

# 2020 Ecommerce Fulfillment Trends Report



**U.S. ecommerce sales are expected to grow 12.8% to \$666.28 billion in 2020, according to a [report](#) by eMarketer. Consumers are making online purchases anytime, anywhere.**

To accommodate their evolving shopping habits, merchants of all kinds are scrambling to make their wares even more accessible – adding online stores, introducing mobile apps, selling on marketplaces and social platforms, offering subscription programs, and more.

This trend has created a sea change in ecommerce order fulfillment operations. Merchants are utilizing a variety of strategies to satisfy consumers' expectations for an outstanding customer experience.

To help characterize ecommerce fulfillment today and understand where the practice is headed, Saddle Creek conducted an online survey of industry professionals in January 2020. The following report is based on data from 154 respondents who are personally involved with or have influence over e-fulfillment functions and whose companies utilize one or more online sales channels.

## Key Takeaways

Following are just a few of the highlights of the research:

- › Today, 86% of merchants selling online use more than one ecommerce channel.
- › Approximately one-third or more sell via third-party marketplaces, social platforms and/or mobile apps.
- › Ecommerce fulfillment operations have become more complex – with multi-node networks, sophisticated technologies and a variety of transportation strategies.
- › The five biggest challenges facing merchants today include: transportation, scalability, inventory management, order processing speed & accuracy, profitability.
- › One-third of merchants outsource order fulfillment for ecommerce orders and more plan to do so.
- › The vast majority of those who currently use a 3PL (77%) plan to increase outsourcing.
- › Looking ahead, 69% of merchants plan to add sales channels in the next 12 to 18 months

*Continue reading the full report for more detail.*



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### Ecommerce Practitioner Profile

The research reflects the wide variety of businesses selling via online channels today. More than a third of respondents work for ecommerce companies, including omnichannel retailers, digitally native brands, and third-party marketplace sellers. Traditional retailers, wholesalers/distributors, manufacturers, subscription-based businesses, direct-selling companies and consultants also are represented.

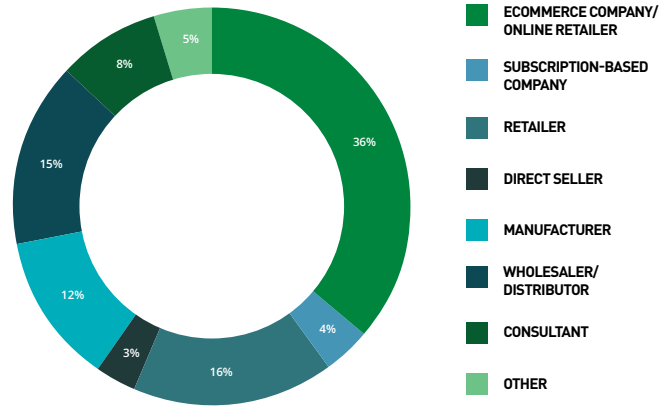
Respondents' companies span a variety of industries, including apparel/accessories (29%), consumer electronics (20%), health/beauty (18%), toys/hobbies/sports (15%), home improvement (13%) and more.

The data illustrates the expansion of [ecommerce for business-to-business \(B2B\)](#). While 31% of respondents sell direct-to-consumer (D2C), just over half (56%) ship products both B2B and D2C, and 13% sell exclusively B2B.

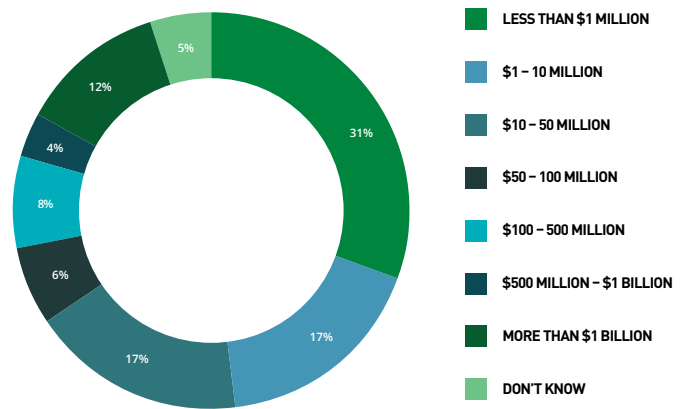
Companies of all sizes are selling online, with total annual revenue ranging from less than \$1 million to more than \$1 billion. Approximately two-thirds (65%) report revenue of \$50 million or less. The prevalence of smaller companies is to be expected as the relatively low barrier to entry makes ecommerce especially appealing for entrepreneurial activity.

