SHIPENGINE®

Ecommerce Delivery Benchmark Report 2023

RESILIENCE THROUGH RECESSION

AUCTANE RetailEconomics

ABOUT AUCTANE

This research was conducted by Auctane, a family of brands offering shipping and logistics technologies. Auctane products serve businesses of all sizes all around the world, from small businesses right through to enterprise retailers. No matter the size, we help online sellers around the world with their mailing, shipping and logistics needs. Each year, 3 billion orders are processed using Auctane products.

Great shipping experiences leave a lasting impact. Today's consumers want faster, cheaper, and more transparent shipping practices, and they favour businesses that rise to the occasion. We won't rest until every company has the tools they need to delight their customers, whether down the street or across the globe.

THE AUCTANE FAMILY OF PRODUCTS

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INDEX

ABOUT RETAIL ECONOMICS

Retail Economics is an independent economics research consultancy focused on the consumer and retail industry. They analyse the complex retail economic landscape and draw out actionable insight for their clients. Leveraging their own proprietary retail data and applying rigorous economic analysis, Retail Economics transforms information into points of action.

Retail Economics' service provides unbiased research and analysis on the key economic and social drivers behind the retail sector, helping to inform critical business decisions and giving you a competitive edge through deeper insights.

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METHODOLOGY

Consumer surveys were undertaken in November 2022 and include answers from a sample of more than 8,000 nationally representative consumers across the UK, USA, Canada, Australia, Germany, France, Italy and Spain. Economic modelling and retail sales forecasts are based on proprietary Retail Economics data and official national statistics.

Participants

TOTAL

8,000+

US | UK | Canada | Australia

Germany | France | Italy | Spain

INTRODUCTION

For the retail industry at large, the challenges continue. Global economic uncertainty combined with ongoing geopolitical tension means that 2023 is set to be yet another tough year for the sector.

84% of consumers are concerned about the outlook for the economy

Faced with high inflation, interest rate hikes and rising living costs, consumer behaviour is being thrust under the spotlight as shoppers re-evaluate their priorities and become more value-focused, putting brand loyalties to the test. Indeed, 84% of consumers are concerned about the outlook for the economy and their personal finances over the year ahead, with inflation the top concern.

Demand-side pressures are only half the story for the retail sector, as rising borrowing costs, labour shortages, supply disruption and Environmental, Social and Governance (ESG) concerns collide with the constant need to innovate and provide exceptional customer experiences. Around 4 in 10 small retailers suggest that rising costs will be the main challenge throughout 2023 as ongoing supply chain pressures take their toll.

While storm clouds gather over the sector, the silver lining is that many retailers and brands are better prepared to respond to the obstacles that lie ahead. The tumultuous years of the pandemic forced companies to react quickly by pivoting business models; gain greater control over supply chains; and establish more direct and meaningful relationships with customers.

This research explores the impact of inflationary pressures and changing consumer behaviours over the year ahead, including quantifying the impact on specific retail markets to show how opportunities and challenges vary by region, sector and individual shopper cohorts.

The report is divided into three main sections:

1. **Global retail and consumer landscape**

   An overview of the macro forces and inflationary pressures facing consumers and how this will impact the performance of retail markets.

2. **Key online delivery trends in 2023**

   Explores shifting shopper behaviours and five key trends that will shape ecommerce over the year ahead.

3. **Strategies for success in a downturn**

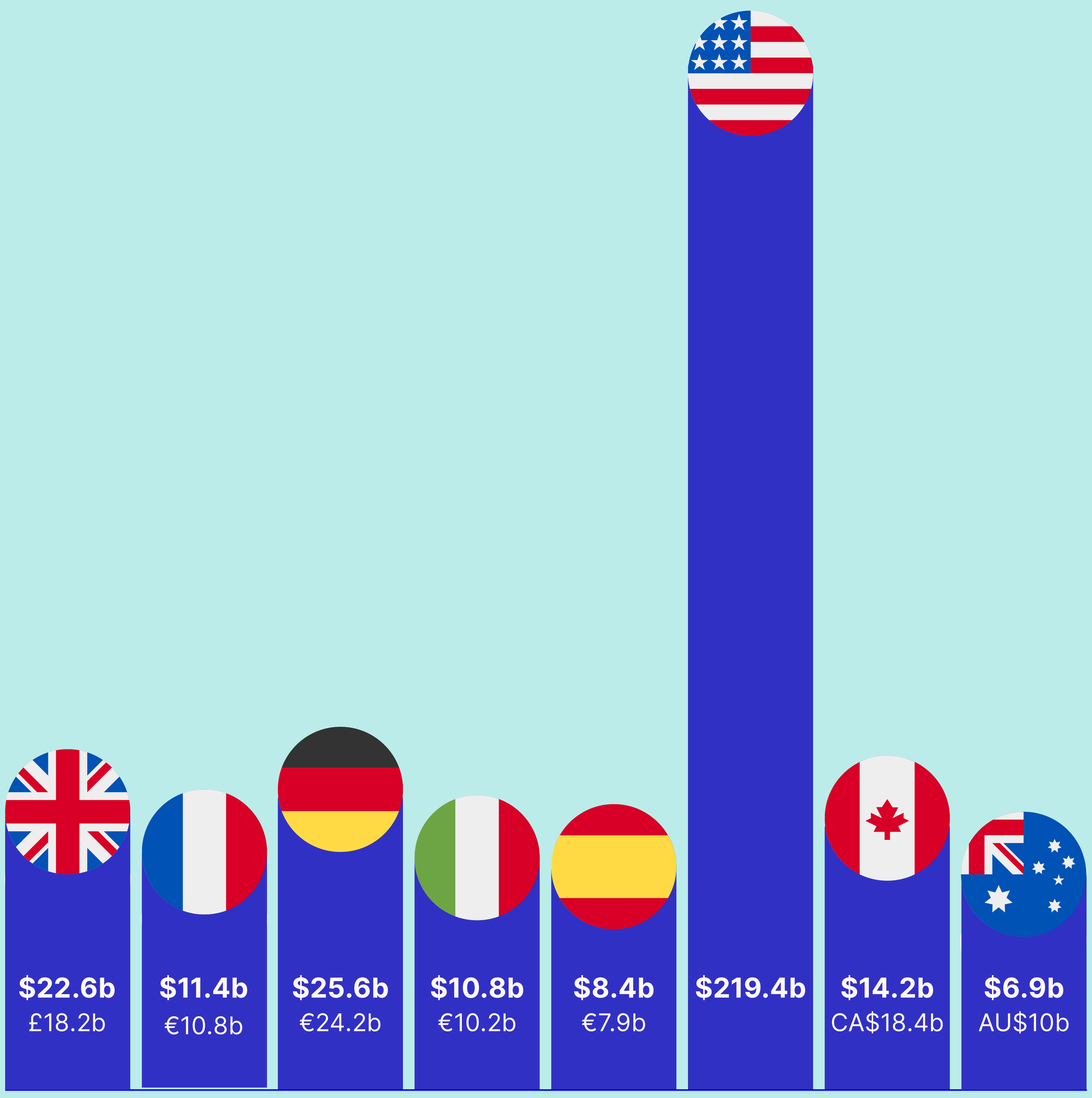
   Key strategies for retailers to 'recession-proof' their business models and navigate the economic pressures that await in 2023.

Insights within this report are crucial for retail brands and retail related organisations to better understand and navigate the consumer crunch as it unfolds.

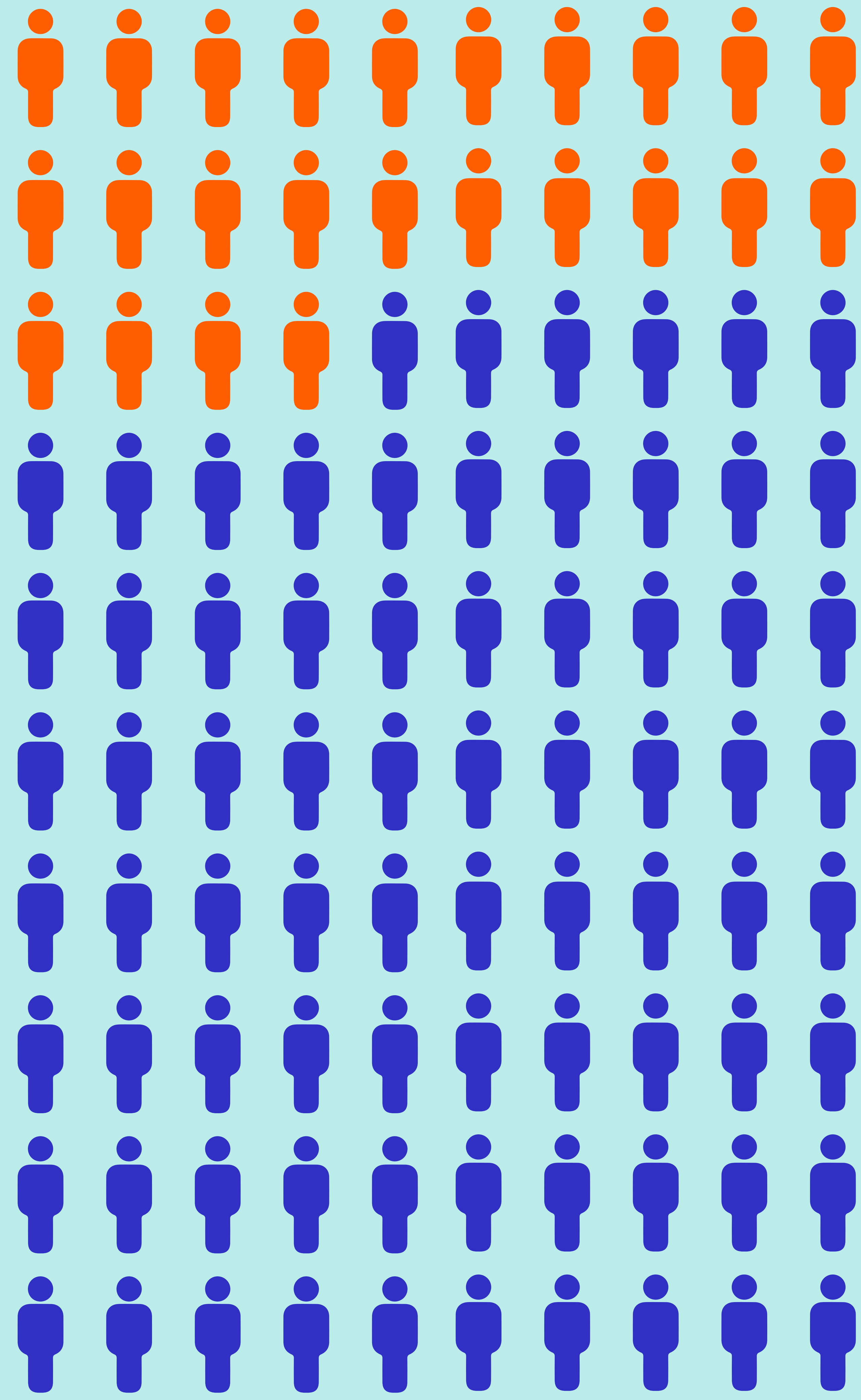
KEY FINDINGS

US$319b

IMPACT OF INFLATION FOR GLOBAL CONSUMERS



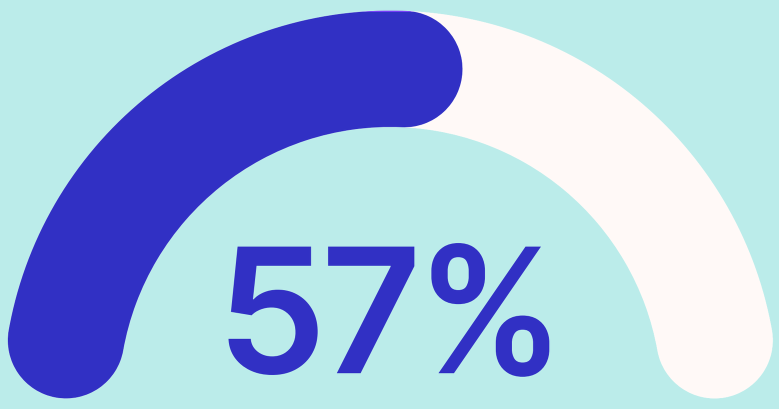
EXPECTED IMPACT BY COUNTRY



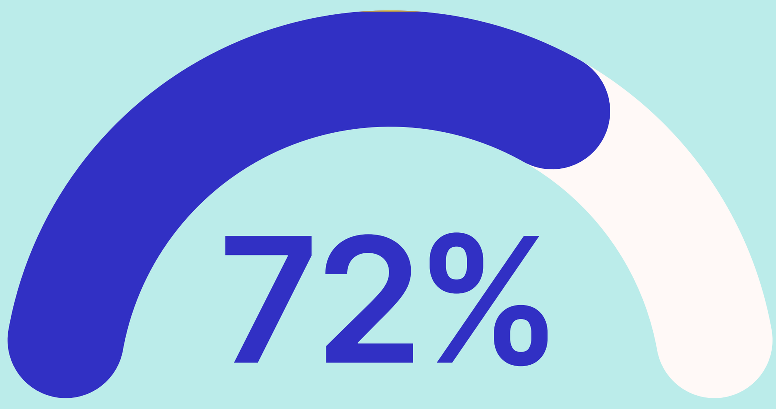
% WILLING TO PAY FOR RETURNS

- Yes, willing to pay for returns
- No, returns should always be free

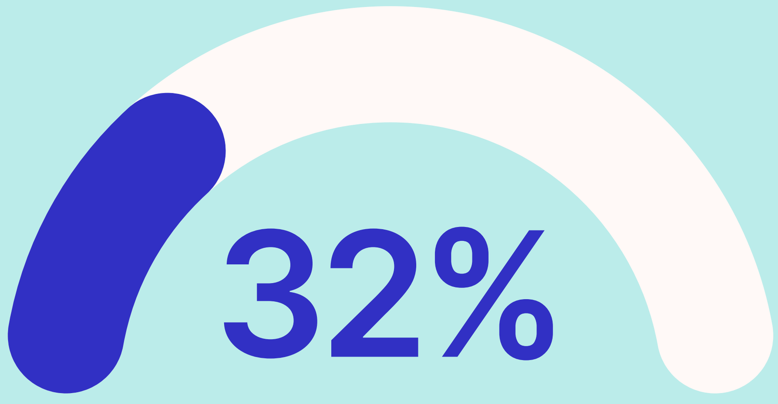
In 2023, only 23% of consumers are willing to pay for the returns, 4% less than in 2022. Consumers increasingly expect free returns, even as online sellers move to recoup their cost.



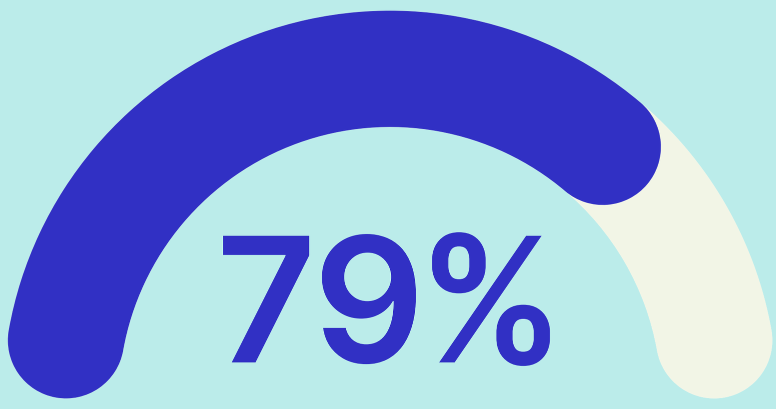
are worried about inflation. It is the biggest concern for consumers in the year ahead.



plan to change their buying behaviour as a result. Even the most affluent are affected, with 61% planning to switch up their habits.



of consumers value delivery cost over speed and convenience. This is a 5% rise on last year.



would consider sustainable delivery options, while only 7% are willing to pay more for them.

Source: Auctane, Retail Economics

SECTION 1: GLOBAL RETAIL AND CONSUMER LANDSCAPE

Focuses on the outlook for consumers and retail in 2023, economic challenges, regional differences and sales expectations – and quantifying the impact of inflation.

ECONOMY AT A TIPPING POINT

Many advanced economies worldwide are facing an economic tipping point. The combination of decade-highs in inflation, rising geopolitical tension and spiralling interest rates has hit consumer confidence hard. Households are facing an intense squeeze on personal finances as the rise in the cost of living outpaces earnings growth. This has forced many to cut back across all parts of their expenditure.

Central banks have tightened their grip on monetary policy with aggressive interest rate hikes being implemented by the Federal Reserve System (Fed), Bank of England (BoE) and European Central Bank (ECB) in a bid to temper rising prices and prioritise financial stability. While each market faces its own nuances, they all face a careful balancing act of dousing inflationary flames without extinguishing economic growth.

Whether or not recession is avoided, retailers must be prepared for a consumer downturn in 2023 as a more cautious approach to discretionary spending is adopted amid economic pressures and rising societal uncertainty.

Across all the major markets included in the research[1], 4 in 5 (84%) consumers are concerned about the outlook for the economy and their personal finances over the year ahead, with inflation the top concern.

1: UK, US, Germany, Italy, Spain, France, Canada, Australia

However, these concerns are not necessarily reflected by small retail businesses, many of which remain optimistic about trading prospects in 2023. Interestingly, more businesses hold a positive rather than negative view regarding the economy, and only 20% anticipate weaker consumer demand over the year ahead.

There are reasons for optimism. The underlying strength of the labour market combined with excess household savings from the pandemic mean that conditions are very different from the 2008 financial crisis, and any potential recession is expected to be relatively short and shallow in comparison.

