



Digital commerce transformation






Accelerating the “new normal” ecosystem and supply chain

We are emerging from the global COVID-19 crisis, but so much has changed. Wholesalers and retailers must understand the fundamental changes in consumer shopping behaviors and transform their ecosystems and supply chains to meet new consumer expectations.

Stores are open, but customers are still online

Relaxed restrictions and a pent-up desire to shop for pleasure has increased consumer intent to purchase apparel, footwear, and other nonessential products. However, for the foreseeable future, customers will continue to shop online more frequently. What’s causing the ongoing shift?

1. Consumers have become comfortable purchasing additional product categories online. Online grocery shopping tripled during the pandemic.¹
2. Expanded online assortments and new promotional tactics have encouraged customers to start their journey online.
3. Despite distancing and safety measures, almost half of consumers surveyed by Deloitte in August 2020 did not feel safe shopping in a brick-and mortar store.²
4. Limited stock and selection in-store is driving consumers online, despite delivery costs and delays. Forty-two percent of consumers are willing to pay for convenience.³ ➔

Deloitte State of the Consumer Tracker ⁴	 Groceries	 Household goods	 Medicines	 Alcohol	 Apparel and footwear
Intend to purchase more often <i>(August 2020 vs. April 2020)</i>	-9%	-8%	1%	4%	20%
Intend to purchase online <i>(August 2020)</i>	17%	20%	30%	20%	39%

In August 2020, almost 37 percent of total retail spending continued to come through digital channels, six percent higher than the pre-COVID-19 digital share.⁵

In the online world, your digital and supply chain capabilities are on display



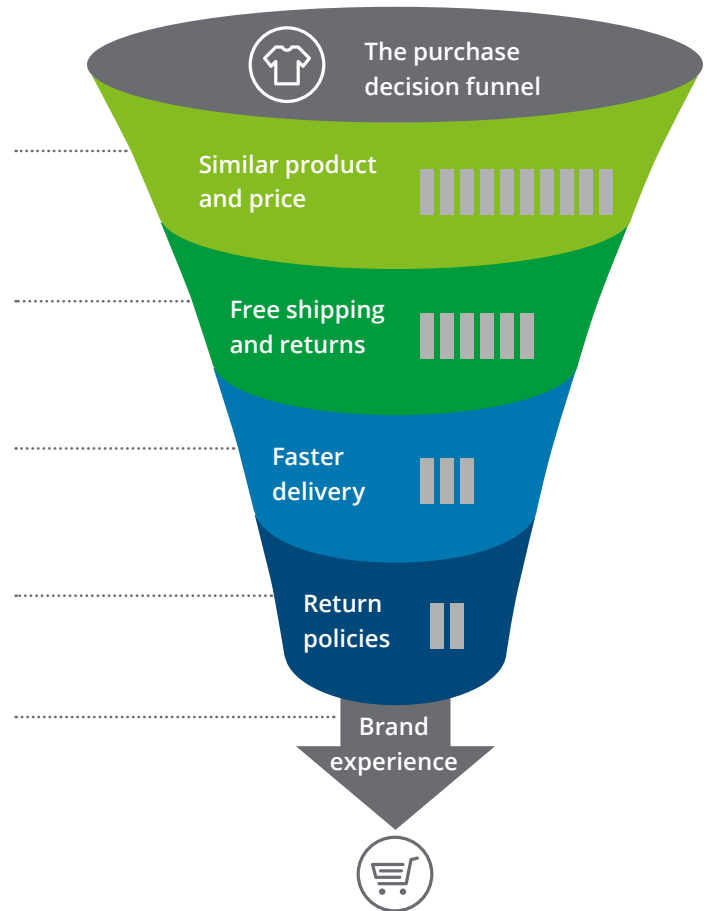
The heightened consumer preference for online shopping means more focus will be placed on e-commerce services and experiences than ever before. Educated consumers will comparison shop for services along with products and prices.

Costs for package delivery and mailed returns are the greatest cart abandonment driver. Forty percent of customers won't complete checkout if these costs are too high.⁶

Ten percent of customers will abandon their cart if a package won't deliver on time or the delivery time frame is not clear.⁷

Five percent of customers will abandon their cart if they're not allowed sufficient time to return products or the wait for a refund is too long.⁸