While 19% of respondents' companies are relatively new to ecommerce (three years or less), the majority have significant experience with 60% involved in ecommerce for seven years or more.

Company Type



Total Annual Revenue



### ONLINE SALES CHANNELS

Today's merchants are utilizing a variety of online sales channels. Online stores/websites are, by far, the most common for respondents overall (87%). However, most respondents are embracing multiple ecommerce channels. In fact, just 14% of respondents utilize an online store exclusively.

A remarkable number are selling via newer channels, including third-party marketplaces such as Amazon and eBay (56%), social platforms like Facebook and Instagram (39%) and mobile apps (31%).

"With 70 percent of U.S. consumers frequenting social sites and recent reports of 112 million Amazon Prime members, it makes sense for merchants to target these audiences," says Perry Belcastro, senior vice president, fulfillment services, at Saddle Creek Logistics Services. "They offer the potential for increased sales volume with relatively minimal barriers to entry."

Channel usage varies by merchant type and size. Not surprisingly, ecommerce companies are most likely to expand beyond web stores. However, wholesalers/distributors aren't far behind in utilizing other online channels, particularly favoring third-party marketplaces. Manufacturers also gravitate toward marketplaces as well as social commerce.

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Smaller companies with less than \$50 million in revenue, also are more likely to utilize marketplaces and social commerce probably because there is lower cost to entry.

Traditional retailers appear to be slower to adopt additional online channels, perhaps needing to maintain focus on brick-and-mortar business. However, they, along with subscription-based companies and direct sellers, are most likely to sell through mobile apps.



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## How Fulfillment Operations are Handling Ecommerce

To accommodate the needs of a variety of ecommerce sales channels, fulfillment operations are becoming increasingly sophisticated. Merchants must take a variety of factors into account.

### DISTRIBUTION NETWORK CONFIGURATION

Nearly half of respondents (47%) utilize a [multi-node distribution network](#).

Small companies with less than \$1 million in annual revenue are more likely to utilize a single distribution center (86%) – understandable given their financial limitations. However, as revenue increases, it appears, so does the number of DCs. Two- to four-node networks the most common for larger companies.

Retailers are most likely to use one distribution facility (64%); however, 20% say they use more than 10 distribution nodes, perhaps signaling the use of retail stores as fulfillment centers.

Approximately three-fourths of wholesalers/distributors (78%) use a multi-node network, with a variety of network configurations.

Ecommerce companies, subscription companies and direct sellers could also benefit from expanding their distribution network, Belcastro says. “A multi-node network helps merchants to get closer to the end customer, move products through the supply chain faster and minimize transportation costs,” he explains. “This allows them to achieve competitive customer service using economy shipping options.”

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**TRANSPORTATION MANAGEMENT**

Efficient, cost-effective deliveries are a priority for respondents. Merchants are offering a variety of options in response to increasing consumer demand for free shipping. Free delivery with a minimum order is most common (57%), with the vast majority of retailers and ecommerce companies offering this option. These merchants are also most likely to provide free delivery on a promotional basis (i.e., during the holidays).

Approximately one quarter of respondents (24%) – primarily ecommerce companies and wholesalers/ distributors – offer free delivery for all orders.

Delivery speed also is a priority. More than half of respondents (55%) offer two-day service. It is worth noting that nearly all marketplace sellers offer two-day deliveries, no doubt focused on meeting the [requirements for Prime shipping](#).