> **"We will have to work harder to keep and acquire new customers."**
>
> THE PRINT HUB

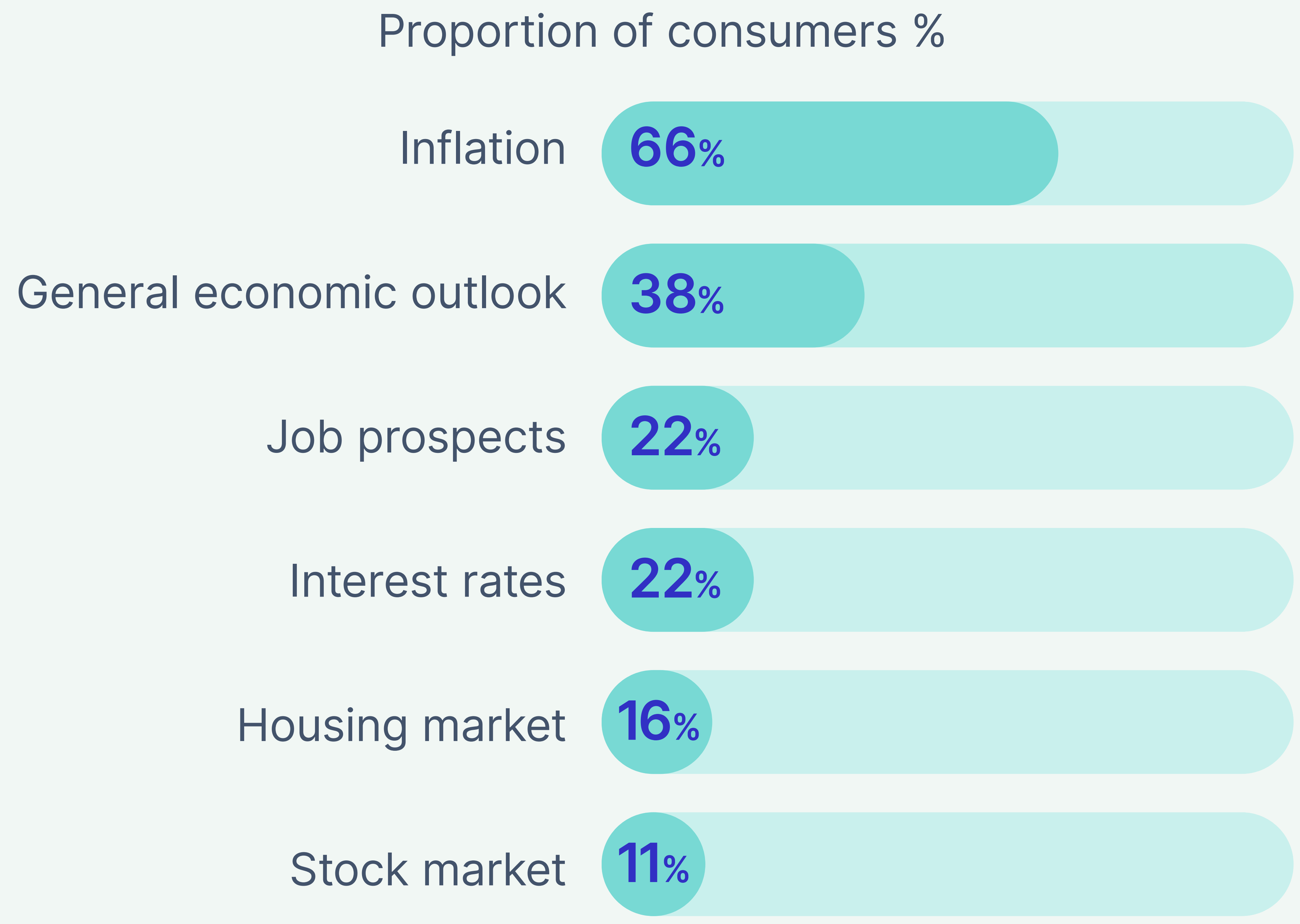
What's more, the industry is now comprised of more resilient businesses having survived the Covid upheaval.

Many retailers have invested heavily in their online proposition and have integrated more flexible operational approaches which enables them to better cope with oncoming recessionary challenges. The feeling of robustness and increased control has injected much optimism into the equation, following an unprecedented period of disruption.

That said, supply-side pressures remain a concern. Faced with a triple threat of inflation, labour shortages and ongoing supply disruption, 40% of businesses see rising costs as the main challenge to their operations in 2023.

Fig 1: Consumers are concerned about the outlook for the economy

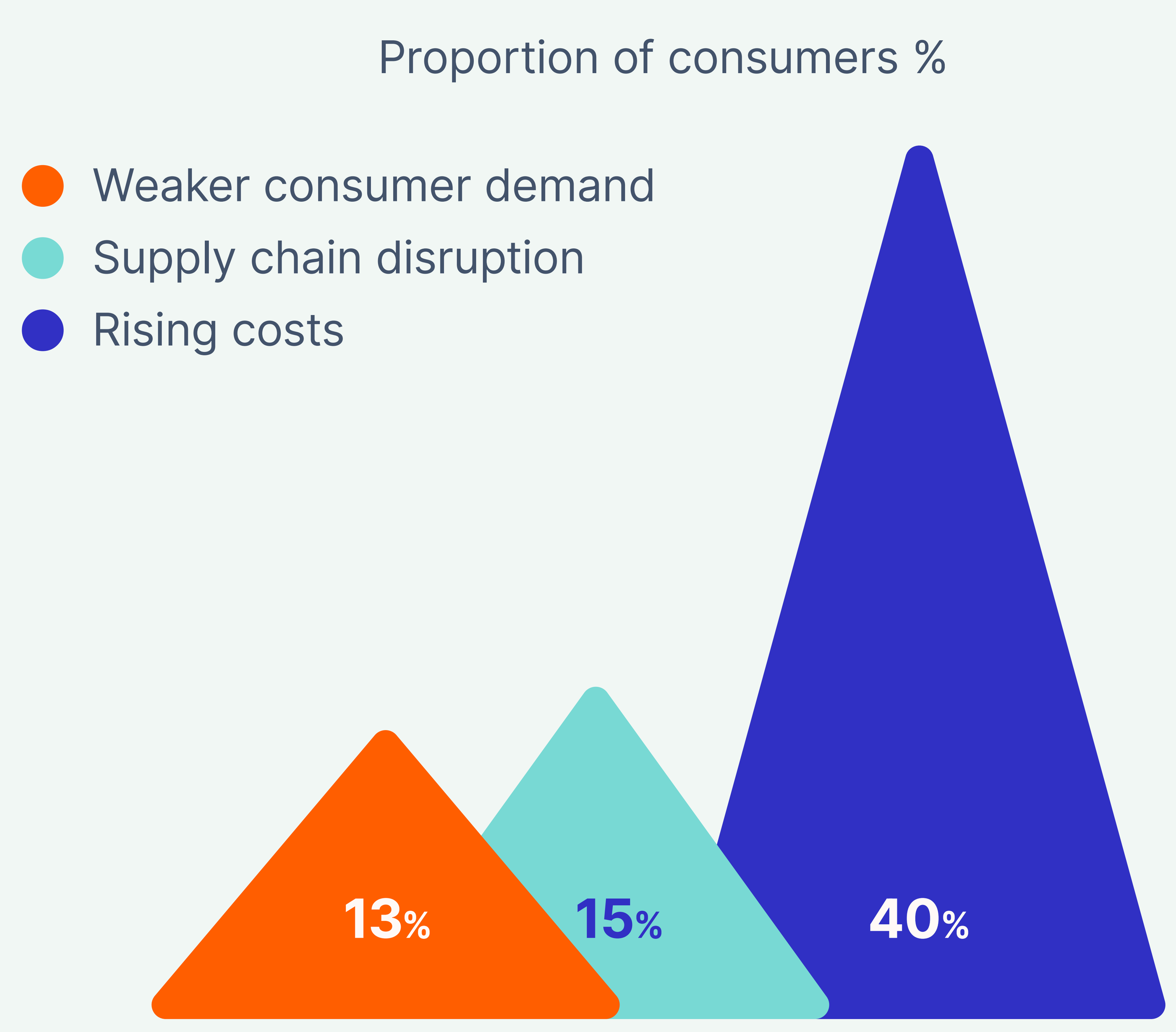
Q. Thinking about the economy and your personal finances, what are you concerned about over the year ahead?



Source: Auctane, Retail Economics

Fig 2: Retailers concerned by rising costs and supply side pressures

Q. Which of the following do you see as the main challenges to your business performance and growth prospects in 2023 (top 3)?



Source: Auctane, Retail Economics

REGIONAL VARIATIONS

The economic outlook varies widely by country, impacting the likelihood and severity of any consumer downturn. Australia and the US are set to be the most resilient consumer markets in 2023, coming out on top in our Shopper Sensitivity Scorecard – a ranking of key developed markets based on a combination of consumer sentiment and official economic benchmarks (Fig. 3).

Fig. 3: Europe most at risk of consumer downturn in 2023. Shopper Sensitivity Scorecard

	SHOPPER SENSITIVITY SCORE (out of 100)	CONSUMER SENTIMENT Concerned, % of respondents					MACRO OUTLOOK 2023 Forecast, %				
		INFLATION	ECONOMIC OUTLOOK	WAGES & UNEMPLOYMENT	INTEREST RATES	CONSUMER SENTIMENT SCORE	INFLATION	ECONOMIC OUTLOOK (GDP)	UNEMPLOYMENT	INTEREST RATES	MACRO SCORE
1. Australia	39	54%	29%	21%	26%	44	4.5	1.9	3.5	3.1	34
2. USA	45	64%	38%	19%	23%	57	3.5	0.5	4.2	3.7	34
3. Canada	57	58%	31%	23%	25%	63	4.1	1.0	5.7	3.6	51
4. Spain	57	50%	36%	29%	8%	61	4.8	1.3	12.9	2.3	53
5. France	58	56%	25%	24%	9%	52	5.8	0.6	7.7	1.9	64
6. Germany	60	67%	27%	19%	12%	49	8.0	-0.3	3.5	1.4	72
7. Italy	64	45%	31%	26%	11%	53	6.5	0.2	8.3	3.5	75
8. UK	69	66%	38%	22%	22%	72	6.6	-0.4	4.3	2.5	66

High score = high vulnerability.

Source: Auctane, Retail Economics

Europe will be hardest hit by a consumer downturn in 2023

Although growth is slowing, Australia and North America are better insulated from escalating energy costs and the economic aftershock from the Russia-Ukraine conflict, with inflationary pressures significantly lower than those in Europe. US households are also less affected by the rapid rise in mortgage rates due to the widespread prevalence of 30-year fixed-rate loans.

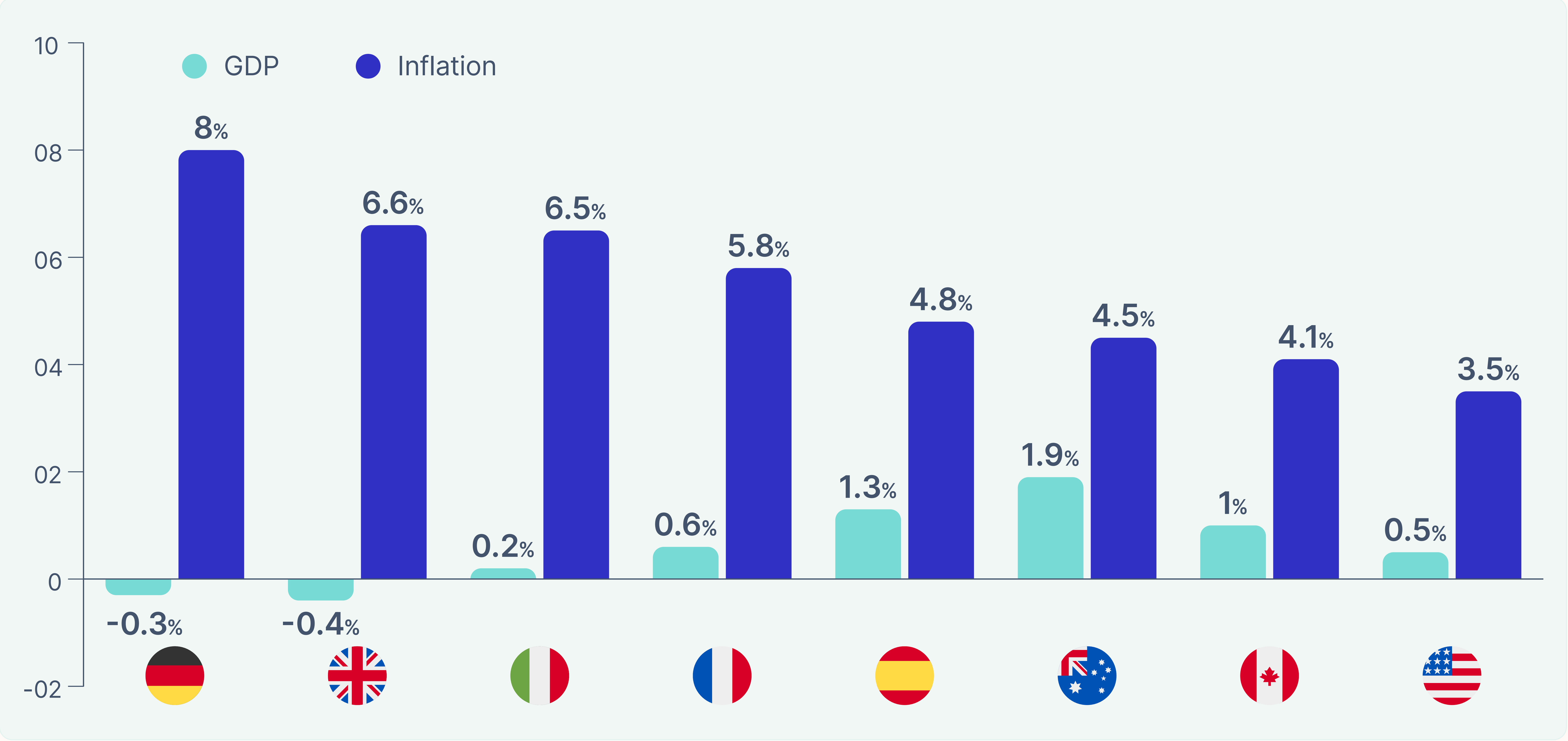
Three quarters of merchants in North America expect the same or better trading conditions in 2023 than 2022, compared to only 57% for those operating in Europe.

The research shows that Europe will be hardest hit by a consumer downturn in 2023, as the cost-of-living crisis unfolds. Faced with escalating bills and rising interest rates, consumers are even more pessimistic about the economy and personal finances than at the height of the pandemic.

Growth prospects are especially gloomy in the UK, Italy, and Germany, where inflation remains stubbornly high, putting these markets at high risk of recession in 2023. Understanding these regional variations in consumer outlook is key to identifying pockets of growth and adapting strategies to suit specific market conditions.

Fig 4: Consumers are even more pessimistic than during the pandemic

GDP & inflation forecasts by market



Source: OECD, November 2022

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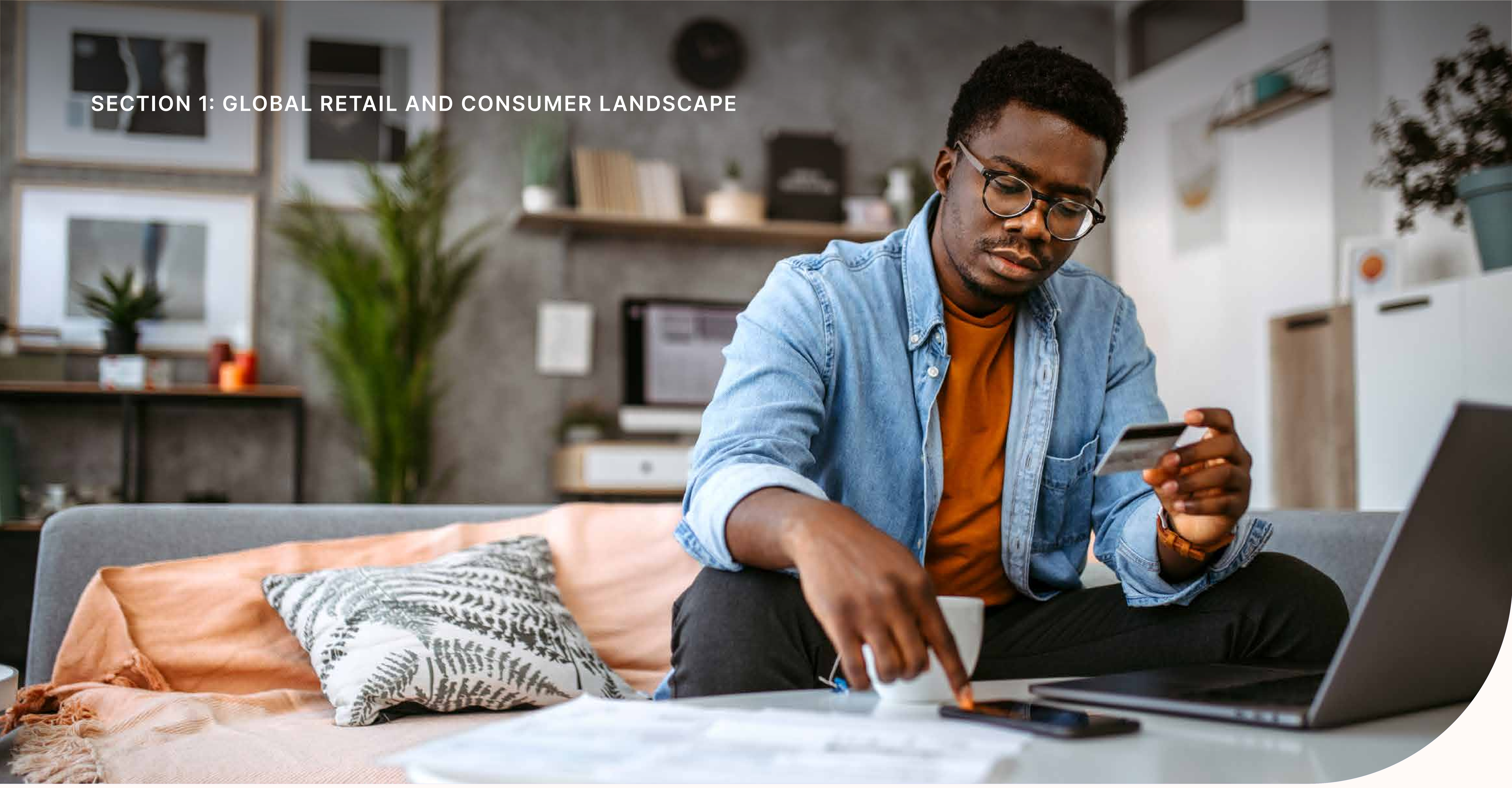


RETAIL SALES FORECASTS

As high inflation impacts discretionary spending, growth prospects for the retail industry in 2023 will be characterised by the widening gap between sales values and volumes. In other words, consumers will be 'spending more but getting less'.

