

E-COMMERCE Trend Report



Transit Packaging: Reimagination by Necessity

The Implications of Moving from Brick and Mortar
to Click and Order

The rolling 15% year-over-year explosion in E-commerce sales is leading to some equally explosive rethinking of how goods are manufactured, warehoused, and shipped. Manufacturers and retailers are trying desperately to keep up with customer demand for the fastest, most convenient, and safest delivery in our new era of “point-click-drop-and-buy.”

Consumer expectations for meaningful engagement and frictionless satisfaction are upending investments, strategies, and operations for retailers and all of their value-chain partners.

E-retailers, both those legacy companies born and weaned in the brick-and-mortar era and the newcomers with online-only platforms, are starting to pay increased attention to the optimized transit packaging solutions that can meet and exceed customer expectations.

A company's best laid plans around brand equity, consumer loyalty, and sales will be negatively impacted without new thinking and investments in how products are efficiently delivered damage-free. Customers demand it and the value chain will find ways to deliver.

Every day, headlines and Twitter feeds tell the story of increased E-commerce sales and the warehousing and distribution center investments required to keep up with this growth; the warehouse industry is growing at a healthy annual 3.2 percent rate.

The entire market is estimated to grow to \$6.6 trillion in 2020 with 2.1 billion global online buyers forecast by 2021.

Based on publicly available data, the supply side to meet this booming demand is looking equally robust.

While Amazon's HQ2 competition earned the most attention, the company and its E-commerce peers continue to roll out a series of announcements regarding investments in the lifeblood of the space: fulfillment, distribution, warehousing facilities, and the employees who work in them.

The case of Amazon is instructive and emblematic. More than 250,000 people are employed full-time in its fulfillment facilities. To put that number in perspective, that's more than the total population of Boise, Idaho (228,790) or Norfolk, Virginia (244,076). These employees are spread across 175 global facilities encompassing more than 150,000,000 square-feet of combined space. In North America alone the company hosts 110 facilities.



While seemingly small in comparison, the scope and size of E-commerce investments made by traditional big-box retailers is equally impressive. Wal-Mart opened its first dedicated E-commerce site in 2013 and currently operates 15 fulfillment centers comprising 14.2 million square-feet. Target clocks in at six North America-based distribution centers, which augment the company's overall strategy of using its sizeable brick and mortar footprint as distribution hubs.

These numbers underscore the sheer volume of merchandise journeying from manufacturer to distributor to the end-use consumer. Understanding how to effectively and safely transport these goods will provide key competitive advantages to E-commerce players.

Four Trends Impacting Manufacturers and Distributors

Robust and growing, consumer preference for E-commerce is dramatically impacting how manufacturers and distributors need to approach materials, shipping, and transport.

Industry estimates show that many consumer-bound parcels will have no fewer than 20 touchpoints.

We've identified four key trends that are impacting the value chain.

Damaged Goods: Not Good for Anyone Product Protection is Brand Protection

Trend 1

Damaged packages are bad for business. When it leads to actual product damage the negative impact is amplified. Another study finds 41% of consumers blame bad packaging — as compared to bad handling — for damaged products.

A damaged package or broken product is bad for the consumer, the shipper, and the manufacturer.

Last year, a leading North American packaging company engaged in some primary research, and ordered 119 items over the internet. Here's what they found upon delivery: 15% of packages were dented, 8% were crushed, 8% were ripped and 4% were tampered with or opened. An astonishing 64% of consumers report receiving a damaged package, with 58% of U.S. consumers reporting that receipt of a damaged package would negatively impact their relationship with an E-retailer.

The expense and negative impact on businesses due to damage were uncovered in a recent survey.

Consumers perceive that these too-large and too-filled packages are wasteful. They are also wasting the money of retailers.

More material costs and inefficient shipping lead to higher transport costs.

With 80% of consumers reporting that “packaging innovation and practicality are important in their purchasing decisions,” smart E-retailers will continue to collaborate with their supply chain partners to devise more effective and smaller packaging while retaining all-important product protection.

In answer to the question “How is your business affected when a shipment is lost, delayed, or arrives damaged?”, 36% report increased cost of returns and 29% respond with increased logistics costs. Another study shows that it costs an E-commerce vendor up to 17 times the original cost of shipping to replace a damaged product.

E-retailers need to start exploring solutions already perfected in traditional shipping. Product protection is brand protection.