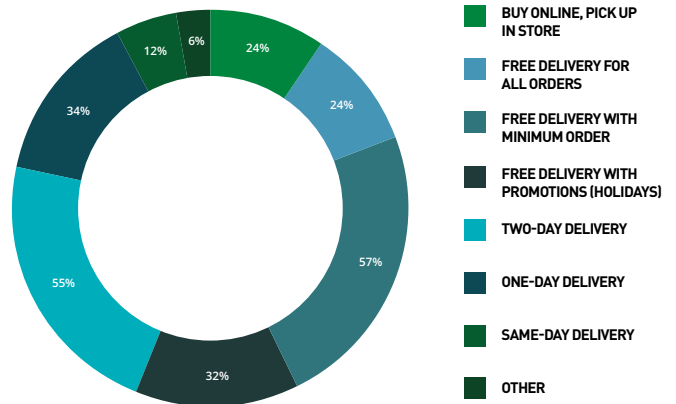
A surprising number already offer one-day (34%) and even same-day delivery (12%, the majority of whom are retailers).

Roughly half of retailers offer buy-online-pickup-in-store (BOPIS), leveraging their brick and mortar facilities to provide near immediate gratification for consumers.

Naturally, reverse logistics are a critical part of ecommerce with ease of returns widely recognized as essential for long-term customer loyalty. Almost half of all respondents (and an even greater percentage of retailers specifically) offer free returns and another 12% plan to do so in the next 12 to 18 months.

“With 20 to 30 percent of online orders returned, merchants need to master reverse logistics if they’re offering free returns,” Belcastro says. “They need to ensure that their information systems, distribution network and transportation capabilities are up to the challenge.”

Current Delivery Options Offered



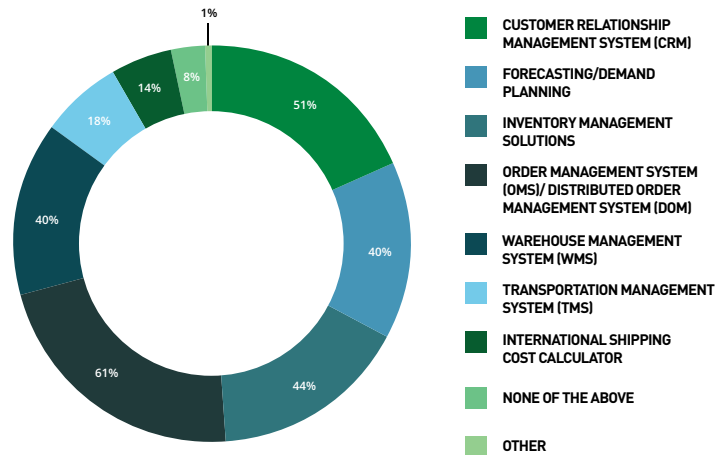
## TECHNOLOGY

To support ecommerce fulfillment operations, merchants are utilizing a wide variety of technology solutions. Well over half of respondents (61%) use an order management system (OMS) or distributed order management system (DOM). Customer relationship management systems (CRM) are also widely used (49%). Forecasting/demand planning (40%), inventory management solutions (44%) and warehouse management systems (40%) round out the top five technology solutions for respondents overall.

In general manufacturers and wholesalers/distributors have higher adoption rates for technology solutions, perhaps because these companies tend to have higher annual revenue.

“Robust technology is a virtual necessity today, thanks to the increasing complexity of ecommerce fulfillment operations,” Belcastro observes. “Merchants need a deeper understanding of their customers, better reporting and analysis, greater visibility over their operations, and the ability to pull from multiple fulfillment sources to provide the fastest, most economical service. Unfortunately, the required technology demands a substantial overhead investment.