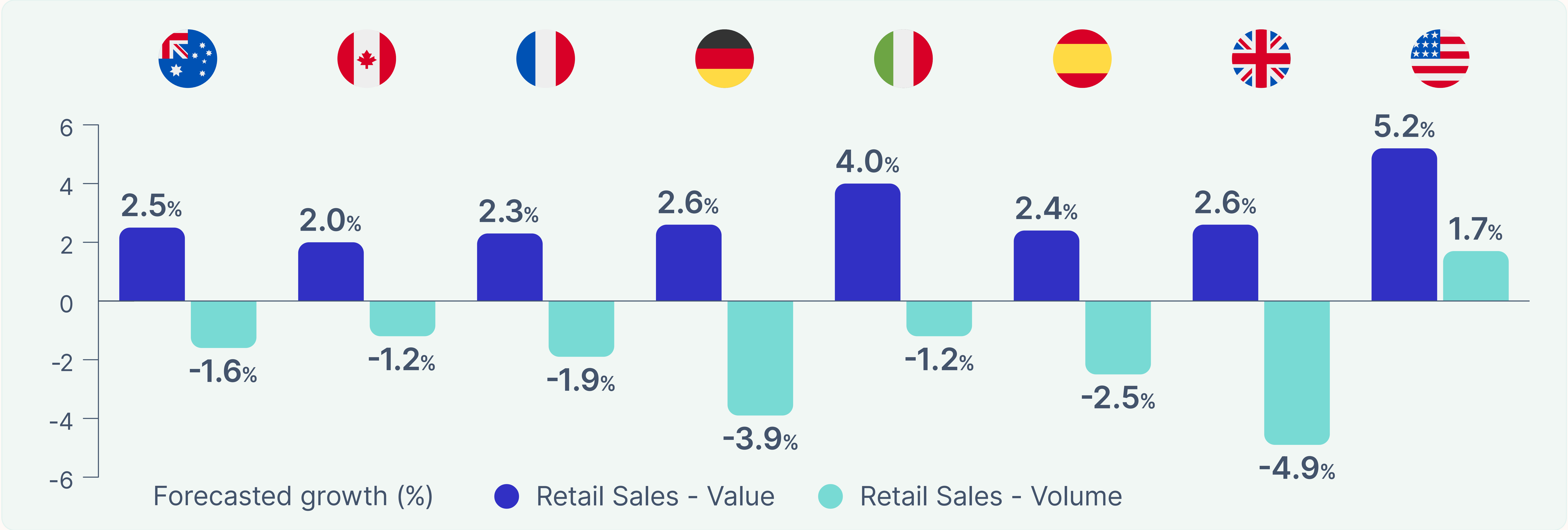
Steep price rises will lift retail sales in value terms, flattering top-line performances, but will overlook the reality of fewer purchases as consumers cut back on non-essentials from squeezed budgets.

This will be most evident across European markets. Retail Economics forecasts non-food sales across major European markets to total US$1.38 trillion in 2023, up 2.7% in value terms.

However, this reflects higher prices rather than an actual increase in the quantity of goods people are buying. Almost 80% of small retail businesses surveyed plan to increase their prices in 2023, as they pass on higher costs to consumers.

Fig 5: Forecasts reflect higher prices rather than higher volumes of goods bought

Non-food retail sales growth 2023 forecast.



Source: OECD, November 2022

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After stripping out the impact of inflation, European retail sales volumes will decline by 3.2% on average. In other words, households in the European markets we cover in the research[2] will have to spend an additional €74bn compared with last year to acquire exactly the same quantity of goods.

For example, in the UK, non-food retail sales are forecasted to increase from £242.7bn to £248.9bn in 2023 – an increase of £6.2 bn or 2.6% in value terms. However, inflation alone is set to average 7.5%, adding £18.2bn to 2023 retail sales. This means that the increase in retail sales expected for 2023 reflects a rise in prices rather than an actual increase in the quantity of goods purchased. As a matter of fact, while sales value will increase by 2.6%, inflation will also rise (by 7.5%), resulting in a 4.9% decline in retail sales volume.

The US is the only market where retail sales are expected to increase in both value and volume terms in 2023, reflecting stronger discretionary spending power of consumers and more moderate inflation comparatively.

> **"I expect to see a more significant decrease in sales in 2023 because of current inflation, high costs of fuel, cost of living increases, and prices of product in general."**
>
> BLANCO CREEK BOUTIQUE

Fig 6: 2023 retail sales forecasts and inflation impact

	RETAIL SALES, billions		VALUE GROWTH, %	RETAIL INFLATION 2023 %	INFLATION IMPACT, billions	VOLUME GROWTH, %
	2022	2023				
UK	£242.7	£248.9	2.6%	7.5%	£18.2	-4.9%
France	€257.9	€263.9	2.3%	4.2%	€10.8	-1.9%
Germany	€372.0	€381.6	2.6%	6.5%	€24.2	-3.9%
Italy	€195.5	€203.3	4.0%	5.2%	€10.2	-1.2%
Spain	€161.6	€165.4	2.4%	4.9%	€7.9	-2.5%
USA	$6269.4	$6595.0	5.2%	3.5%	$219.4	1.7%
Canada	C$573.4	C$584.9	2.0%	3.2%	C$18.4	-1.2%
Australia	A$243.0	A$249.0	2.5%	4.1%	A$10.0	-1.6%

Source: Auctane, Retail Economics

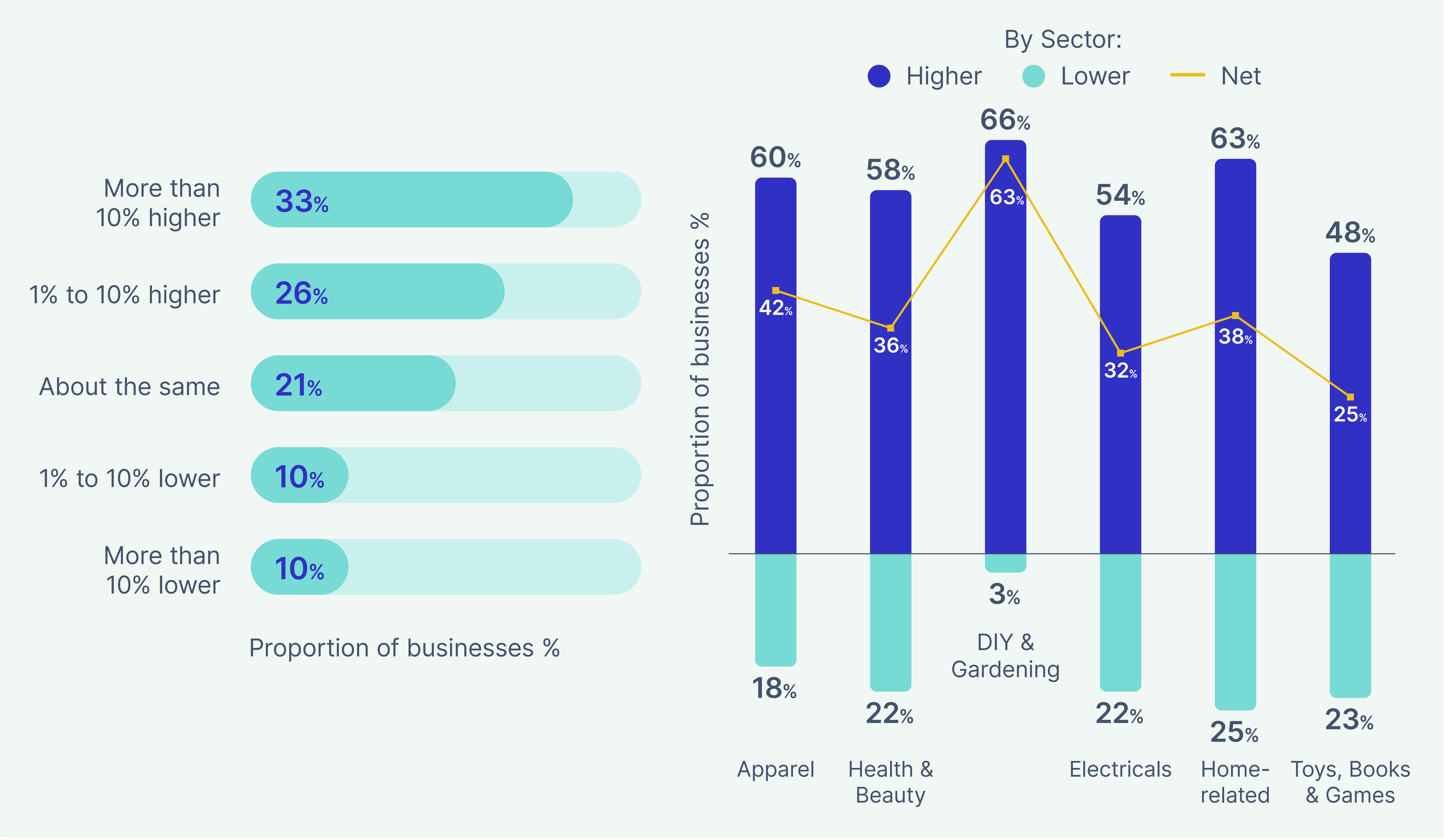
2: UK, France, Germany, Italy, Spain, US, Canada, Australia ($m)

MERCHANT SALES EXPECTATIONS

Consumer sentiment and economic projections are generally at odds with small retailers' expectations for the year ahead. Of those small enterprise retailers surveyed, 80% expect order volumes to be the same or higher (59%) in 2023, with a third anticipating order volumes to be 10% higher or more.

Across all non-food categories, retailers are expecting an increase in the volume of trade this year compared to last year. DIY & Gardening merchants are most upbeat, with a net 63% of businesses in this category expecting a rise in trading year-on-year. The Toys, Books & Games category is the most pessimistic overall, but a quarter (25%) still expect higher volumes compared to last year.

Fig 7: What are your expectations for order volumes for 2023 compared to 2022?



Source: Auctane, Retail Economics

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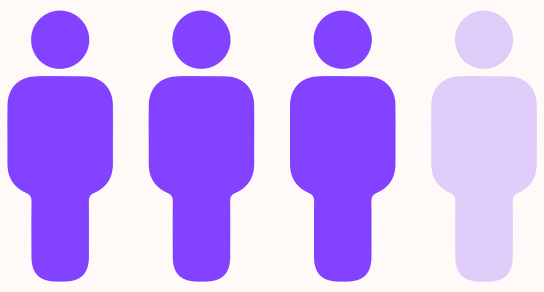
SECTION 2: KEY ONLINE DELIVERY TRENDS IN 2023

Explores five key themes that will shape the online retail and delivery sector in 2023.

CAUTIOUS CONSUMERS: POLARISED SHOPPER BEHAVIOUR

As the global economy slows and personal finances come under strain, almost three in four (73%) consumers say they will change their shopping habits in 2023. Just a quarter (27%) intend to continue spending as normal over the year ahead.

Economic turbulence will impact consumer behaviour in different ways. Some will postpone or curtail discretionary purchases, while others will seek to save by trading down and switching to cheaper brands or retailers (Fig. 8).

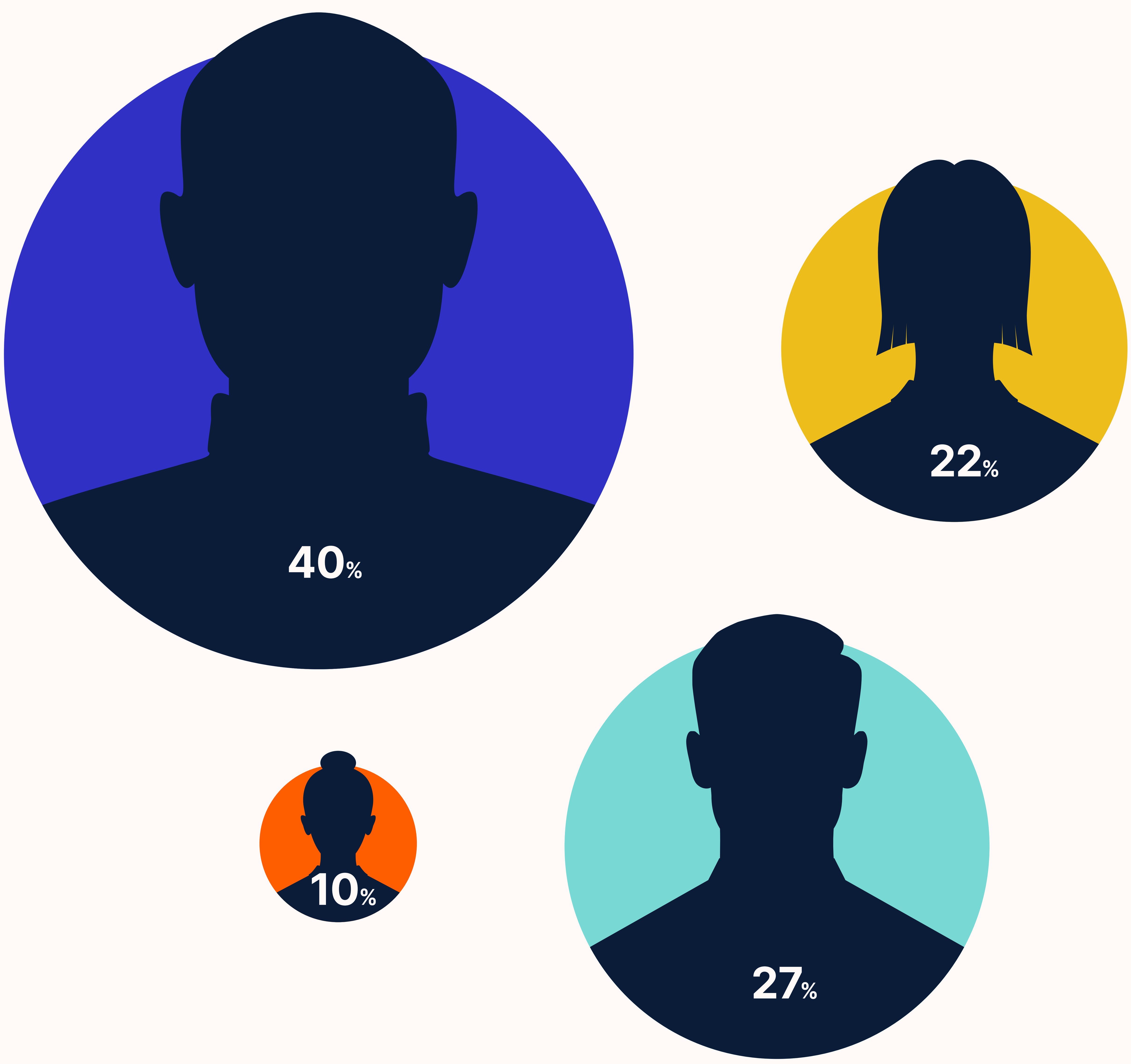


Almost three in four consumers say they will change their shopping habits in 2023

CONSUMER BEHAVIOUR PERSONAS FOR 2023

Our research reveals four main archetypes of shopper behaviour that will shape discretionary retail in 2023, based on how consumers perceive the outlook for the economy and their personal finances.

Fig 8: Four main types of consumer behaviour in 2023



- **Necessity Shoppers:** I will make purchases only when necessary
- **Postponers:** I will try to delay or purchase less often
- **Value Hunters:** I will switch to cheaper brands or retailers
- **Carry On Spenders:** I will purchase as normal

Source: Auctane, Retail Economics

CARRY ON SPENDERS: 27%

Unconcerned by rising living costs and the potential economic slowdown, this group of consumers does not intend to change their shopping behaviour. More likely on higher incomes, this cohort is confident to carry on spending as usual, even in a downturn, and generally has a comfortable financial safety net (e.g. savings, access to credit).

VALUE HUNTERS: 10%

Value Hunters are always on the lookout for the best deal, demonstrating very little brand loyalty. Reluctant to defer or forego discretionary purchases, trading down is their favoured strategy during times of economic difficulty. Savvy shoppers will actively seek out cheaper brands and retailers, or substitute products to find value for money, and will adopt 'omnichannel' behaviour to help them achieve this. They will also regularly switch between online and physical channels before committing to purchase.

POSTPONERS: 22%

Postponers are willing to be patient with their discretionary spending, preferring to hold off on major purchases until economic conditions improve or their budgets are in better shape. They are likely to wait for seasonal offers or special promotions to secure best prices, while giving themselves extra time to save up. However, these consumers are not battening down the hatches completely, but will still indulge on occasional 'nice to haves'.

NECESSITY SHOPPERS: 40%

These consumers are very concerned by the economic situation and therefore most likely to display 'recessionary' shopping behaviour. Determined to keep tight control of finances, Necessity Shoppers will make discretionary purchases only when truly required. This cohort will avoid splurging or impulse buys wherever possible, taking a careful and considered approach to spending. This is usually due to budget constraints, but also by choice, as they prioritise needs over wants.

The uneven impact of any economic downturn means that in practice, consumers will adopt a mix of these behaviours depending on region, sector and household affluence.

