & Commitments

The large majority of retailers offer 2 or more service levels as shipping options to consumers, allowing consumers to choose between Expedited, Medium or Ground shipments. Only 13% offer only 1 option.

Most retailers (73%) present shipping choices in generic terms (i.e. Standard, Expedited, Ground etc) instead of leveraging carrier names and brand, a sensible strategy that leaves options open for specific carrier selection based on location and time constraints.

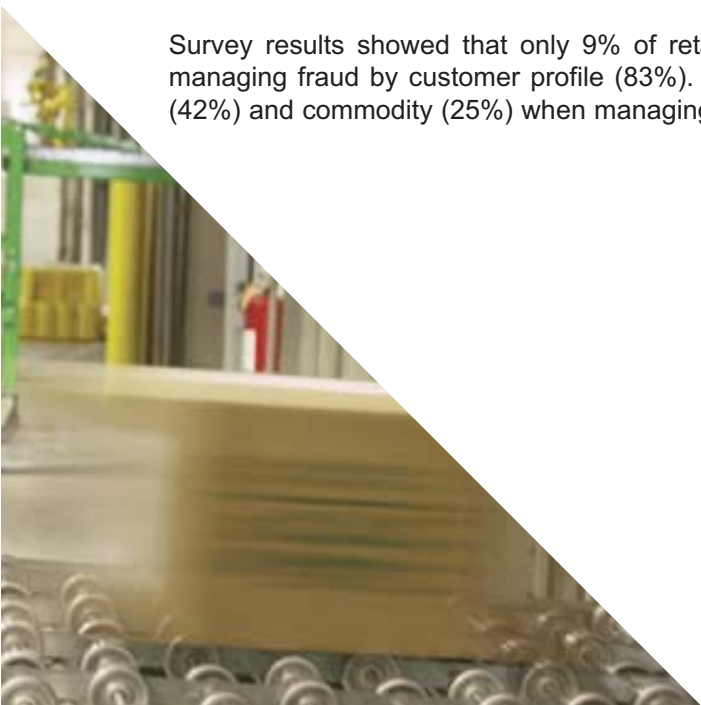
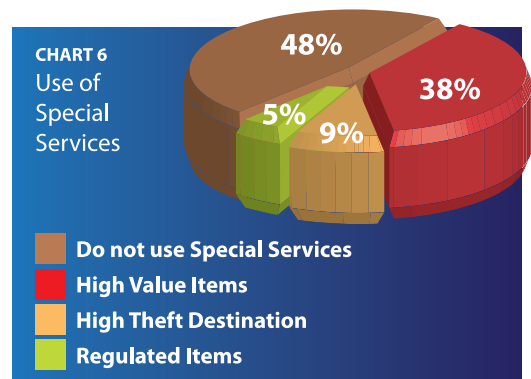
While 35% of retailers upgrade the service of shipping selected for orders based on delivery commitments an equal proportion (36%) never use upgraded services to meet delivery commitments – this clearly presents an opportunity to improve customer service and encourage return purchases by meeting (or exceeding) delivery expectations every time. The remaining 29% of retailers will upgrade services based on other factors (e.g. customer profile, order value, type of item – perishable, special events etc).

Special Services & Managing Fraud

The survey showed that only a minority of retailers (48%), offered special delivery services like cash on delivery, parcel insurance, signature required or bill consignee. Of the retailers that did offer special services most offered 1 or 2 options. Chart 6 illustrates that most retailers using special services do so for high value items (38%).

Retailers in the Food & Gift basket sector are more likely to offer signature required services (80%). As would be expected, retailers in the Apparel, footwear and jewelry sector are more likely to offer parcel insurance (29%), and Electronics and Sports & Outdoors retailers are more likely to offer cash on delivery (both 40%).

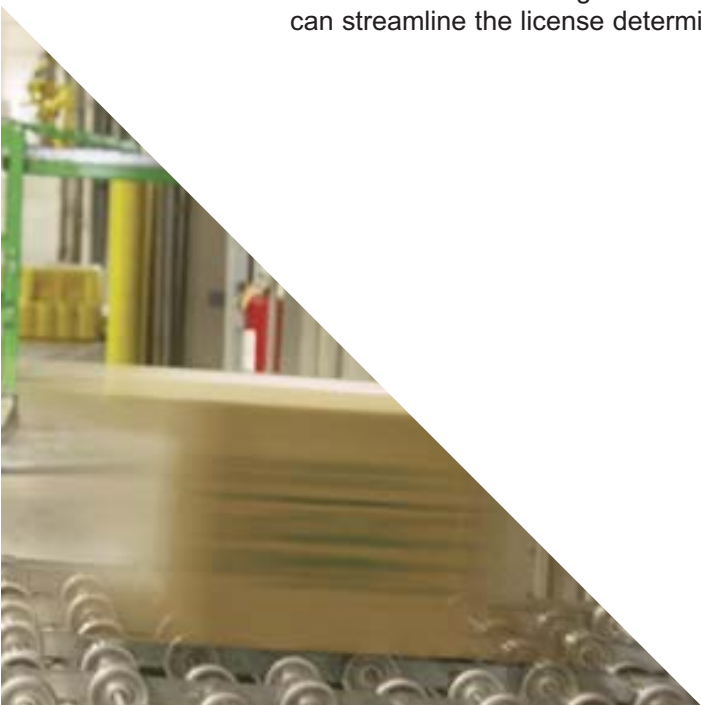
Survey results showed that only 9% of retailers were not managing fraud, with a large majority managing fraud by customer profile (83%). A smaller percentage of retailers consider destination (42%) and commodity (25%) when managing fraud.