Current Technology Solutions Used



## Popular Technology Solutions

- › **Customer relationship management system (CRM)** – Used to manage relationships and interactions with customers and potential customers.
- › **Forecasting/demand planning** – Helps to predict future demand based on past performance; often used in developing action plan.
- › **International shipping cost calculator** – Estimates the landed cost of international shipments.
- › **Inventory management solutions** – Used to track inventory across the supply chain.
- › **Order management system (OMS)/ Distributed order management (DOM)** – Optimize fulfillment by managing all aspects of an order’s lifecycle across a network of systems and processes using a single view of inventory, regardless of the number of sales channels or fulfillment locations.
- › **Transportation management system (TMS)** – Used to plan, execute and optimize the shipment of products.
- › **Warehouse management system (WMS)** – Designed to support and optimize warehouse functionality and distribution center management.

## Ecommerce Fulfillment Challenges

Overall, respondents view their ecommerce fulfillment operations quite favorably with 71% rating them “very good” or “excellent.” That being said, respondents do experience numerous challenges that impact ecommerce fulfillment operations. The top five include:

### 1. TRANSPORTATION

With so many companies offering fast, free shipping, it’s only logical that one-third of respondents view reducing delivery time and cost as one of their biggest challenges.

Transportation is the challenge most commonly identified by retailers and ecommerce companies and tied with scalability for top rank for manufacturers.

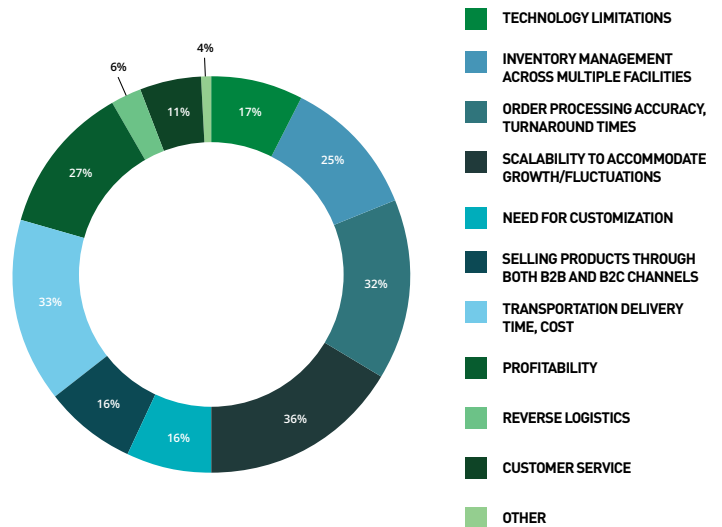
“We all know that someone has to pay for shipping,” Belcastro points out. “To offset rising delivery costs, merchants must reevaluate their transportation management practices. Establishing relationships with a variety of carriers, reconfiguring distribution networks and upgrading technology are just a few of the strategies that merchants can use to help control their freight costs.”

### 2. SCALABILITY

Overall, 36% of respondents cite scalability to accommodate growth/fluctuations as a major challenge. As noted, it is a top challenge for manufacturers and makes the “top three” for ecommerce companies, retailers and wholesalers/distributors.

“Adapting to the ebb and flow in ecommerce order volume requires flexible resources, including space, staffing and technology,” Belcastro says. “To be responsive to customer demand, merchants need to be prepared for peak order processing, even during slower periods.”

Biggest Ecommerce Fulfillment Challenges



### 3. ORDER PROCESSING SPEED & ACCURACY

Order accuracy and turnaround times challenge 32% of respondents, particularly ecommerce companies and wholesalers/distributors.

When asked which operational areas they’d most like to improve, 31% of respondents selected “order processing speed” while 20% chose “improving quality control.”

“When it comes to providing an excellent customer experience, merchants are recognizing that getting orders fulfilled quickly and accurately is table stakes. Continuous improvement methodologies like LEAN can improve processes and help uphold quality standards,” Belcastro says.



#### 4. PROFITABILITY

Profitability is definitely a pain point for ecommerce operations, with 27% of respondents rating it as one of their top challenges.

One key reason is rising fulfillment costs. More than half of respondents (53%) say their costs have increased in the past year. By far, the biggest reason they cite for the increase is the cost of shipping, closely followed by labor costs. Customer service, the current competitive landscape and inventory costs also are concerns.