INCOME: TWO-TRACK SPENDING

Shopping behaviour will diverge across income groups. Cushioned by savings and greater job security, high-income consumers are almost twice as likely to carry on spending as normal compared to the least affluent shoppers, where over three quarters will be trading down, delaying or only making purchases when necessary. This will create two-track spending.

As such, luxury brands and discounters are likely to outperform at opposite ends of the market, leaving squeezed mid-tier retailers vulnerable. But even for the most affluent, 61% still plan to tighten or cut discretionary spending over the year ahead, as the prospect of an economic downturn exerts a psychological toll on consumers.

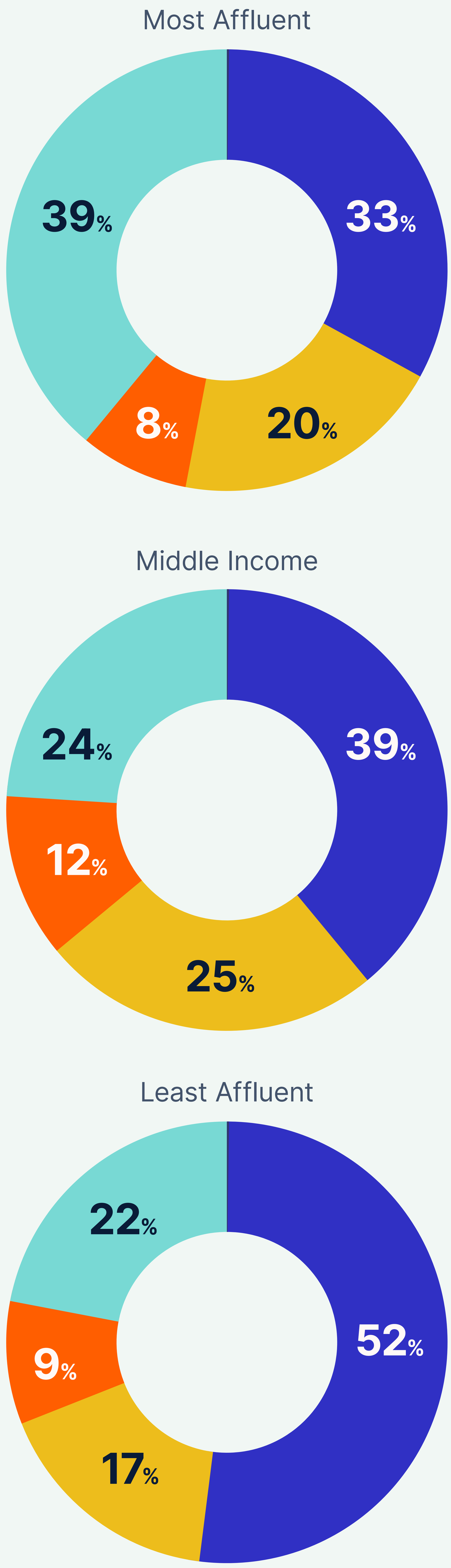


Fig 9: Consumer downturn behaviours by income

- **Necessity Shoppers:** I will make purchases only when necessary
- **Postponers:** I will try to delay or purchase less often
- **Value Hunters:** I will switch to cheaper brands or retailers
- **Carry On Spenders:** I will purchase as normal

Source: Auctane, Retail Economics

REGION: CONTINENTAL EUROPE CUTTING BACK THE MOST

In line with our shopper sensitivity analysis (covered in section one), shoppers in Australia and the US are least likely to feel the need to change their shopping habits, with more than a third set to carry on spending as normal, compared to only around a fifth of shoppers in Italy and France, where consumers are more exposed to inflation and economic pressures.

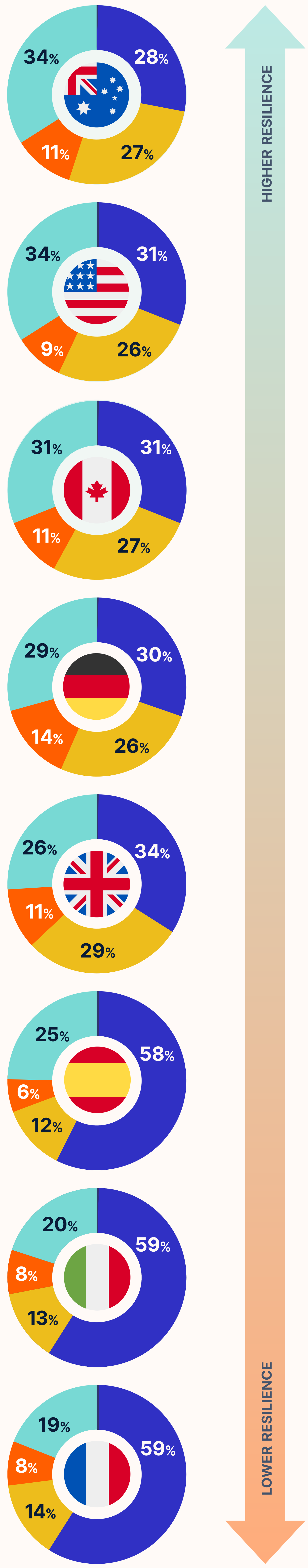


Fig 10: Consumer downturn behaviours by region

SECTOR: DEFENSIBLE vs DISCRETIONARY

No retail sector is fully 'recession-proof', but some will prove more resilient than others as a more cautious consumer backdrop emerges.

Home-related goods are most at risk of consumer cutbacks. Our research shows over two thirds (68%) of consumers plan to delay or cancel spending on furniture and homewares in 2023, followed closely by Electricals (66%).

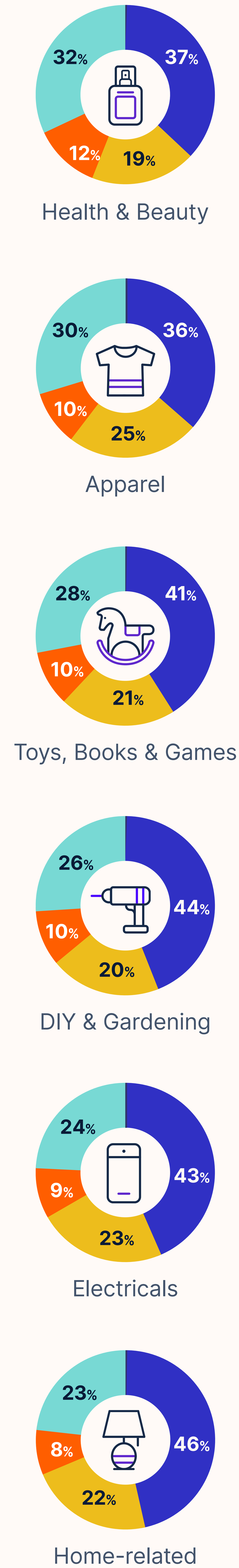


Fig 11: Consumer downturn behaviours by sector

Source: Auctane, Retail Economics

Necessity Shoppers · Postponers · Value Hunters · Carry On Spenders

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Big-ticket items such as a new sofa or TV are an obvious area for consumers to cut back on when faced with financial pressures. Demand for furniture is also closely tied to the housing market, which is cooling globally as mortgage rates step up and cost-of-living pressures intensify.

Other categories are somewhat more defensible. One in three (32%) consumers plan to carry on spending as normal on Health & Beauty products - more than any other sector - with an additional 12% preferring to trade down rather than purchase less often.

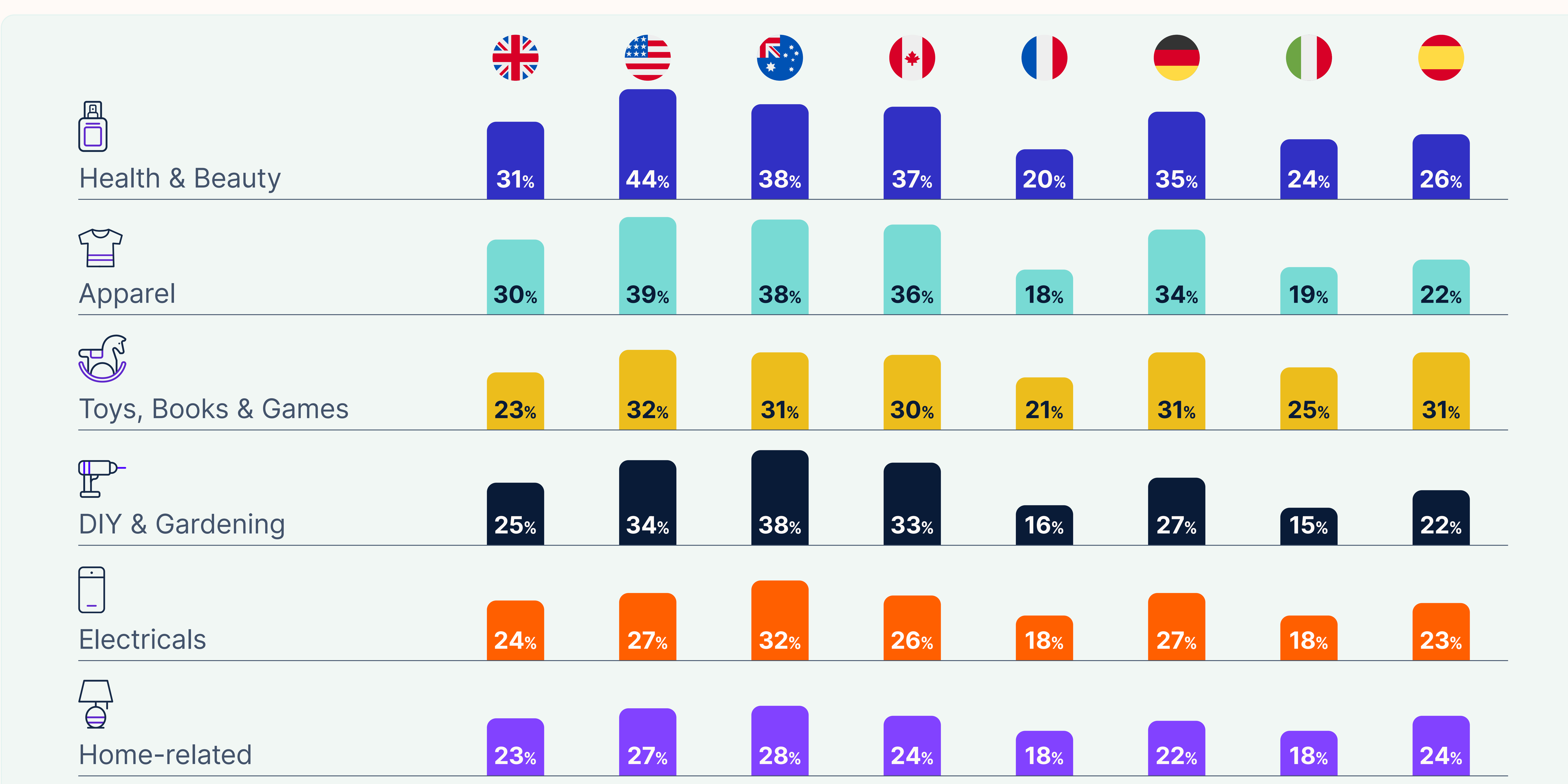
Beauty is renowned for its resilience in times of economic difficulty owing to the 'lipstick effect'. Cosmetics and fragrances represent small, feel-good purchases that can be a morale booster in tough times, while skincare is an essential part of a daily beauty regime for many.

There may also be 'hangover effects' from Covid-19 whereby consumers are more reluctant to cut back on categories that were hit hard during the pandemic – like beauty and apparel which are closely associated with social gatherings. In contrast, there is appetite to cut back on Home & Electrical items – which enjoyed a boost during Covid-19.

> **"I sell a lot of gift products, and I've already noticed starting last month a huge decline compared to previous years. I foresee this continuing and affecting us even more than other ecommerce businesses because people are spending less on others."**
>
> TABLETOP MONTHLY

Fig 12: Health & Beauty, the most resilient category due to the 'lipstick effect'

Q: Which of the following areas of retail will you carry on spending as normal in 2023?



Source: Auctane, Retail Economics

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CHANNEL SHIFTS: ONLINE BOUNCE BACK, SHIFT TO HYBRID RETAIL

The demise of ecommerce throughout 2022 has been greatly exaggerated. After an unparalleled boom catalysed by global Covid-19 impacts, online sales growth and penetration was always going to soften in comparison.

While the pace and magnitude of shift back to physical stores may be surprising to many, this should not be seen at the expense of online.

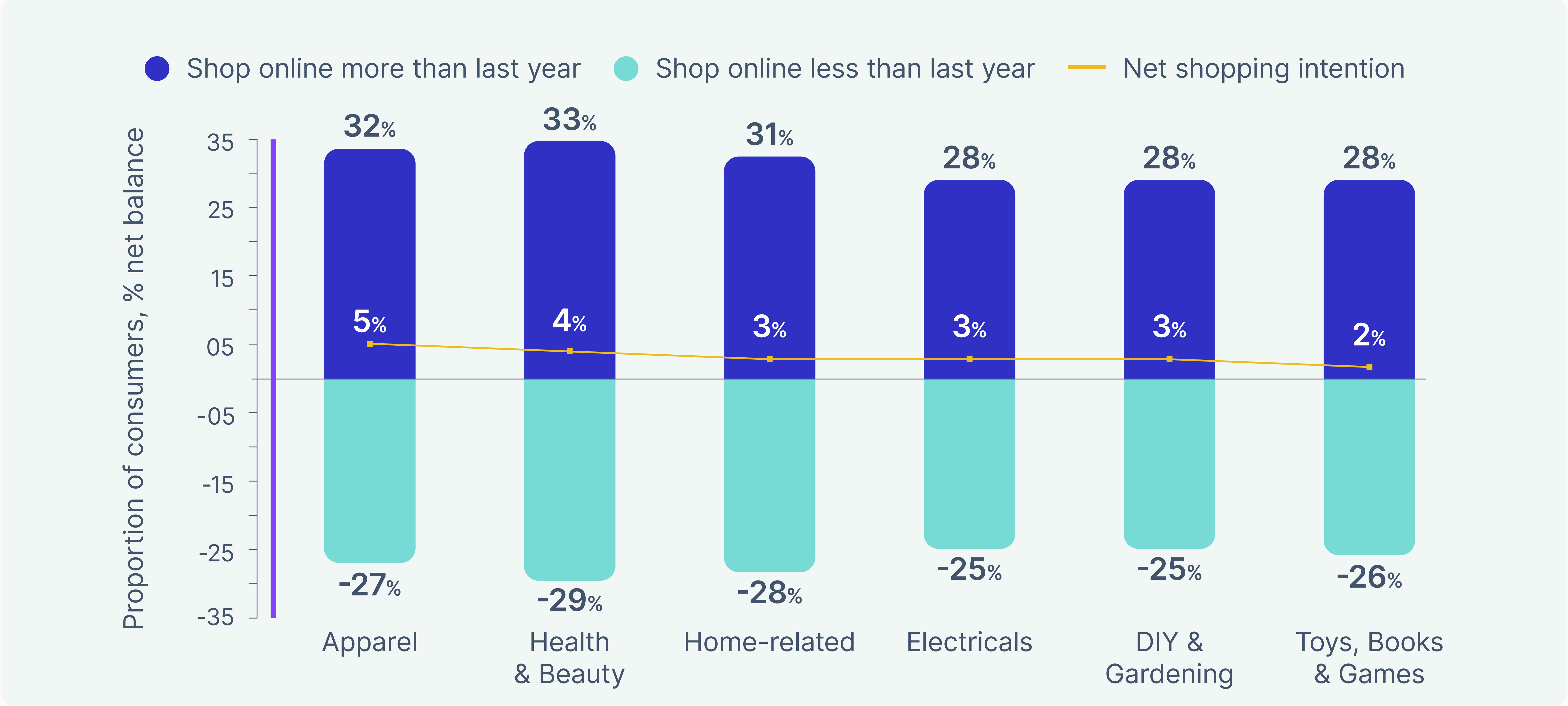
Online sales remain significantly higher than pre-pandemic levels, and narratives that pit online against physical retail often ignore the reality of how the consumer journey increasingly blends the two channels now, as retail becomes increasingly hybrid.

If anything, the continued migration online is set to resume in 2023. Across all non-food sectors, our research shows a net proportion of consumers plan to shop more online than they did last year (Fig. 13).

The continued migration online is set to resume in 2023

Fig 13: Net swing to online in 2023 across all sectors

Q. Do you expect to shop online more than normal in 2023?



Source: Auctane, Retail Economics — Note: N/A "neither/same as normal" excluded.

Cost-of-living concerns add another dynamic to consumers' channel preferences. Our research shows that the propensity to shop online is strongest in retail markets where consumers are less likely to cut back. Put simply, the more resilient the economic outlook, the greater the shift online.

For example, intentions to shop more online in 2023 are strongest in the US and Australia, where inflation and unemployment are less of a concern for shoppers (as shown by size of bubble in Fig. 14).