Recommendations for Best Practices

The following represent the recommended 10 best practices that resulted from the 2008 Retail Shipping Strategies Survey:

- 1) **More carriers increases flexibility** - As retailers' online business grows, so does the number of carriers required to support their more complex needs. Retailers who ship more than 2,500 parcels per day use on average 3.54 carriers, whereas those that ship less than 2,500 parcels use an average of 2.74.
- 2) **Large shippers leverage regional carriers** – 43% of retailers shipping over 10,000 packages a day use regional carriers versus 20% for those shipping between 250-2,500. Overall with 42% shippers not using any regional carriers this represents a large opportunity to cut costs and improve service on regional ground deliveries.
- 3) **USPS represents untapped opportunity** - While 83% of shippers use USPS, only 17% use USPS as their primary carrier. Reasons included lack of integrated solution, lack of tracking, and reliability. However, given industry fuel surcharges, new USPS services, and their strength in residential deliveries, an increase in USPS is worth reviewing.
- 4) **International consumers can maintain retailers' growth** – With the current US economic conditions, the weaker US dollar can spur additional growth through additional customers and orders from outside the US. 33% of survey participants indicated they did not ship outside the US. For the 50% of retailers that do fulfill international orders less than 5% of their business is from overseas orders. When shipping overseas it is important to partner with the right carrier. 81% of respondents indicated their primary international carrier was one of DHL, FedEx, or UPS.
- 5) **Automating international shipments minimizes risks**– The two biggest barriers to shipping internationally were: (1) too complicated, (2) commodity licensing requirements. The barriers can be mitigated through automated software which eliminates errors and can streamline the license determination process to ensure government compliance.



- 6) **Do not use shipping as a profit center** – Given shipping represents one of the most cited reasons for abandoned shopping carts³, increasing shipping to ensure a profit is shortsighted, despite this 19% of retailers responding to this survey still use shipping as a profit center.
- 7) **Free shipping can drive customer loyalty programs** – While 39% use free shipping as a marketing tool, an additional 42% aim to cover their costs. However, no retailers used customer loyalty or purchase history to offer customers increased discounts or premium shipping services. Doing so represents an opportunity to build on customer retention and return purchases. In addition upgrading delivery service levels to ensure customer delivery commitments can improve customer satisfaction - 36% of retailers do not do this.
- 8) **Customer choice and flexibility prevail** – 87% of retailers offer multiple delivery choices for their customers. They are mostly offered in generic terms such as standard, expedited, and ground, versus leveraging carrier brands such as UPS Next Day Air or FedEx Priority Overnight. Offering variety covers the needs of customers, while the generic branding provides flexibility for the retailers in mixing the right carriers.
- 9) **Leverage strategic carrier for returns** - Only 14% of retail organizations allow customers to print a return label from their web site. Benefits for this type of return methodology include:
 - (1) Visibility to items being returned before the goods hit the distribution center
 - (2) Customer satisfaction and convenience
 - (3) Ability to leverage carrier relationship for better rates and service.
- 10) **Carrier representatives can be a valuable source of information for improved shipping strategies** – Zone skipping and pro-active notification services are examples respondents would like to see offered in the future, which shows that a number of carrier offerings and options are either not well understood or not known at all (e.g. FedEx Priority Alert and UPS Proactive Response).



About Kewill

With over 35 years experience in global trade management and logistics, Kewill is a long-time innovator of solutions for manufacturers, distributors, retailers, freight forwarders, transport companies, customs brokers, 3PL's and 4PL's, as well as other related institutions involved in financing and underwriting global trade such as banks and insurance providers.

Kewill's solutions are in daily use by more than 40,000 users worldwide and our global customer base which entrusts us with the management of their supply networks includes 25 of the Top 100 Internet Retailers⁴ including Overstock.com (No. 30), 1-800-Flowers (No.36), drugstore.com (No. 41) and ShopNBC (No. 65).

Kewill's solutions include:

Kewill Flagship™ optimizes global trade including domestic and international parcel (and LTL) shipment manifesting, automation of document generation and regulatory compliance screening (export/import).

Kewill Clippership® manages multi-carrier requirements, supports flexible data integration and performs extensive rate shopping to determine optimal shipment rates and routing.

Kewill Export Compliance Solutions (ECS) is a real-time, exception-based screening service that performs mandated government compliance screening for Restricted Parties, Embargoed Countries, and Export License Determination. ECS also checks for 'red flag' indicators to screen 'end use', as well as 'end users'. To facilitate internal management and communication, ECS provides an optional notification service and audit trail.

SPEX is an automated export document production and management system. SPEX collates, manipulates and produces all standard export documentation sets for auto distribution via print, fax and email to designated recipients at any number of locations. When integrated with a host system, SPEX automatically populates data on export documents as needed, resulting in a streamlined 'hands free' document preparation process.

Import Compliance System streamlines and automates the classification and valuation of import shipments, while maximizing the opportunities for reduced duties, costs, and fees associated with entry processing.



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References

- 1 Internet Retailer Top 500 Guide, 2008
- 2 Marketing Sherpa, Ecommerce Benchmark Survey. January 2007
- 3 Marketing Sherpa, Ecommerce Benchmark Survey. January 2007
- 4 Internet Retailer Top 500 Guide, 2008



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