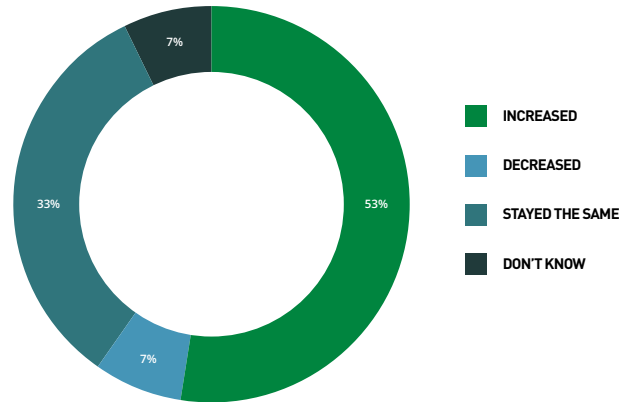
#### 5. INVENTORY MANAGEMENT

Managing inventory across multiple facilities poses difficulties for 25% of respondents overall, rating fourth among manufacturers specifically.

This issue is closely tied to technology limitations, cited as a top challenge by 17% of respondents overall and particularly vexing for retailers. Merchants are especially looking for ways to improve inventory availability/visibility as well as reporting and analysis for their ecommerce fulfillment operations.

These concerns signal a need for more sophisticated technology, Belcastro says. An OMS can be particularly valuable for companies [selling through multiple channels](#).

Change in Fulfillment Costs in Past Year



## Ecommerce Fulfillment Outsourcing

Nearly one-third of respondents (29%) outsource order fulfillment for ecommerce orders. In addition, 21% of those who do not currently outsource plan to begin outsourcing in the next 12 to 18 months.

Interestingly, companies of all sizes utilize third-party providers. Those with \$1 million to \$100 million in revenue are slightly more likely to outsource. This suggests that they have reached the point at which they need to expand their fulfillment capabilities but do not have the financial resources or expertise to do so in-house.

Approximately two-thirds of respondents handle fulfillment in-house. They say they choose not to outsource because they have sufficient resources and experience internally (46%), believe it is less costly to handle themselves (32%) or feel their company is too small to do so (18%).

### OUTSOURCING PRACTICES

Of those who outsource, 36% look to their 3PL to handle all of their ecommerce fulfillment while 61% manage some fulfillment in-house and outsource the rest to one or more providers.

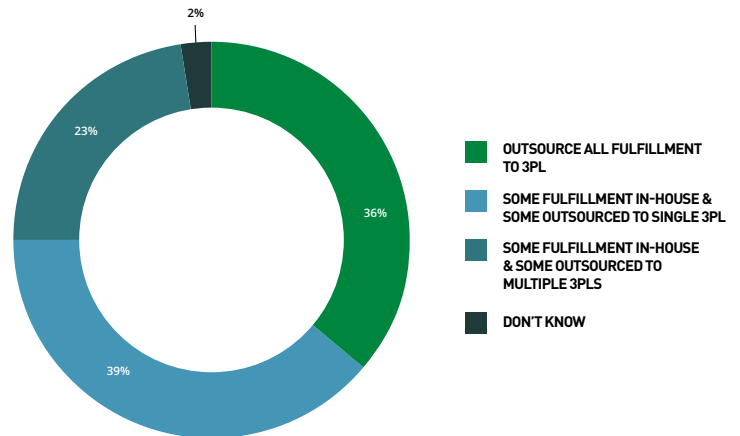
Ecommerce companies and manufacturers are more likely to outsource all of their fulfillment. This may be because traditional retailers and wholesalers/distributors tend to have more complicated supply chains.

Those who opt to outsource a portion of their ecommerce fulfillment may ask their third-party provider to handle a particular subset of their product line – heavy or bulky items or those requiring customization, for example.

Respondents outsource a wide range of services. The most frequently used capabilities include:

- › Pick/pack/ship (59%)
- › E-commerce website development and hosting (41%)
- › Marketplace fulfillment – i.e., Fulfillment by Amazon (36%)
- › Call center/customer service (27%)
- › Returns processing (25%)
- › Parcel management and carrier negotiation (16%)
- › Packaging (18%)

Current Ecommerce Outsourcing Practices



77% of those who now use a 3PL plan to increase outsourcing in the next 12 to 18 months.