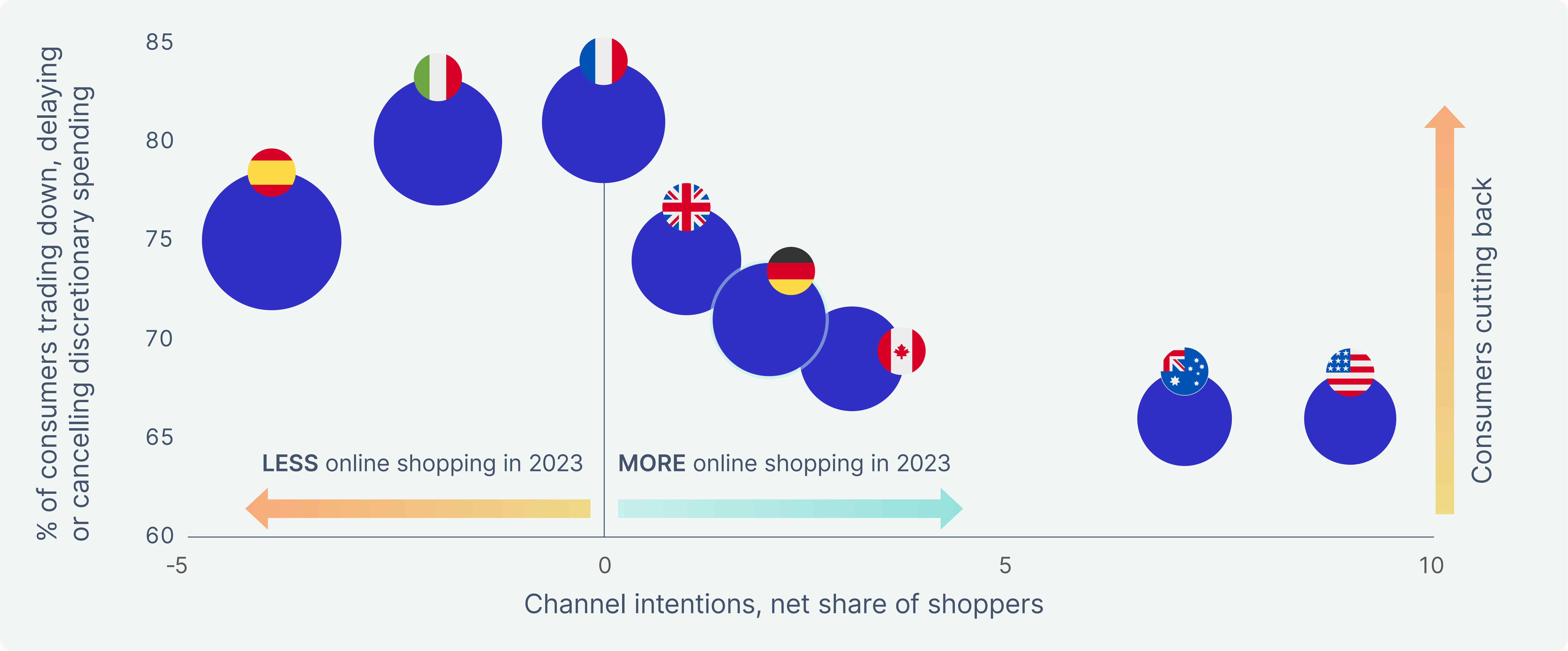
In contrast, a net share of shoppers in Spain and Italy intend to shop online less over the year ahead, as economic pressures force a more disciplined approach to their shopping habits such as avoiding online delivery charges.

For many shoppers, deteriorating economic conditions will mean becoming 'channel agnostic' as they default to recessionary behaviours and regularly switch between physical and online to find the best deals. This will only accelerate the shift to a hybrid retail future that merges the best of physical and digital.

The more resilient the economic outlook, the greater the shift online.

Fig 14: Correlation between shift to online and strength of consumer outlook

Q. Do you expect to shop online more than normal in 2023?



Source: Auctane, Retail Economics — Note: size of bubble = 2023 miserly index (inflation + unemployment)

DELIVERY PRIORITIES: COST OVER CONVENIENCE

Consumers' online shopping priorities are changing rapidly as economic pressures mount, with an increasing focus on value over convenience (e.g. delivery speed, location).

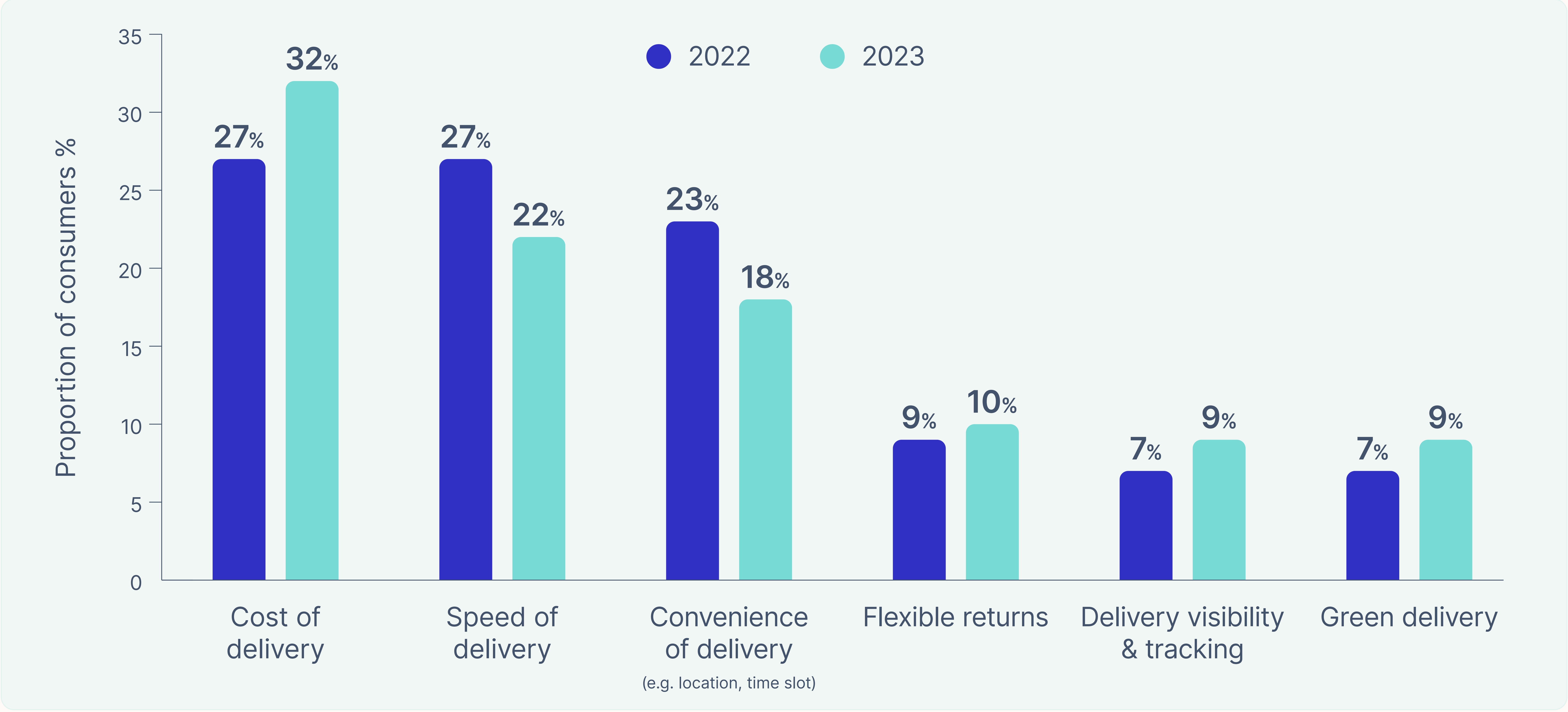
Convenience emerged as a top priority for online shoppers during the pandemic. 'Stuck at home' consumers were keen to ensure they got what they wanted, when they wanted it, be it super-fast delivery, contactless pick-up, or choosing specific delivery slots – with many willing to pay for the privilege.

But with financial concerns now trumping Covid-19 fears, the cost of delivery is clearly the most important conversion factor, as speed and convenience become less of a priority for consumers (Fig. 15).

> **"We are facing high risk of recession, wants will be set aside for needs and customers will nit-pick delivery costs."**
>
> PARKERS AE

Fig 15: Cost of delivery rises in importance for online shoppers in 2023

Q: Thinking about when you're shopping for products online, what's most important to you?



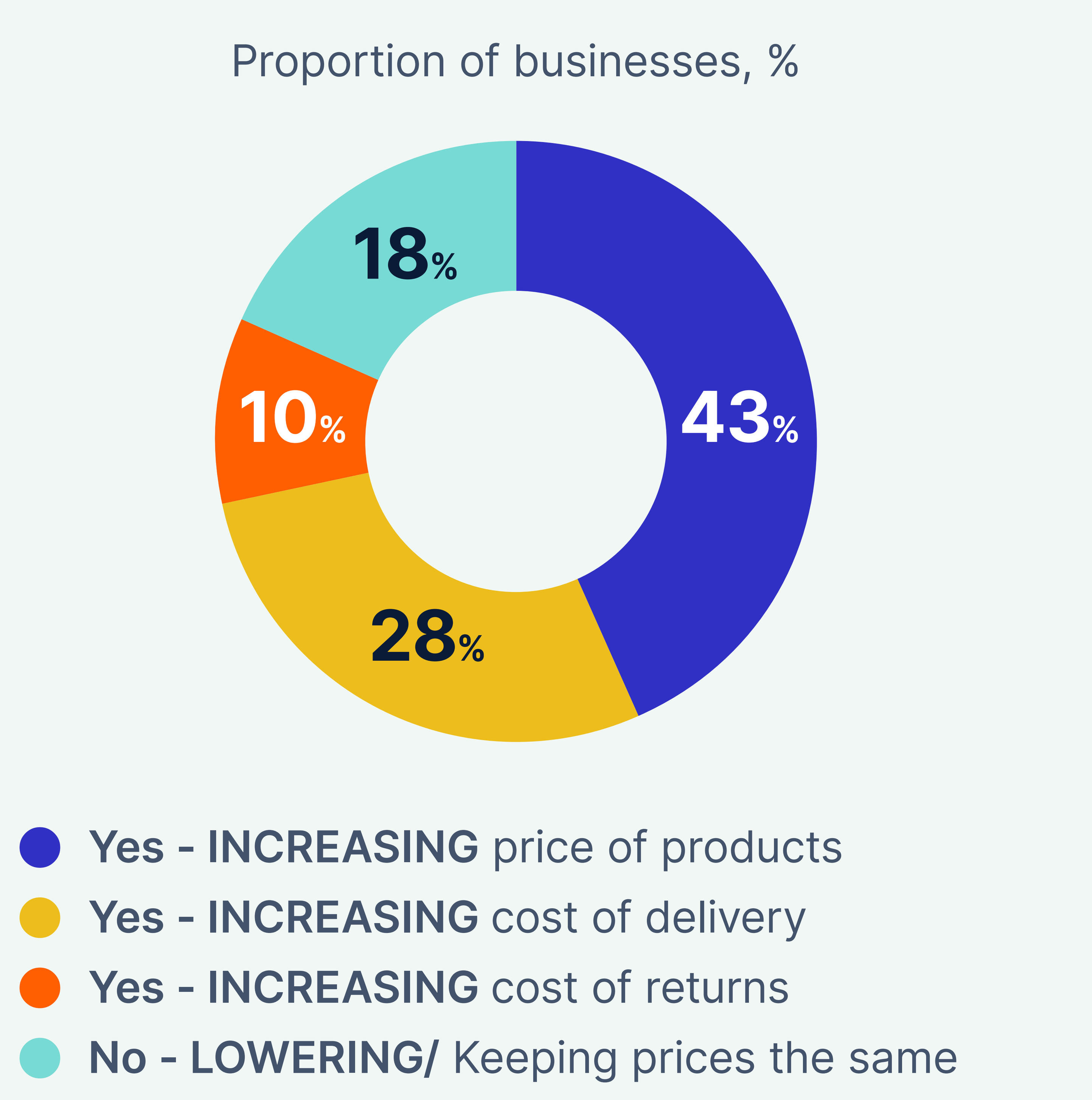
Source: Auctane, Retail Economics

AUCTANE

While most retailers recognise the importance of keeping delivery costs low for customers, the tsunami of operating cost pressures facing businesses makes this a real challenge. In fact, over a quarter (28%) of retail businesses plan to increase the cost of delivery for their customers in 2023, with only 18% planning no increases to the price of products, delivery, or returns (Fig. 16).

But this is a risky strategy in a fiercely competitive retail landscape where consumers are squeezed. As shoppers' priorities shift towards value, consumers would generally be more open to waiting longer for delivery, or compromising on location, than paying for delivery. In the current economic environment, free postage and a small wait for delivery (3-5 days) is likely to trump paid-for expedited delivery.

Fig 16: Are you anticipating any changes in the prices that you charge your customers next year?



Source: Auctane, Retail Economics

‘OUT OF HOME’ DELIVERY CONTINUES TO GAIN POPULARITY

Over a third (34%) of consumers would happily switch to parcel lockers or click and collect (‘BOPIS’ – Buy Online Pick Up In Store) services for their online orders, compared to 25% when surveyed a year ago (previous edition of our Benchmark Report).

Appetite for ‘out of home’ delivery is unsurprisingly highest in continental Europe, where ‘click and collect’ is well established (Fig. 17). Over 80% of retailers in France, Spain and Italy offer pick-up services, compared to less than half in the US and Canada.

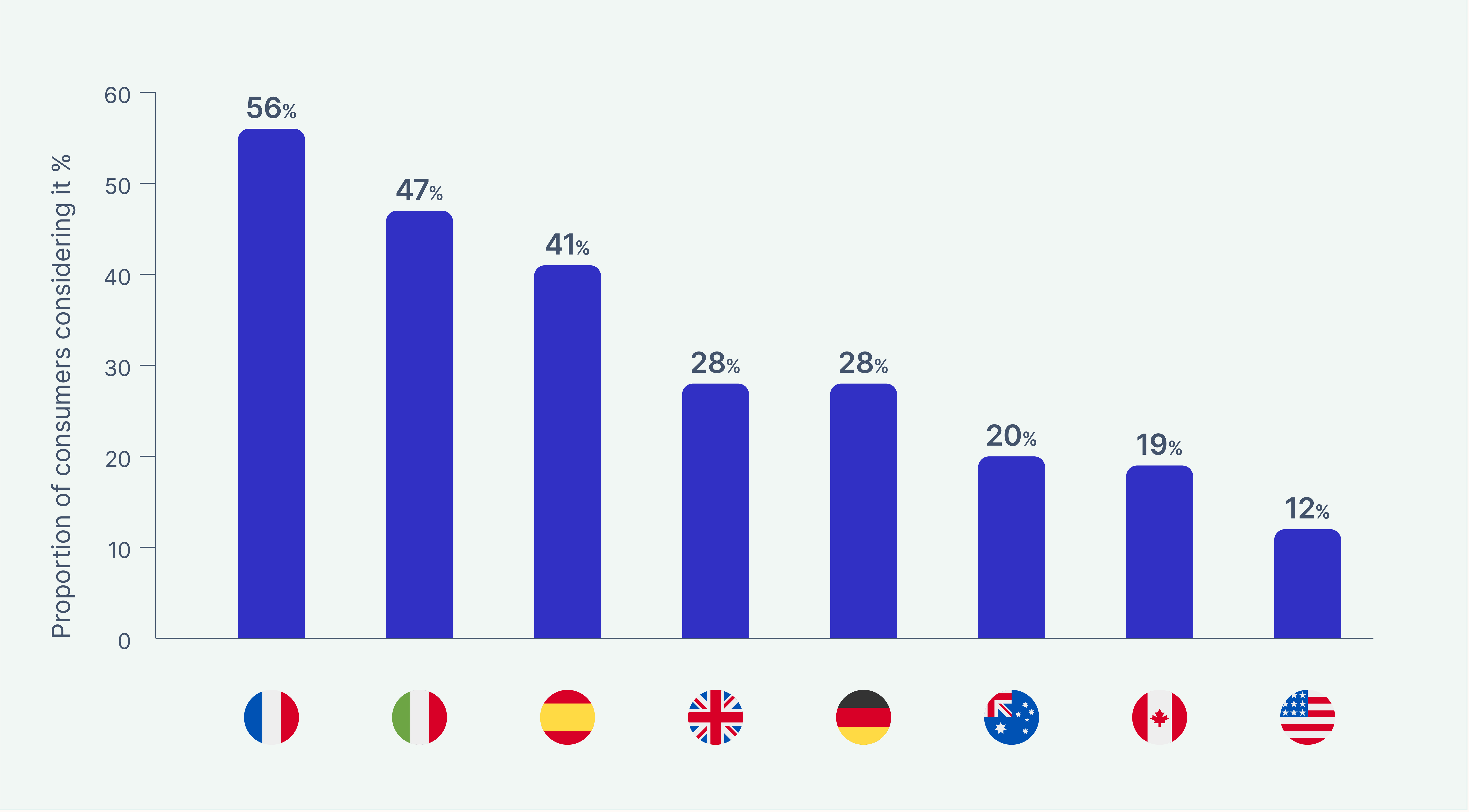
But across all markets, the popularity of ‘out of home’ delivery has grown further since lockdown restrictions were lifted.

Retailers invested heavily in ‘out of home’ delivery during the pandemic to scale up fulfilment capability when stores were closed, making them more accessible to a new wave of online shoppers – many now realising the benefits as normal daily routines return.

Beyond providing a convenient and often free alternative to home delivery, consolidating deliveries from multiple online orders to just one ‘out of home’ location is also more environmentally friendly. This reduces emissions by cutting down the number of deliveries to individual homes – a key step towards a greener last mile.

Fig 17. European consumers seem more accustomed to ‘out of home’ delivery

Q. Would you be willing to use “out of home” delivery options?



Source: Auctane, Retail Economics

ONLINE RETURNS: TENSION OVER WHO FOOTS THE BILL

Free online returns have become a consumer expectation and an industry standard, but this is set to become a much less common proposition as retailers attempt to recoup associated costs here.

Return rates are being driven higher by the shift to online and the worsening economic climate. Retail Economics research shows that the returns rate for online purchases can often be as high as 30%, compared to less than 10% in-store.

Our research shows that 10% of online merchants, made up mostly of small businesses, are planning to introduce (or increase) charges for returns in the year ahead.