Trend 2

Enough With the Trash-Talk
Sustainability

A recent study finds that 52% of U.S. consumers agree that items are packed in boxes that are too big, 48% believe that retailers need to do a better job in right-sized packaging, and that 41% want packaging material that is eco-friendly. Another study by a leading manufacturer of packaging material discovers that 77% of respondents felt an E-commerce package was reflective of the company’s overall environmental awareness.



Solutions exist to reduce material costs and shipping costs while ensuring the safe handling of consumer orders.

Transit packaging materials are increasingly produced from recycled substrates instead of virgin material. Corrugated shipping containers and plastic or metal strapping material are easily recyclable and accepted by many municipalities.



(Too) Many (Not so) Happy Returns Costs and Consequences

Trend 3

E-commerce encourages consumers to return merchandise. In traditional retail environments, 9% of goods are returned. Current research shows that in E-commerce returns approach 20%. During the holiday season, this rate can skyrocket up to 50%. In the words of a leading digital retail expert in *Forbes*, it's "The Ticking Time Bomb of E-commerce Returns."

Some legacy retailers, like L.L. Bean and Neiman Marcus, earned consumer loyalty for their lenient return policies. With the rise of E-commerce, they extended their brand appeal in the online space, joined by new industry players who built their brands on the ease of return.

The more frictionless the transaction, the more likely consumers will click.

E-retailers need to look at shipping both coming and going. Consider that Amazon's fifth annual Prime Day brought in record sales of \$7.16 billion. If 20% of that was returnable merchandise, then \$1.4 billion worth of goods was quickly on its way back.

What are the cost-effective ways we can design our supply-chain models and packaging materials to ensure that the return trip is efficient? The exterior packaging's durability

needs to be matched with the dexterity of fabricated interior packaging material in ways that are convenient and easy-to-repack for the consumer. Many E-retailers are transitioning to new substrates that are available in customizable configurations ideal for transportation dunnage, inner and outer product protection, as well as the structural foundation for unitized goods.

to get merchandise to a regional distribution center or to the outlet. Efficient, productive, and consumer-friendly supply chains kept costs low and store shelves stocked based on real-time, in-store data systems.

The promise, and delivery, of one-day shipping has led to not only technological advances but the need to locate warehouse and distribution centers closer to consumers.

Trend 4

City Sidewalks, Busy Sidewalks The Urbanization of Distribution

As discussed earlier, there is rapid growth in fulfillment and warehousing centers designed to meet all of this E-commerce demand. An important consideration is to look at where these facilities are increasingly located and what that means for efficient material handling.

Compared to space-constrained EU countries, in the U.S. major retailers once had the luxury of constructing and staffing their far-flung warehousing and fulfillment networks where acreage was plentiful and inexpensive. The “just-in-time” inventory control systems designed and innovated by major retailers were designed

In addition to increased trucking costs due to fuel and labor costs and government regulations, these tall urban facilities face their own unique set of challenges in the efficient and safe transport and storage of goods. EU-based facilities have a history with space limitations, and U.S. retailers are now rapidly adopting the use of high-density storage and retrieval systems that automatically and quickly move pallets in and out of storage positions in warehouses with small horizontal footprints. As E-commerce is forecast to grow, these systems should be designed so they can be easily expanded as capacity requirements and SKUs increase. Facilities with automated systems also require fewer personnel in today’s labor-stretched environment.

Where space is at a premium and real-estate costs higher, these new and planned-for facilities are nearer to urban centers and often vertically-inclined.



A Unified Approach, Step by Step

The explosive growth of E-commerce presents challenges and opportunities as manufacturers, retailers, and distributors invest to meet its unique transit-packaging demands.

Strategic goal-setting and problem-solving in effective shipping and warehousing can best be achieved through working with an experienced and valued equipment and material provider.

Smart manufacturers and distributors can strategically deal with all of these consumer-driven E-commerce trends by taking a unified approach in looking at how items are packaged, how they are palletized and distributed, and how they are stored until ready for fulfillment.

Sources:

APP, Amazon, BillerudKorsnas, Business Insider, Digital Commerce 360, ecommerceplatforms.com, Forbes, Industrial Packaging, Interactive Media in Retail Group, Marketplace (Public Radio International), PMMI, Packaging Digest, Packaging World, ResearchandMarkets.com, Shopify.com, Tricorbraun



The transit packaging specialists at Signode have more than 100 years of technical, engineering, and material interaction experience that continues to meet the evolving needs of companies across the world. The stringent and evolving requirements in E-commerce require partner companies with end-to-end transport excellence; our global business continuously innovates with our customers to achieve optimized and customized transit packaging solutions.

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