Third-party providers get high marks, with 75% of respondents rating their provider as “excellent” or “very good.” Even more telling, 77% of those who now use a 3PL plan to increase outsourcing in the next 12 to 18 months.

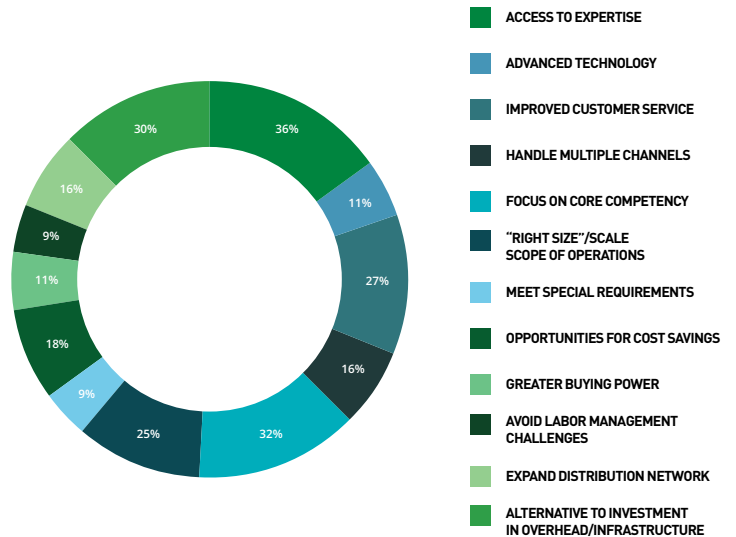
**ADVANTAGES OF OUTSOURCING ECOMMERCE FULFILLMENT**

Respondents identify a wide range of benefits of outsourcing. They find greatest value in having access to their 3PL's expertise (36%), the ability to focus on their core competency (32%), having an alternative to investing in overhead/infrastructure (30%), improved customer service (27%), having the ability to "right size" or scale their scope of operations (25%) and opportunities for cost savings (18%).

"Merchants are often surprised to discover that their fulfillment provider can help them to control costs and reduce capital expenditures," Belcastro says. "They can leverage their 3PL's resources, buying power and continuous improvement initiatives and benefit from their expertise and best practices."

Belcastro points out that outsourcing also can help to address many of the other fulfillment challenges outlined earlier, including the need for scalability, faster order cycle times, transportation management and quality control. Experienced 3PLs will have the space, staff, technology and expertise to support merchants' ecommerce fulfillment needs.

**Biggest Advantages of Outsourcing**



## Moving Forward

The survey data helps to illustrate how ecommerce will shape fulfillment practices going forward.

### CHANNEL EXPANSION

Looking ahead 12 to 18 months, 69% of respondents plan to add additional sales channels.

Social commerce (26%) and third-party marketplaces (23%) are the most widely planned channels, as might be expected given the size and scope of the potential target market, as discussed earlier.

Perhaps most surprising is that 18 percent of respondents plan to add a brick-and-mortar retail store.

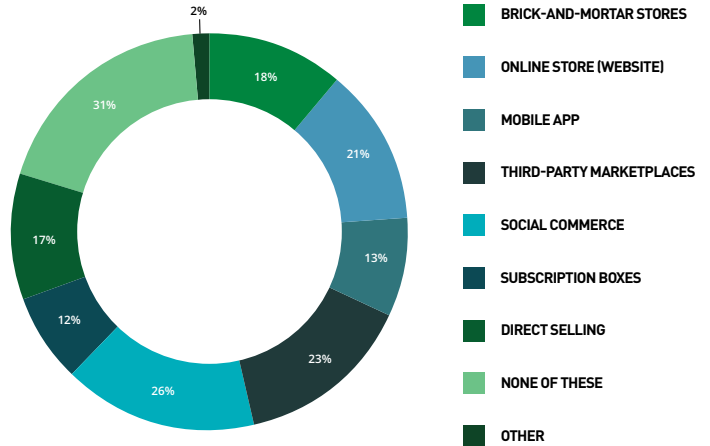
“Merchants may be interested in physical retail space to enhance their presence offline – giving consumers the opportunity to experience their products firsthand,” Belcastro says.