THE PROBLEM OF FREE RETURNS

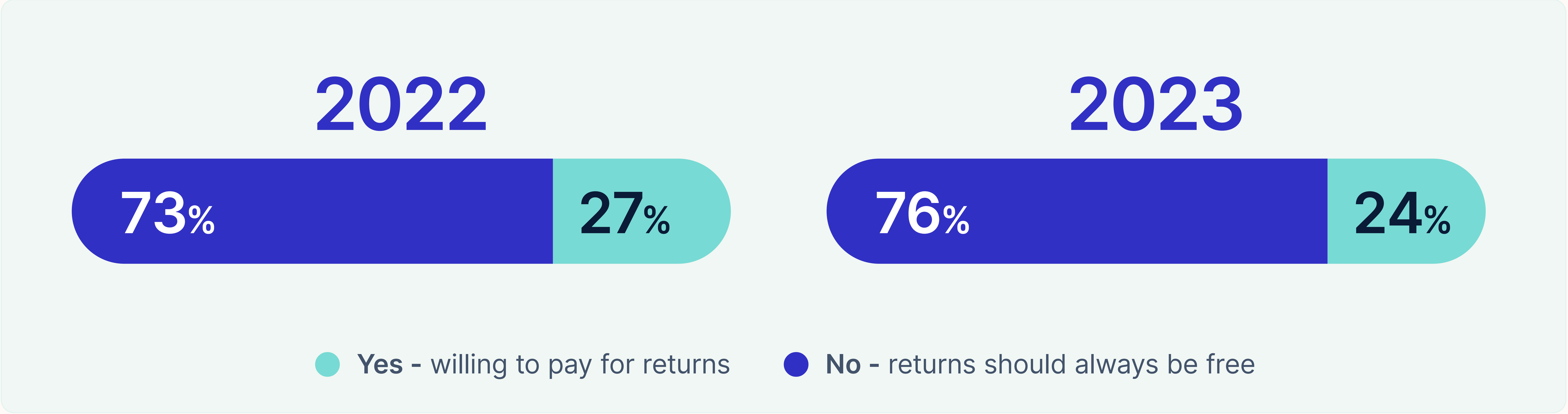
Although free and lenient return practices can be leveraged to incentivise online sales, it also allows consumers to view purchases as 'risk-free discoveries', rather than final purchases, with 'bracketing' (ordering multiple versions of the same item) becoming common practice, particularly with apparel.

Returns are more costly and complex to process than outbound logistics, involving problematic reintegration of products into the supply chain, assessing condition for re-sale, and processing refunds. Handling an online return costs retailers around a fifth of the original order value on average, eating into margins that are already strained by rising labour, logistics and other operating costs.

Major retailers such as Zara, Boohoo and Abercrombie & Fitch have begun adding surcharges to online returns in some markets to offset the cost and discourage 'serial returners', with others set to follow suit.

Fig 18: The willingness to pay for online returns is dropping just as retailers begin to pass on the cost

Q. Are you willing to pay for returns for products ordered online?



Source: Auctane, Retail Economics

AUCTANE

CONSUMERS UNWILLING TO PAY

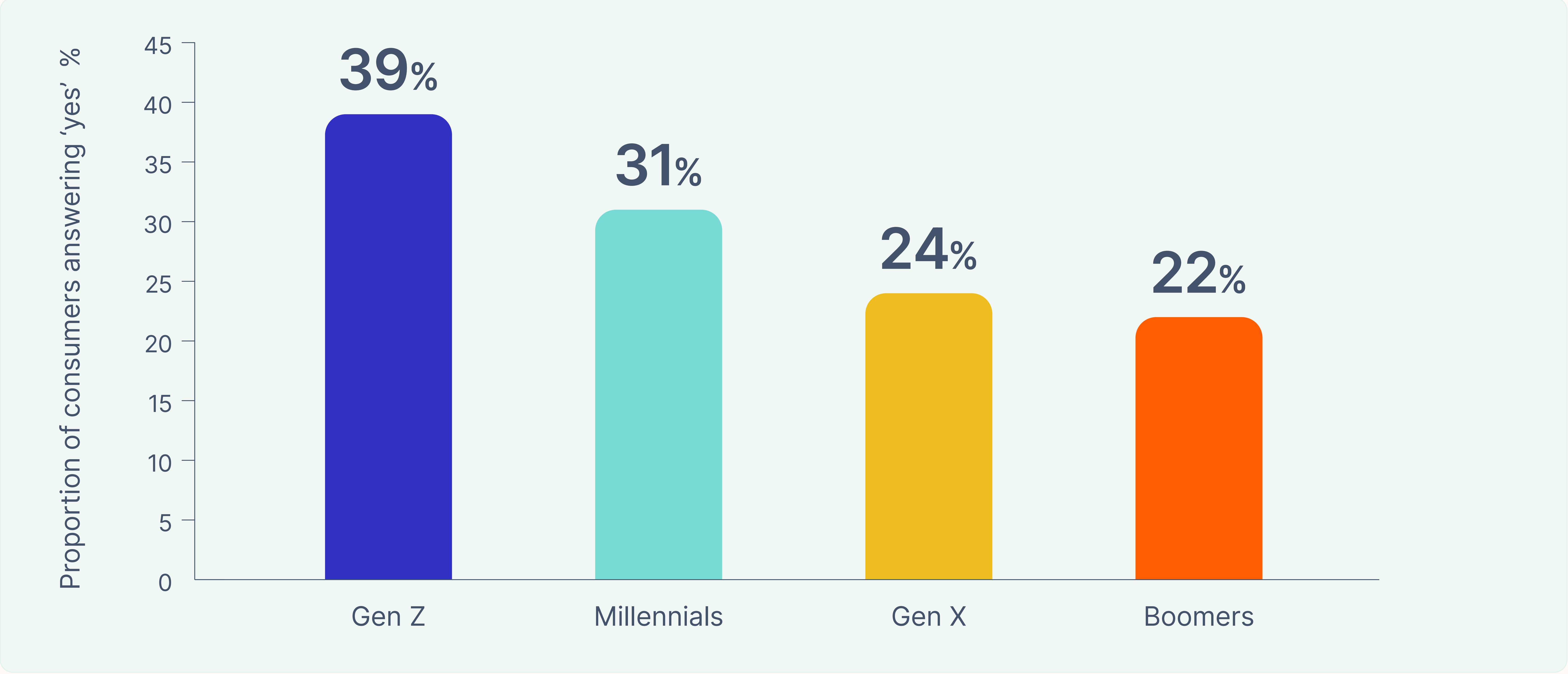
Returns fees risk alienating customers. More than three quarters (76%) of shoppers surveyed believe returns should always be free. At a time when retailers are introducing return charges, consumers' willingness to pay for returns is dropping (Fig. 18).

Although most consumers expect free returns, younger generations are more accepting to the idea of returns charges. 39% of Gen Z's say they would consider paying for online returns, compared to just 22% of Boomers. Often seen as 'compulsive returners', this digital-native and environmentally conscious generation perhaps feels more personal responsibility in paying their share.

Retailers must strike a careful balance with return charges. They must discourage excessive returns without jeopardising sales or losing custom to competitors.

Fig 19: Younger generations are more receptive to the idea of paying for returns.

Q. Thinking about when you need to return an item, are you willing to pay for returns for products ordered online?



Source: Auctane, Retail Economics

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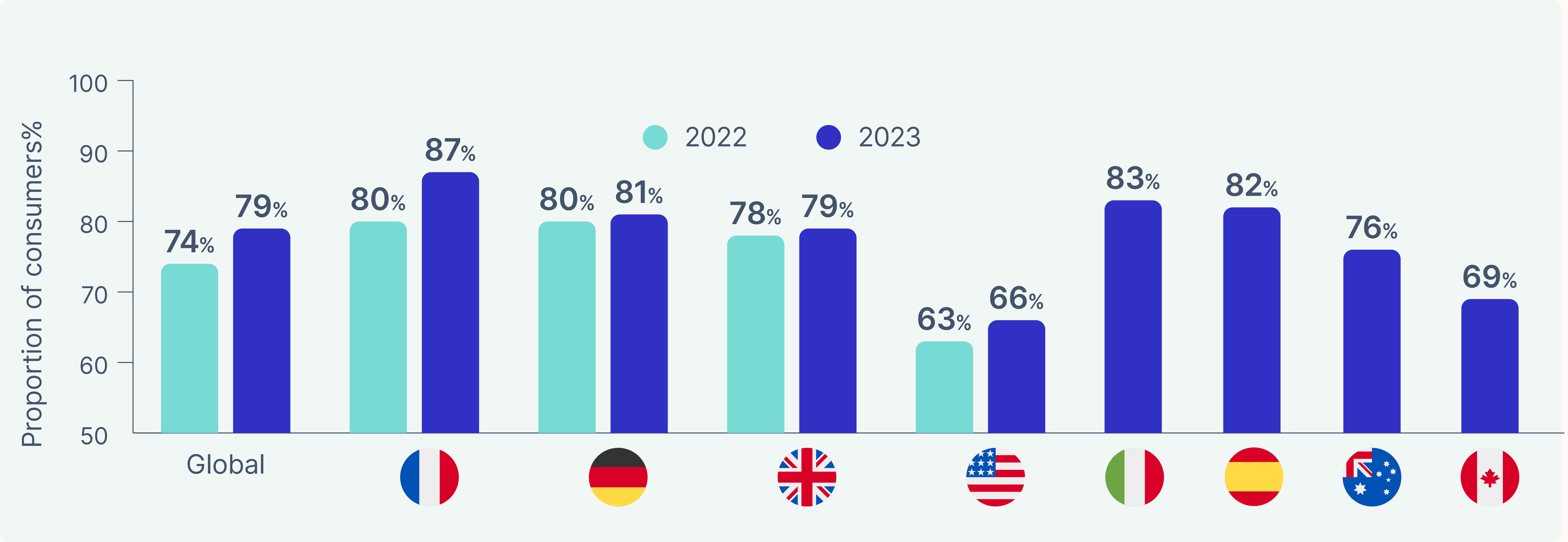
SUSTAINABILITY: GREEN DELIVERY AND 'RECOMMERCE'

Despite cost-of-living pressures, our research shows that sustainability considerations are increasingly influencing purchasing decisions.

Globally, almost 4 in 5 (79%) shoppers value having 'green' delivery options when ordering online, up from 74% a year earlier (Fig. 20).

Fig 20: Online shoppers are increasingly looking for green deliveries

Q. Would you consider options to make the deliveries of your online orders more sustainable?



Source: Auctane, Retail Economics. Note: no historical data for Australia, Canada, Italy and Spain.

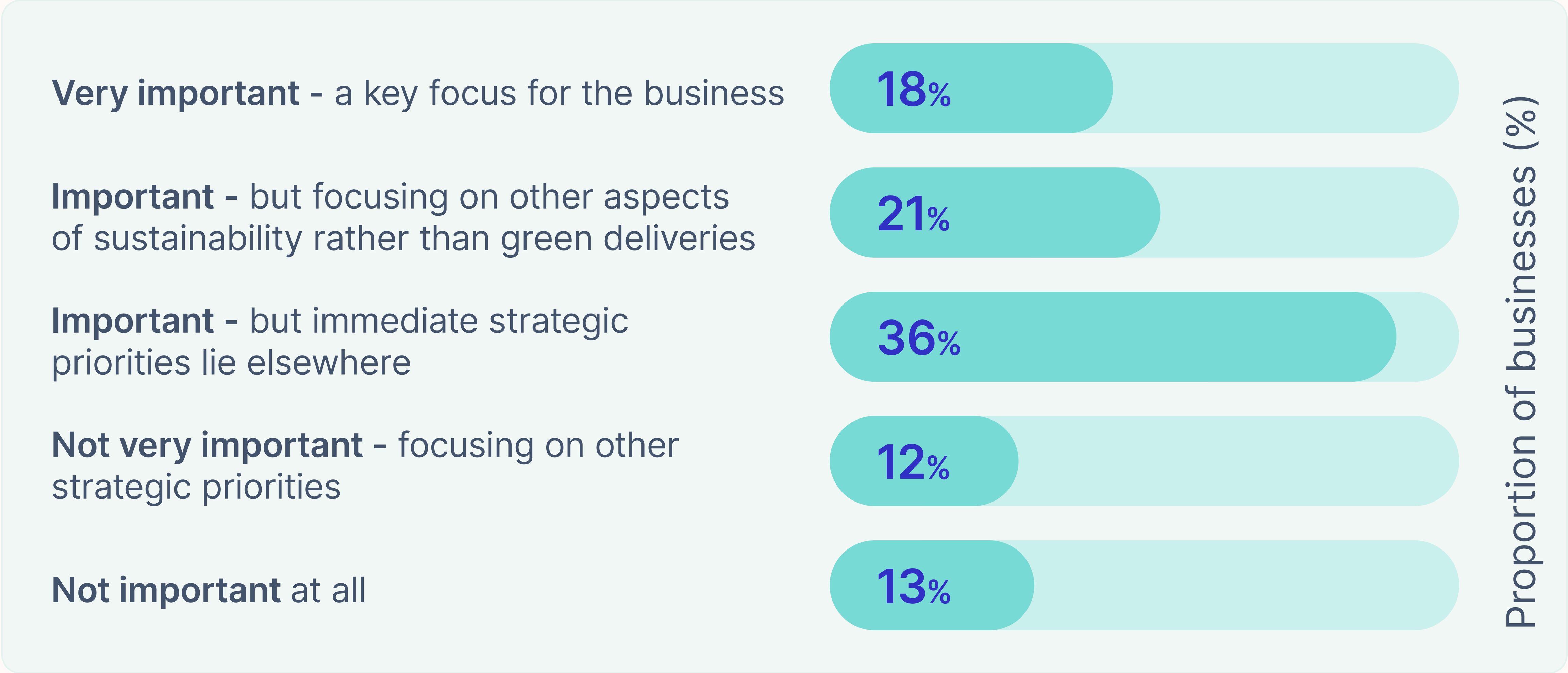
AUCTANE

For retailers however, immediate strategic priorities appear to lie elsewhere. Although three quarters of merchants recognise sustainability and lowering the environmental impact of deliveries as being important, less than a fifth (18%) consider it to be a key strategic focus for their business.

Less than a fifth of businesses consider environmental impact of deliveries a key strategic focus

Fig 21: Green deliveries are not seen as main priority for retail merchants.

Q.How important is sustainability and lowering environmental impact in your deliveries?

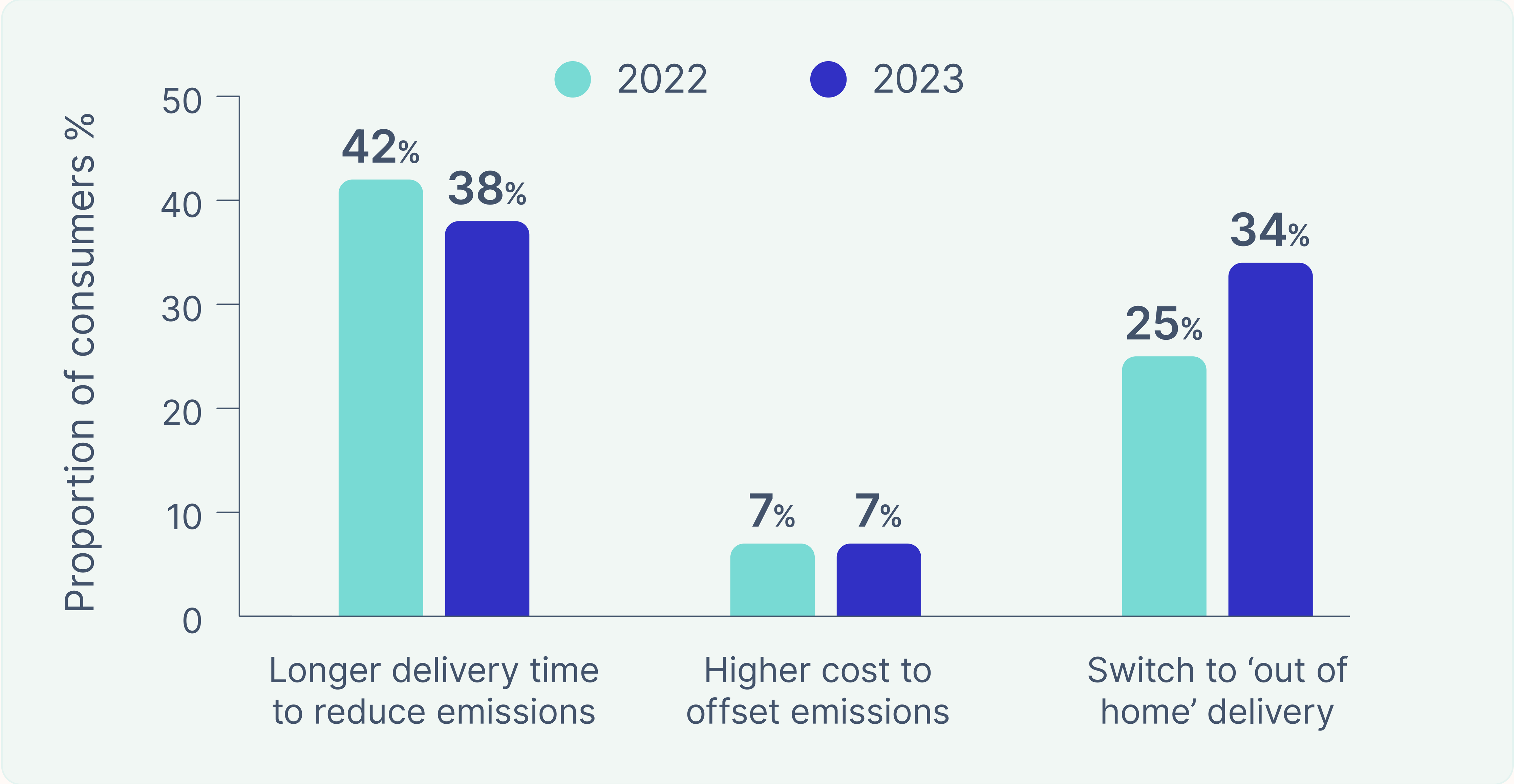


Source: Auctane, Retail Economics

When thinking about 'going green' regarding online deliveries, price-sensitive shoppers are overwhelmingly in favour of accepting longer delivery times (38%) and switching to 'out of home' collection (34%), rather than paying extra to offset emissions (where only 7% would consider this).