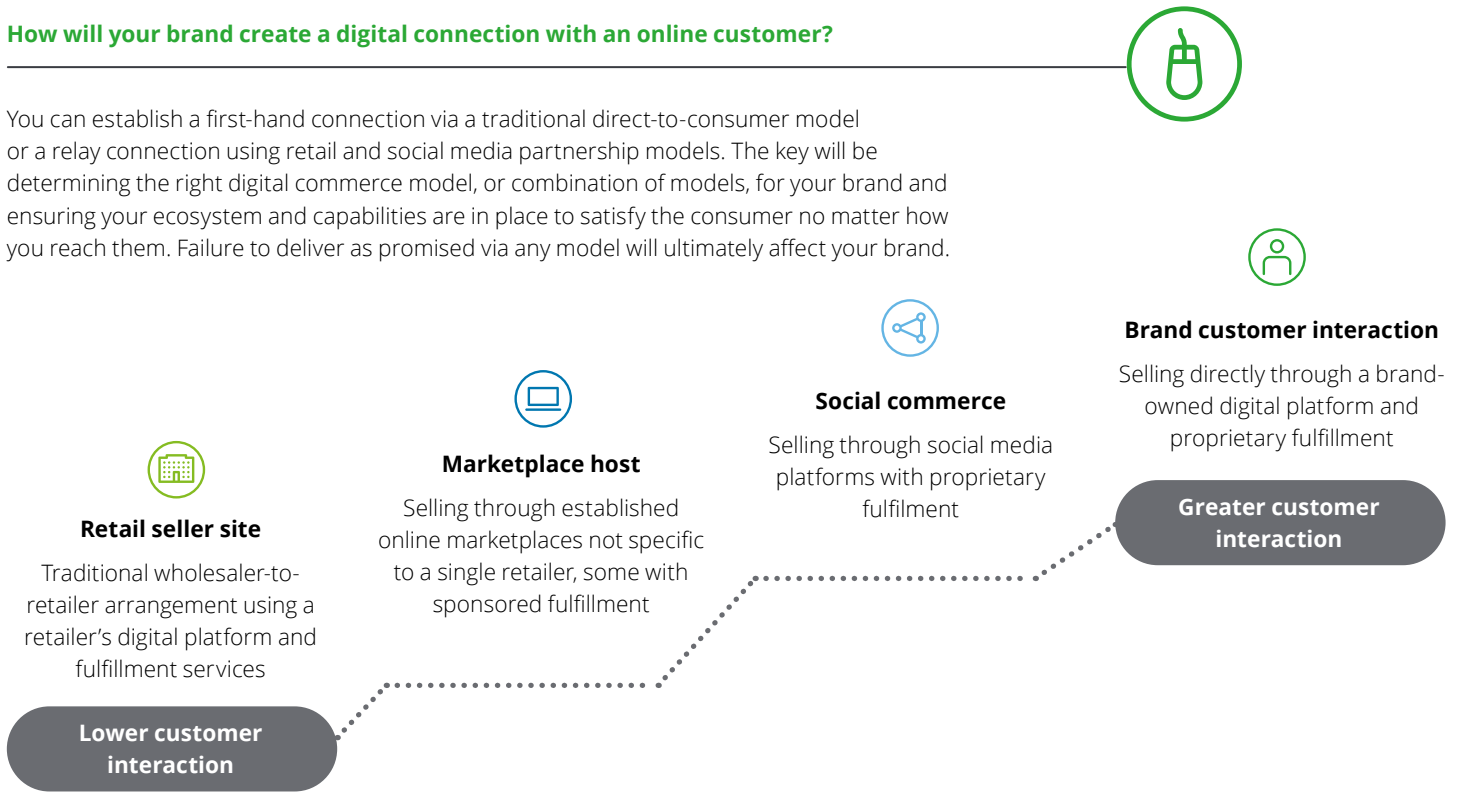
Sixty-nine percent of customers will continue to shop with a brand they've had an excellent site, delivery, and returns experience with.⁹



When all else is equal, e-commerce capabilities will convert virtual window-shopping into sales.

How will your brand create a digital connection with an online customer?

You can establish a first-hand connection via a traditional direct-to-consumer model or a relay connection using retail and social media partnership models. The key will be determining the right digital commerce model, or combination of models, for your brand and ensuring your ecosystem and capabilities are in place to satisfy the consumer no matter how you reach them. Failure to deliver as promised via any model will ultimately affect your brand.



How will your supply chain be impacted?

Warehouses, processes, and systems that were designed to move full cases of products from dock to dock cannot maintain the same levels of efficiency when cases are opened to sell products as individual units. The shift from case-level to unit-level processing will add labor, material, and transportation expenses throughout the product and order life cycles.