Adding a direct-selling (multi-level marketing) channel is on the agenda for a number of respondents, particularly wholesalers/distributors.

Ecommerce companies appear to be exploring a full range of options. Roughly a third plan to add a social sales channel. They are also most likely to add a subscription channel.

“The subscription model intrigues merchants because it gives them a new way to sell existing products and generate a steady revenue stream,” Belcastro says. “However, it’s important to note that there are significant differences in the [fulfillment requirements for subscription boxes](#). You simply can’t handle them in exactly the same way you treat standard ecommerce orders.”

New Sales Channels Planned within 12 — 18 Months



Looking ahead 12 to 18 months, 69% of respondents plan to add additional sales channels.



### IMPROVING DELIVERY OPTIONS

When asked to identify the “next big thing” in ecommerce fulfillment in the next 12 to 18 months, nearly one-third of respondents’ predictions were related to fast and/or free deliveries. In fact, 17 comments specifically mentioned “same-day shipping.”

With fast, free delivery top of mind, it’s only logical that many respondents are planning changes to improve delivery options in the next 12 to 18 months. Over half (51%) are upgrading technology to improve delivery, with retailers and wholesalers/distributors leading the charge.

New delivery options are in the works for 40% of respondents. Free delivery on all orders is in the plans for 16% of respondents (all of whom are ecommerce companies and wholesalers/distributors).

Marketplace sellers are most likely to add new delivery options (especially free delivery) and offer drop shipments from vendors. Digitally native brands are likely to add two-day delivery and upgrade their technology.

Some respondents intend to offer same-day delivery (13%).

While enhancing delivery options is certainly laudable, Belcastro cautions against attempting to compete head-to-head with industry giants like Amazon. “Shipping every order at no cost and/or with expedited service is simply not economical for most merchants. Make sure the cost of that service is warranted by customer demand,” he says. “Whatever your shipping strategy, make sure you can execute it consistently and at a manageable cost while keeping your customers happy.”

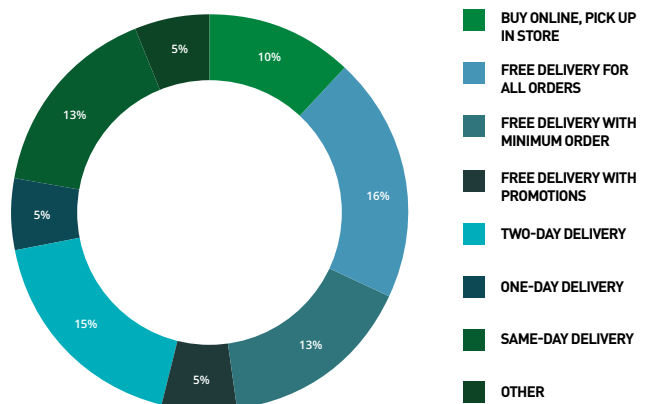
Other plans include changing or expanding distribution network configuration (20%) and offering drop shipments from vendors (21%), both of which can help to increase delivery speed.

Just 14% of respondents say they plan to focus on parcel management. This could be a serious oversight, Belcastro says. “With ecommerce growth driving parcel delivery costs through the roof, merchants need to better understand – and manage – the key factors that contribute to these costs,” he explains.

Parcel analytics software can help high-volume shippers identify opportunities to increase efficiencies and better manage parcel spend. Rate shopping, using multi-carrier shipping software, can give merchants the ability to offer consumers faster shipping at a more economical price instead of simply sending all their packages via an express/air service.