Fig 22: Price-sensitive shoppers are willing to accept longer delivery times

Q. Would you consider any of the following to make your online orders more sustainable?



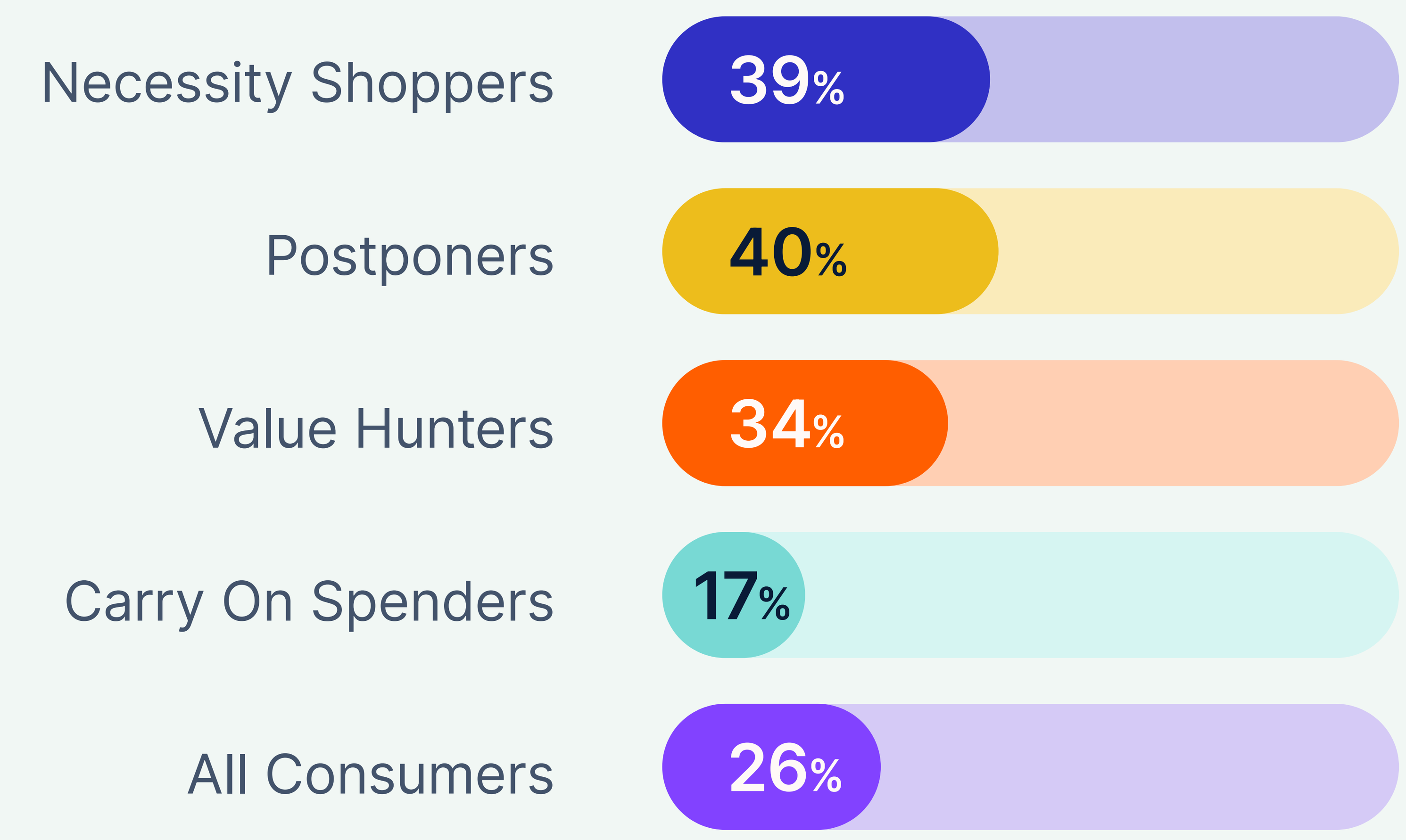
Source: Auctane, Retail Economics

RECOMMERCE GOING MAINSTREAM

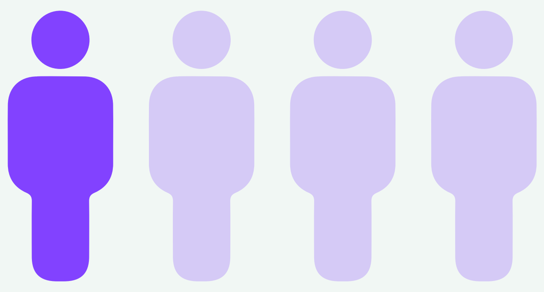
The process of re-selling, renting or thrifting previously owned products is rapidly gaining momentum. Retailers are responding to growing demand from consumers for economical and sustainable alternatives to buying brand new.

More than a quarter (26%) of consumers plan to buy second-hand or use online resale marketplaces more often in 2023 (Fig. 23). This rises to as high as 40% among consumers who will likely change their behaviour in response to economic pressures (e.g. 'Postponers', 'Necessity Shoppers'). This suggests that cost of living concerns may inadvertently accelerate the shift to a circular economy.

Fig 23. Consumers planning to buy second hand more often in 2023



One in four shoppers plans on using resale marketplaces more often.



Source: Auctane, Retail Economics

Consumer perceptions regarding 'second hand' are changing. Where it once carried stigmas associated with garage sales and hand-me-downs, 'second hand' is becoming increasingly trendy to shop in the resale space.

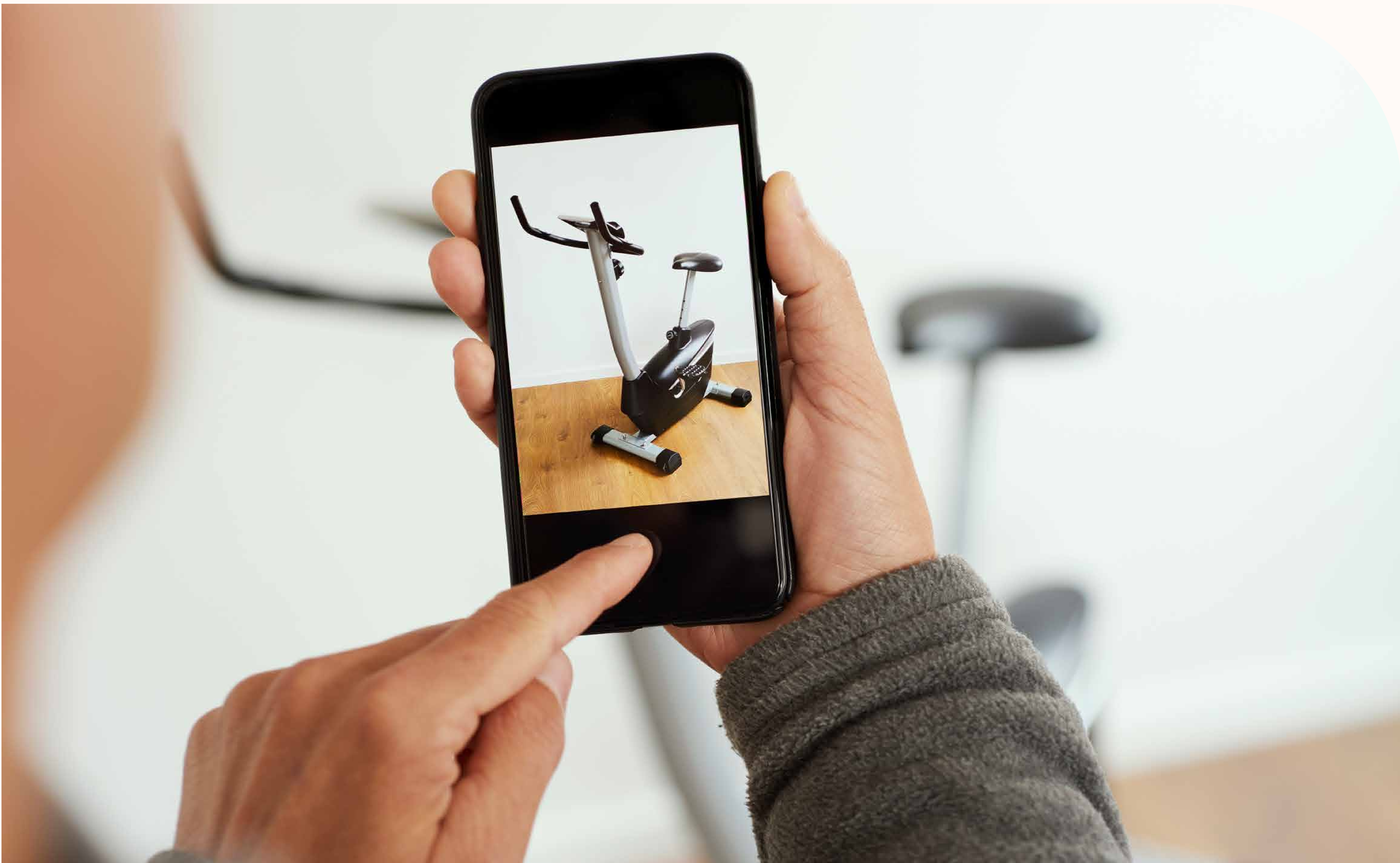
Resale platforms not only offer an affordable option to cash-strapped shoppers, they also meet the growing desire from consumers to minimise their impact on the environment as they become more conscious of issues around overconsumption.

This is fuelling growth in online marketplaces such as eBay and Vinted, along with creating a new breed of circular-economy services designed to help consumers buy, recycle and re-use their goods.

For businesses, resale is a customer acquisition and loyalty strategy

Fast-fashion players Shein and PrettyLittleThing have recently launched their own online peer-to-peer resale platforms; similarly, IKEA is rolling out a 'Buyback & Resell' service whereby unwanted furniture items can be returned, repaired and given a second life.

For businesses, resale isn't necessarily a revenue driver - it's a customer acquisition and loyalty strategy. As consumer finances become increasingly squeezed, resale offers a viable alternative to buying new. Recycling, renting, reusing, and reselling options give shoppers the chance to get hold of what they need, while being kinder on the pocket, and the planet.



URB-IT: CHAMPIONING SUSTAINABLE FINAL MILE DELIVERIES

With more and more consumers weighing up the importance of sustainable delivery options, Urb-it is here to show the way.

Auctane brand Metapack has just added Urb-it to its extensive carrier library. It provides urban logistics services that have a positive impact on both society and the environment. Urb-it currently provides sustainable delivery options for millions of consumers across European markets, with plans to expand further.

Urb-it meets consumer demands to offer sustainable delivery options at checkout, helping online sellers increase conversions and decrease basket abandonment. With cargo bike delivery methods, they provide same day, next day, nominated and standard delivery services.

View Metapack carrier library

SECTION 3: STRATEGIES FOR SUCCESS IN A DOWNTURN

The retail industry faced unprecedented challenges in recent years. Now, 2023 will test its resilience once again. We explore some key themes that will help retailers 'recession-proof' their propositions by mitigating risks and seizing growth opportunities which should help them emerge stronger from the downturn when economic conditions brighten.

'RECESSION-PROOF' BUSINESS MODELS

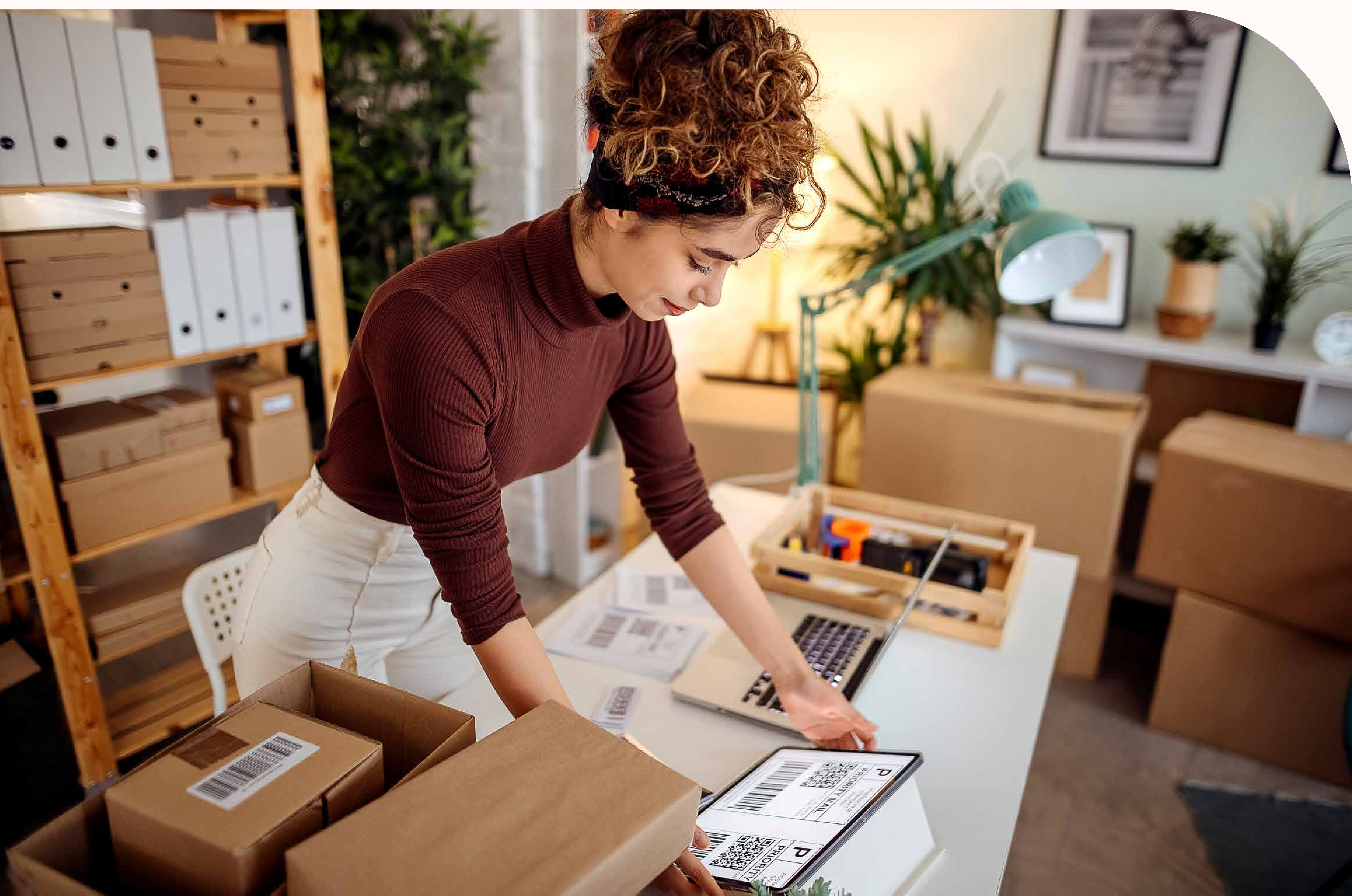
In the current environment, many retailers will be aiming to build more resilient business models which will require a renewed focus on profitability. With margins under pressure and supply of capital tight, businesses will be faced with difficult trade-offs. In many cases, they will have to prioritise profitability over revenue growth or market share.

Retailers need to be proactive and take steps to offset the negative effects of rising prices while proactively strengthening balance sheets. This is likely to require an intelligent combination of strategies for growth in certain areas, with moves to streamline processes in others – involving cost cutting.

COST MANAGEMENT TO CREATE MARGIN HEADROOM

Retailers should aim to conduct a rigorous assessment of input costs and prioritise operational efficiencies to conserve cash and maximise productivity.

Focus should be applied to eliminating unnecessary overheads (or 'nice to have' services), divesting underperforming assets, reviewing range and assortment, while doubling down on core operations. In an environment of higher interest rates and rising costs of servicing debt, reduced leveraging becomes even more of a priority. Previous economic downturns have shown that outperforming businesses managed to build up a financial war chest. This provides a necessary cash and margin buffer to weather the economic storm, and invest opportunities 'on the other side'.



LEO CONNOLLY
CONTENT STRATEGY MANAGER, PEOPLEVOX,
THE DESCARTES SYSTEMS GROUP

DESCARTES
Peoplevox

INCREASING WAREHOUSE EFFICIENCY WITH PEOPLEVOX

The economic outlook for 2023 is tough. This Auctane research has brought to light how this is likely to shape some evolving sentiments when it comes to ecommerce shopping habits in the coming year. As our expertise is in warehousing and fulfilment, we have some guidance and a few practical tips to offer merchants to keep delighting customers despite the economic challenges.

So let's break down some of the key findings from the survey through that lens. Hopefully, we can offer guidance and a few practical tips to help merchants delight the customers of 2023.

CONSUMERS ARE INCREASINGLY CONCERNED ABOUT THEIR PERSONAL FINANCIAL SITUATION, AND OVER 60% OF PEOPLE STATE THEIR INTENTIONS TO SPEND LESS IN 2023.

It's headline news all around the world. The cost of living is skyrocketing and a recession is about to slam global markets. So, it's obvious the average consumer is going to tighten the purse-strings and cut down non-essential spending. They won't stop, but they will be looking for assurances when they do want to make a purchase.

Scrupulous checking of reviews, a preference for places where they've had good experiences with in the past, and brand reputation are going to play increased roles in deciding where the consumer eventually does spend their money.

If you are currently facing a backlog of unhappy customers, letting them down due to poor fulfilment, or a stream of 1-star reviews, you can be sure your brand is falling down the pecking order on next year's 'essential' spend list. This type of negative press is a massive red flag for someone being careful with how they spend. So, making sure the warehouse is performing accurately and reliably should be the absolute priority for improving customer reviews, reducing complaints and boosting your 'reputation' as a trusted seller.

COST IS KING - MORE THAN LAST YEAR, CONSUMERS CARE ABOUT PRICE OVER FLEXIBILITY WHEN IT COMES TO HOME DELIVERY

The price war between lookalike brands and companies in the same niche will become fiercer in 2023. To survive the downturn and continue to win customers, you better bring your 'A' game, as competition will be tougher than ever.