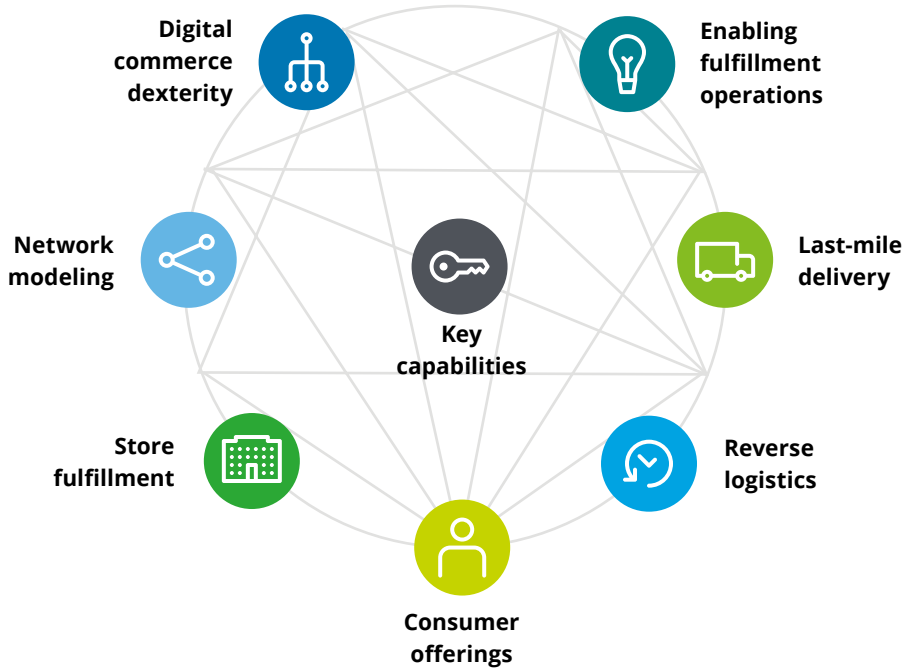


Based on the average case pack, shifting to unit-level processing results in 24 times more supply chain touches to complete orders. Facility alterations, system enhancements, and new ways of working will be required to maintain expense rates and profit margins.¹²

How will you succeed?



Your digital ecosystem and supply chain must excel in seven key areas in order to support increased sales while maintaining financial performance and service standards.



1 Digital commerce dexterity

At a minimum, companies must assess their current digital capabilities to understand their maturity and add internal or external support where needed.

Key opportunities:



Converting demand through online channels means targeting different segments, knowing how customers shop, and understanding engagement drivers



Developing an easy-to-navigate site or platform requires understanding what matters most to the user across their interactions



Creating and implementing the most effective technical platform means recognizing key functionality and ensuring seamless operations



Having an effective merchandising approach means managing assortments across channels and displaying products in a compelling way



Understanding the effectiveness of strategies means collecting data across channels and mining key insights embedded in collected data

2 Network modeling

Key digital players have set the competitive bar and consumer expectation for two-day delivery. Network modeling is a powerful tool to achieve this at minimal cost.



SKU segmentation by brand or product type can result in longer delivery times or require expedited carrier service to deliver in two days.

Key opportunity:



Segmentation based on SKU velocity and consumer demand can allow for delivery to all customers in two days or less using ground service.

3 Store fulfillment

Fulfilling online orders in brick-and-mortar stores can improve profit margins by avoiding markdowns in slow-selling locations. Achieving the same expense rate as warehouse fulfillment requires leveraging store strengths.

Stores are designed to maximize the shopping experience. Picking and packing orders in a dynamic environment can increase costs and impact the customer experience.

Key opportunities for stores:





- Single-unit orders
- Buy online, pickup in-store (BOPIS), curbside pickup, and ship-to-store
- Warehouse return hubs

Customers who cross-shop online and in-store are worth 30 percent more in lifetime value for retailers.¹³

4 Enabling fulfillment operations

The shift to unit-level processing will result in 24 times more touches to complete orders.¹⁴ Process inefficiencies and poor use of space or materials will quickly stress the supply chain and compound incremental costs.

Key opportunities:

-  Stocking strategy: SKU allocation based on demand, centralized stocking of slow sellers, and capturing attributes at the source
-  Control tower: Order wave management, waveless replenishment, and cyclical inventories
-  Automation and IoT: Automated storage, retrieval, and packaging; AI-guided or robotic processes
-  Sustainable packaging: Standards and materials that eliminate waste and promote ongoing use

5 Last-mile delivery

Customer demand for fast delivery, coupled with increased e-commerce volumes, is exceeding the capacity of traditional delivery networks. Emerging models can be layered into traditional methods to support growth and service performance.