Another shortfall, Belcastro points out, is the lack of focus on postponement strategies. With just 4 percent of respondents planning to delay product configuration/customization, merchants may be overlooking an important opportunity to improve the customer experience. “Moving product customization closer to the consumer allows merchants to be more responsive to customer demand,” he says.

**New Delivery Options Planned within 12 – 18 Months**



### INCREASED ADOPTION OF TECHNOLOGY

More than half of respondents overall (54%) plan to add technology solutions in the next 12 to 18 months.

An OMS/DOM is the most widely planned technology solution – on the docket for 23% of respondents.

“An OMS can be a valuable tool for most ecommerce fulfillment operations,” Belcastro says. “It gives merchants the ability to view inventory across multiple fulfillment sources, share information with consumers, support a variety of delivery options and manage a high volume of returns and exchanges.”

Material handling mechanization/automation technologies (such as robotics, sortation systems, pick to light, voice pick, etc.) also are on the wish list for many respondents. When asked to identify the “next big thing” in ecommerce fulfillment in the next 12 to 18 months, a number of them mentioned improving automation.

A CRM system is the most common item on the list for retailers and manufacturers with a WMS in the works for a number of the latter.

Wholesalers/distributors plan to adopt a range of technologies, with inventory management systems planned most widely. They are also more likely than other merchants to add an international shipping cost calculator.

Ecommerce companies anticipate adding a variety of technologies – forecasting and demand planning, inventory management solutions, CRM systems, and order management systems (OMS).

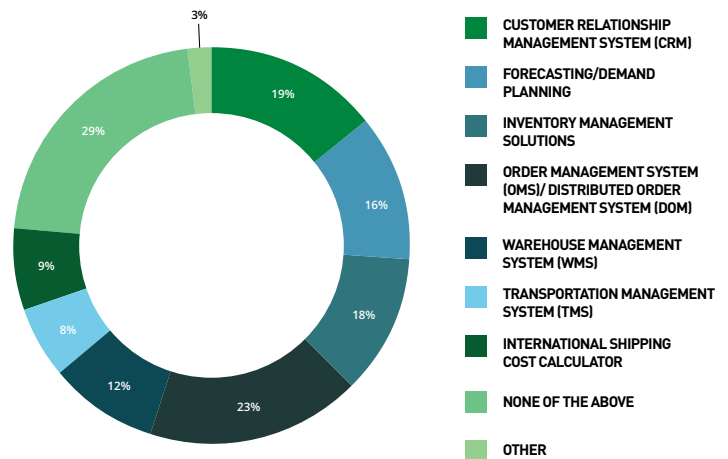
Digitally native brands, in particular, require CRM software to help compile and organize the data they need in order to personalize communications with customers. An OMS can help to improve visibility and route and process orders faster.

Artificial intelligence was most widely predicted to be the biggest source of innovation with mentions by 29% of respondents.

“Moving forward, we expect to see the continued blurring and expansion of sales channels and even greater complexity and velocity of fulfillment operations as a result,” Belcastro suggests. “Solutions will require careful process engineering, greater scalability, more sophisticated technology and on-demand customization. It also will be important to explore opportunities to use innovative technologies, such as AI and robotics as well as labor management technology and KPI analytics, where they can add value cost effectively. Companies that focus on continuous improvement are most likely to thrive.”

With U.S. online retail sales projected to reach close to [\\$600 billion in 2024](#), the only thing certain, is the continued growth and refinement of ecommerce fulfillment solutions.

**New Technology Solutions Planned within 12 – 18 Months**





## About Saddle Creek Logistics Services

Saddle Creek is an omnichannel supply chain solutions company providing a variety of integrated logistics services, including omnichannel fulfillment, warehousing and transportation. We help retailers, ecommerce companies and manufacturers get products where they need to be quickly, cost-effectively and seamlessly.

Learn how our solution-based, data-driven approach can help to meet your specific business goals.

### SERVICE EXCELLENCE

Since 1966, we've been driven by strong core values and a keen sense of entrepreneurial responsiveness. We optimize performance by focusing on key areas:

- › Solution Design
- › Systems Integration
- › Business Delivery
- › Continuous Improvement

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