If you can make your warehouse processes as efficient as possible, keeping headcount down and accuracy up, you will be able to differentiate from other, similar businesses simply by NOT increasing your prices or bumping the shipping cost on all orders.

It's all about margins and profitability. The operation that makes more money from each individual order, not the operation that receives the most orders, is the one that will have stability and growth in the long run. And this can be achieved not by increasing the retail price, but by decreasing the cost to fulfil.

FEWER PEOPLE ARE WILLING TO PAY FOR RETURNS

We're seeing more brands announce the end of free returns, to try and cut down astronomical return rates, especially in the fashion industry. But this is not in line with how people are feeling. In fact, the report indicates that more consumers than ever feel returns should always be free, regardless. Every business has to make a choice here. Fortunately, improving things in the warehouse can alleviate the pain all around. Fewer mistakes like sending the wrong item means fewer 'problem order' returns to start with. Better reverse logistics means when you do receive a return, you can relist that item and get it sold faster, minimising the loss and product down time.

And finally, increased efficiency in all warehouse processes means you can more likely afford the customer-centric approach of free returns, as you'll have a lower 'cost to fulfil' with fewer headcount and faster processes.

To summarise, it is clear from the report that consumers intend to be more discerning with their spend next year. To make sure you still make the cut, your operation needs to run efficiently and profitably, whilst delighting your customers.

DESCARTES
Peoplevox

Peoplevox, part of The Descartes Systems Group, is an ecommerce warehouse management system. For more insights, check out their 'Ultimate Ecommerce Warehouse' Video Guide or head over to www.peoplevox.com

SUPPLY CHAIN EFFICIENCIES

Manufacturing delays, shipping backlogs and labour shortages continue to add additional layers of cost and supply chain complexity for retailers.

If not done so already, businesses should take immediate steps to reduce costs and increase resilience across their supply and distribution networks. This includes diversifying suppliers, implementing cutting-edge inventory management, and collaborating with third-party logistics providers (or supply-chain-as-a-service providers) to build in greater flexibility and efficiency.

Businesses should take immediate steps to reduce costs and increase resilience across their supply and distribution networks.

In an inflationary environment, price increases can create tensions between retailers and suppliers which lead to delays – and in some cases, a stalemate in negotiations. Businesses need to understand the pricing power they have with suppliers. They also need to explore alternative suppliers and supply routes to fully assess options. In the UK and Europe, the devaluation against the dollar will spur on some retailers to seek out alternatives to mitigate against further currency-induced inflationary pressures.

At the same time, shoppers have become more demanding in final mile deliveries, often to a point where delays now frustrate customers and harm relationships.

Increased communications and strengthening relationships with key couriers will help limit supply disruptions and avoid the risk of frustrating shoppers with delays – particularly in an environment of reduced customer loyalty.

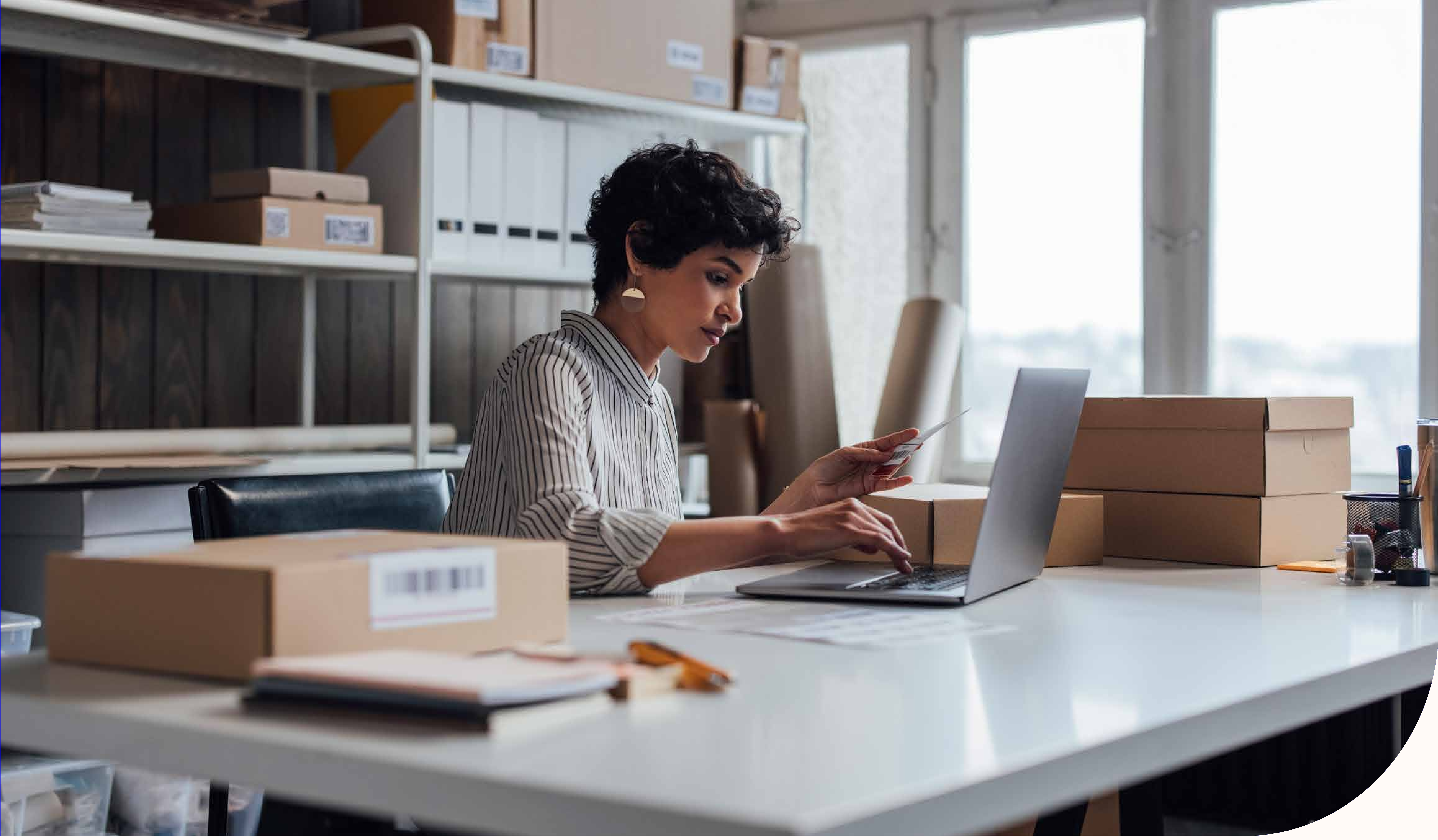
DRIVE SHIPPING EFFICIENCY AND ENTER NEW MARKETS WITH UPS

With efficiency and the ability to reach new markets being a crucial part of shipping success, it's vital to select the right carriers.

ShipStation integrates with UPS, a premium service provider with a proven record of helping businesses ship globally and efficiently. The integration enables you to access UPS discounted rates, automatically submit your customs forms electronically, get discounts when you have multi-package shipments, ship with domestic and international services, and much more.

ShipStation's UPS integration helps you get products to customers seamlessly, enabling you to grow your business globally.

View ShipStation partners



MAINTAINING NEXT LEVEL CUSTOMER EXPERIENCE

Crucially, stricter cost control or drive for efficiencies should not come at the expense of the customer experience. During a downturn, customer loyalty is either earned or lost. It's a moment of increased churn, where customers aggressively pursue value and are willing to try new things.

Today's customers are more empowered than ever. They are able to choose from multiple brands, channels, websites and apps, with price comparison tools at their fingertips. To convert this informed shopper now requires more than just competitive prices or discounts. This is why getting the customer experience right is so vital.

As such, the most successful businesses will be those able to continue investing in superior customer experiences which help them maintain existing customers, win new ones, and grow market share.

Savings generated from streamlining or automating processes can be invested in developing intelligence used to better target customer segments based on recessionary impacts and competitive vulnerability. For instance, retailers can run highly targeted sales plays for shoppers with the highest risk of straying from their competitors.

A relentless focus on securing customer lifetime value can help retailers be more refined in meeting customers' needs (e.g. offering a discount in exchange for unwanted clothes or electrical items for recycling). This could help position the brand as a leader in conscious consumption, building a reputation that lasts beyond the immediate economic challenges.

However, securing brand loyalty, developing relevant products and services for consumers' changing needs, and outstanding customer service are all factors that need to be continually worked upon.

REFERENCE

HOLLAND & BARRETT USES STORE INVENTORY TO BOLSTER THEIR SHIPPING

Holland & Barrett is one of Europe's largest retailers specialising in health and wellness. With over 800 stores in the UK and Ireland, they have a significant presence both on the highstreet and online. Their online presence became a crucial aspect of their business during Covid-19.

As Holland & Barrett was classed as an essential retailer, they were able to stay open and saw a sharp increase in demand with a decrease in footfall. This resulted in using Metapack's Delivery Manager to implement a ship from store solution.

Taking less than two weeks to implement, Holland & Barrett has been able to focus on 'serving customers better'. The ship from store solution is implemented in 75 stores, which adds a great deal of flexibility to their shipping network.

Paz Khorana, Head of Multichannel Operations, explains: "It's great having a fantastic online experience but you need that fulfilment proposition to back that up. We will follow customers' leads as shopping habits change."

Learn more

BETTING ON HIGH QUALITY DELIVERY TO SECURE CUSTOMER SATISFACTION AND GROWTH

La Puerta Mágica is a project founded in Barcelona by Gerard Molins and Magalí Jorba in 2018. In a couple of years, they've grown their product catalogue, doubled their income and expanded to 5 markets.

In their growth journey, logistics immediately stood out as a strategic factor to control in order to achieve success, delivery having a significant impact on customer satisfaction and ultimately business growth.

They bet on Packlink PRO's technology to streamline their shipping processes and reinvest the residual time and money in strategic business missions. Automating their logistics activities allowed them to quickly achieve an optimal level of delivery experience, which enabled them to reach a larger public sooner and to secure customer satisfaction.

Gerard Molins, founder of La Puerta Mágica says: "Packlink has been key to our growth, both nationally and internationally. Through a single click we can import all orders, select a logistics operator, automatically generate labels, and all with a single monthly invoice and with prices that no other operator can match."

Packlink® PRO
Simply Shipping

LA PUERTA MÁGICA

Learn more

INTELLIGENT PRICING ARCHITECTURE

AVOID RACE TO THE BOTTOM

In an economic downturn, retailers are often tempted to slash their prices to hold onto customers as household budgets are squeezed. However, retailers have their own inflationary pressures to contend with, and this approach risks damaging profitability and brand equity.

Rather than engaging in a 'race to the bottom', an intelligent pricing and promotion strategy can help retailers protect margins and build more meaningful, long-term relationships with customers.

DYNAMIC PRICING CAPABILITIES

This requires putting a laser-like focus on pricing architecture and developing a more sophisticated understanding of customer cohorts. Leveraging data and analytics capabilities can identify where consumers are most price sensitive and which categories are most exposed to inflation.

Instead of implementing broad price increases that erode customer trust, retailers can tailor pricing by customer and product segment, factoring in both margin performance and willingness to pay.

In parallel, they could also introduce personalised promotions and loyalty initiatives, especially for products that are highly exposed to inflation. This can strengthen customer relationships while alleviating margin pressure by reducing the need for mass promotions.

AI-automated pricing solutions provide real-time feedback on market movements and competitor prices, helping retailers remain competitive, targeted, and uncompromising on margins. For example, retailers can use data science to identify the promotions that truly create value. Another approach might be to use customer data to offer personalised promotions for loyalty members.

"It definitely will be more difficult, consumers expect lower prices but we are facing rising costs."

GETSOMEGARDEN

THE RIGHT ASSORTMENT MIX

Getting product assortment mix right is critical. Here, retailers need to offer a relevant assortment that caters for different shopper budgets – without diluting brand value or impacting profitability.

Providing customers with the optimal choice across different price points needs to be achieved using data science. Done well, this includes offering key entry price points for both lower-ticket items and higher-margin offerings, all while reducing assortment and duplication where necessary.

Some retailers may have to 'shrink to survive' by rationalising their product range, and only buy products that are true to their brand, reducing the need to discount, while aligning their cost base accordingly.

Proof of the value of brand equity is evident in the success of luxury brands which continue to enjoy strong demand, despite increasing prices across core products. Though their core customer base is affluent, the product is considered a good investment because of its brand value.

ShipStation®

PRINTPOST

PRINTPOST SCALES RAPIDLY WITH AUTOMATION

PrintPost allows artists to create and ship prints of their work worldwide. Based in Essex, UK they found themselves getting very hands-on with shipping operations. This resulted in errors and slow processing times.

PrintPost implemented ShipStation in 2019, introducing an automated system that allows them to ship up to 20,000 orders a month.

"Before, we were very manual. We were physically typing out labels one by one," says Gary Crossland, Head of Operations at PrintPost. "Having this automated system has just relieved that pressure. We can now comfortably do well over a thousand shipments every single day."

PrintPost also uses ShipStation to automatically populate orders from their many marketplace integrations. This frees up valuable time, allowing their customer service team to focus on customisation and delivering the best possible service for their customers.

With a profitable and sustainable workflow, PrintPost are looking to use ShipStation to grow even further, with new fulfilment houses in the US and within the EU.

Learn more

DIVERSIFICATION, PARTNERSHIPS, ACQUISITIONS

EXPLORE NEW MARKETS

Geographic diversification can emerge as a valuable strategy in 2023. However, this has arguably become more complex as rapidly shifting economic, political, and social forces take centre stage.

As domestic markets face economic headwinds, opportunities arise for brands to venture into new overseas markets where economic pressures can be less acute.

Despite economic uncertainty, 14% of small retail businesses are considering expanding into new markets to help grow their business in 2023.

Given the regional nuances and uneven impact of inflationary pressures as shown in this report, exploring new territories can be an effective means of reducing a company's exposure to areas of weak or volatile growth.

Brands must re-evaluate regional growth priorities and hone their strategies so they are better tailored to the geographies in which they operate or plan to expand.

When prioritising regions for global expansion, businesses can review their footprints and identify areas of growing demand while placing greater emphasis on factors beyond revenue potential and financial KPIs, such as geopolitical and reputational risks. Clearly, the more thorough understanding of a region and its customers, the more effective a brand will be in conducting business there.

CRATEBASE GO GLOBAL AND CUT DEVELOPMENT COSTS

CrateBase is an Amsterdam-based operational platform, helping sellers ship in the collectable space. They were looking to expand into the US market but found that adding and maintaining carriers was very time consuming for their development team.

CrateBase implemented ShipEngine, which provided an integration with several US and European carriers. This not only enables CrateBase to ship to the US but it also reduces maintenance headaches and frees up time for their development team to focus on other valuable aspects of the business.

"I would say about 90% of all our label creation goes through ShipEngine", says Daniel Spijker, founder of CrateBase. "Already seeing huge cost and time savings on the development side and I see the ROI being higher and higher over time as we connect more carriers."

CrateBase can carry on growing, without having to focus on the carriers and shipping partners. They can access over 70 local and international carriers through a single integration, helping their sellers ship higher volumes and reach new customers.

Learn more

WIN-WIN PARTNERSHIPS

As market pressures mount, businesses will increasingly look to join forces via strategic partnerships that cut costs, create growth opportunities and deliver competitive advantages.

Retailers are under pressure to excel at sourcing, merchandising, digital marketing, customer experience, ESG, logistics and fulfilment. But in an environment where costs are mounting, investing heavily in all these areas could further erode margins and damage profitability.

Rather than 'going solo' and trying to compete on all fronts, many retailers will be better placed to focus on their competitive advantages and perfect their point of differentiation. Complementary to this, they should look to form strategic partnerships (e.g. with tech companies, logistics providers or other retailers) to secure value in weaker operational areas.

As physical and digital channels continue to blur, partnerships mitigate against risks associated with innovation – particularly for smaller brands. This enables them to reach new customers and achieve scale online faster and more cheaply than trying to build the required infrastructure themselves.

Handing over greater control of the customer journey to third parties involves increased reputational risk. Here, retailers must ensure that any partnership supports the experiences they wish to create for their customers and dovetails with their brand values.

ACQUISITION OPPORTUNITIES

Turbulent times create opportunities for companies to add new capabilities or build scale to gain market share. For those in a strong financial position, acquisition opportunities will arise as trading conditions become more difficult and businesses struggle.

Acquisitions can provide valuable 'bolt-on expertise' to ramp up capability and capacity in a given market. In the UK for instance, Next and Frasers Group have been active in making strategic acquisitions of distressed retailers as they build a diverse portfolio of brands available to customers, in-store and online.

CONCLUSION

To succeed in 2023, retailers will need to focus on becoming 'recession proof' as they position their business models to contend with inflationary impacts and a weaker economic environment.

As household finances become increasingly squeezed, resulting consumer behaviour will be primarily driven by value orientated motives with brand promiscuity on the rise. A savvy and more demanding shopper will emerge, with more considered customer journeys being engaged. As such, this will impact spending patterns and channel preferences where retail brands will need to monitor market developments closely and respond to changes in consumer behaviour more intelligently.

Maintaining a priority on the customer experience will also be key alongside sophisticated pricing architecture that strives for optimal product assortment mix, where value and well considered price points are implemented across ranges.

As consumer behaviour changes, regional differences within international markets must be keenly understood too if retailers are to operate successfully overseas. Maximising regional opportunities and managing risks, with a particular focus on profitability will be essential.

Other key retailer strategies to combat pressures heading into 2023 include: continued use of data science to better target customers, improved cost management practices, supply chain diversification, partnerships and acquisitions.

For many, 2023 will undoubtedly be tough. But lessons learnt from Covid-19 disruptions and investment in securing greater operational control mean that many retailers are well poised to survive another weather front moving in – and even thrive.

Three keys to success in 2023

- Invest in customer experience
- Understand regional differences
- Leverage technology to drive efficiency

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