Traditional models:

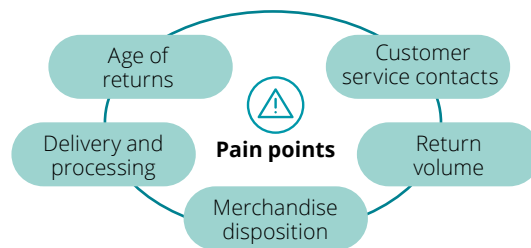


Emerging models:



6 Reverse logistics

Customers return online purchases three times more often than in-store purchases.¹⁵ Failure to address key return pain points will drive expenses and dilute your customer experience.



Key opportunity:

Ensure return policies are competitive and customer-centric. Establish processes to optimize returned merchandise's value.

7 Consumer offerings

Experienced online shoppers know the methods and costs associated with package delivery. Cost-to-serve e-commerce capabilities establish a trustworthy brand and create brand loyalists.

Key opportunities:

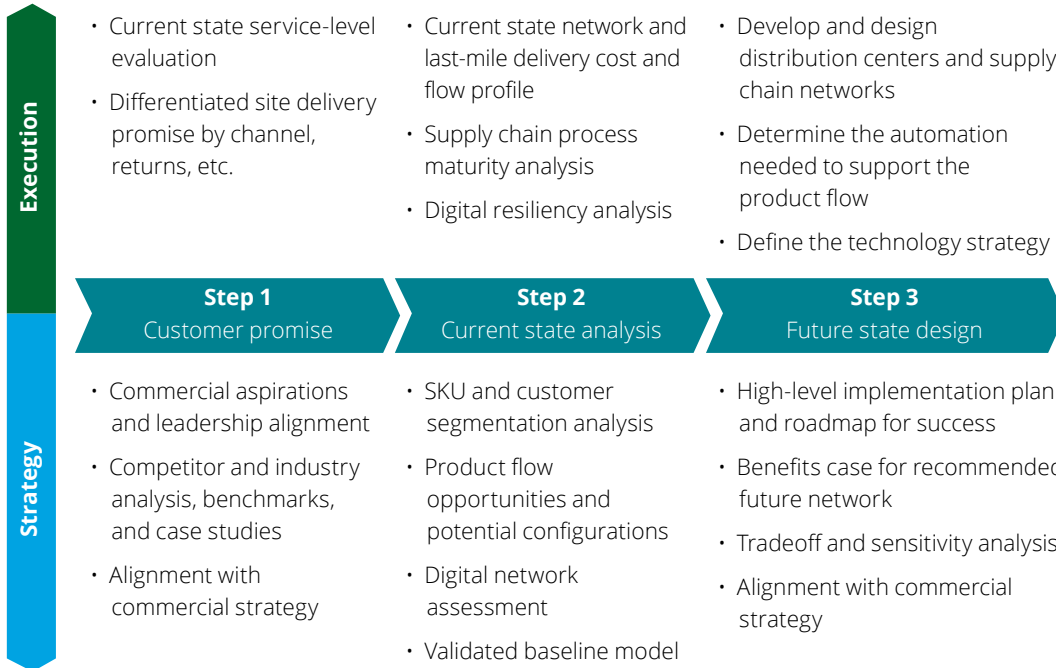
	Cost	Speed	Service
When you achieve	Maximum productivity and throughput	Same-day processing	Efficient reverse logistics
You can offer customers	Free delivery and returns	Two-day delivery	Flexible return policies and fast refunds

Focus on selling your brand rather than your fulfillment services. Sales growth from increased loyalty and fewer abandoned carts is worth far more than revenue generated from fees.

How Deloitte can help



Deloitte can help you realize value quickly and effectively to meet market opportunity today and in the future. Our approach begins with the customer promise and sets the foundation for your future e-commerce ecosystem and supply chain.



Deloitte’s digital commerce services can be tailored to retail, wholesale, and consumer products companies to accelerate any journey.

Endnotes

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| <ol style="list-style-type: none"> 1. Nielsen, “COVID-19: Tracking the Impact on FMCG, Retail and Media.” 2. Deloitte Insights, “Deloitte State of the Consumer Tracker.” 3. Ibid. 4. Ibid. 5. Ibid. 6. Baymard Institute, “41 Cart Abandonment Rate Statistics.” 7. Ibid. 8. Ibid. | <ol style="list-style-type: none"> 9. William Kammerer, “Last mile strategy: Enabling speed and flexibility upstream,” Deloitte. 10. Logistics Management, “Parcel experts weigh in on FedEx & UPS so far throughout the COVID-19 pandemic,” June 8, 2020. 11. Aaron Orendorff, “The Plague of Ecommerce Return Rates and How to Maintain Profitability,” Shopify, February 27, 2019. 12. Deloitte Consulting LLP internal analysis. 13. Ibid. 14. Ibid. 15. Ibid. |
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