Hindsight Is 2020:

A Retrospect of Key Retail and Supply Chain Stats from the Most Impactful Year in Modern History

The COVID-19 pandemic has left the retail and logistics industries wondering what's next. While eCommerce retail has steadily grown over the last 10 years, the supply chain and logistics networks built to support omnichannel commerce haven't caught up. This year, it became very clear how far behind supply chain really was.

Stay-at-home policies and store closures moved retail sales online, almost overnight. No business was prepared for that shift. Not even Amazon.

In March of 2020, goods were classified as one of two things: Essential or non-essential. Stores closed, panic-buying ensued, and society saw Amazon, one of the world's leading retailers making massive tradeoffs for the first time.

The increase in eCommerce orders inundated Amazon, causing some Amazon Prime products to take a month to deliver.[1] It had to deprioritized the shipping of nonessential goods to increase the throughput of essential products. The pandemic unraveled the same business that conditioned shoppers to expect almost everything in one day.

No business was prepared for the swift shift to eCommerce.

2020 changed the world, forever, in the blink of an eye. And, there's no going back.

Forward-looking retailers and brands are embracing the change and mapping the road ahead.

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Looking Back

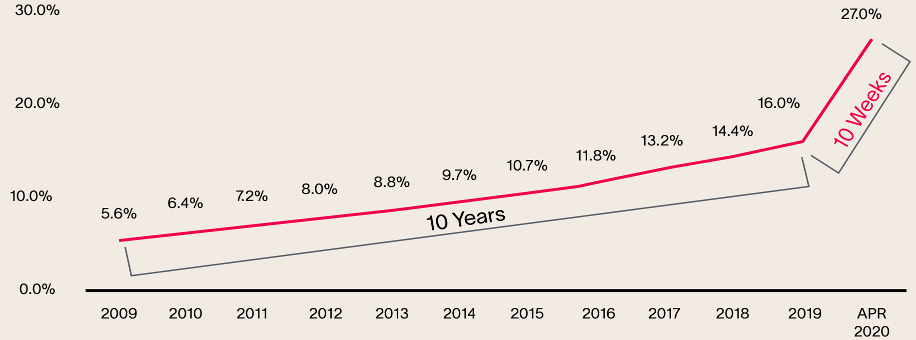
The impact on commerce has not been small. Consumer buying behaviors have fundamentally changed, retailers and brands have had to increase throughput across new sales channels, and logistics networks are acutely focused on trying to keep up.

It's no understatement to say that 2020 will be one of the most pivotal years in modern history. And, though it has been difficult, disruptions like a pandemic bring massive opportunity for innovation. In retail, that has meant a bigger share of eCommerce in total spend. In the supply chain, it has exposed to the world the vulnerabilities of an outdated system—one that wasn't designed to support the massive shift to omnichannel retailing.

Stores closed, sales moved online

Though essential businesses like grocery and drug stores remained open, consumers quickly adapted to online shopping. In just 10 weeks, eCommerce sales saw the same amount of growth that it had over the last 10 years[3], with more than $1 in every $5 being spent online in Q2 2020.

Store closures incited a mass conversion of shoppers that either have never or rarely shop online. In fact, eCommerce purchases are expected to increase 160%[4] from new- or low-frequency users.



Source: Bank of America, U.S. Department of Commerce, ShawSpring Research

Omnichannel is up and it's important to shoppers

A recent survey showed that consumers are more likely to purchase from a retailer that has omnichannel options, including curbside pickup, and in-store and virtual appointments.[5]

Having omnichannel options pays dividends. According to respondents, having these options would make them:

+ Feel safer and happier (54%)
+ Think better of the retailer (54%)
+ Return to the retailer (53%)
+ Visit the retailer (50%)
+ Choose that brand over the competition for future purchases (48%)
+ Buy something online (47%)
+ Buy something in a store (45%)

Other notable shifts in buying behaviors:

+ 49% of grocery shoppers purchased online, with 43% of those doing it for the first time.[6]
+ More than half of consumers made one or more online purchases in the groceries & household (56%) and health & beauty (51%) categories during the pandemic.[7]
+ If these categories make further inroads online, by some estimates food & beverage could grow at a 58.5% year-over-year rate and health at 32.4%, which would make them the fastest-growing categories in e-commerce.[8]

How retailers and brands are responding:

Target

Most notably, Target increased pick-up sales by 60% and drive-up sales by 700%+ in Q2 2020. It quickly pivoted to support social distancing and stay-at-home mandates, which validated that buy-online-pick-up-in-store (BOPIS) fulfillment methods are critical for online retail and grocery sales.[9]

Walmart

In Q2 2020, Walmart disclosed in its earnings release that eCommerce sales had nearly doubled from the same period the year before.[10] Since then, it has invested heavily and innovated quickly to support continued growth.

Since then, it announced a partnership with Shopify sellers to use Walmart's online marketplace, which has more than 100 million monthly visitors.[11] It also teamed up with Instacart in August to fuel same-day grocery delivery.[12] And, in November, it announced plans to create pop-up fulfillment centers within its distribution network, and estimates the pop-up locations will ship approximately 30% of its holiday online sales.[13]

Amazon

In 2019, Amazon announced it was increasing the speeds of Prime shipping from two-day shipping to one-day shipping. In Q3 2019, it reported sales of $70 billion, but profits came in far under projections. The reason is the cost of shipping and fulfillment. In the first 3 months of Prime one-day, it spent 50% more on shipping than it did in the same time period a year earlier—up to $9.6 billion.[14]

In 2020, Amazon announced its plans to open 1,000 suburban same-day hubs all over North America to shorten delivery times even more.15 The move will enable Amazon to position goods even closer to consumers so that delivery isn't much longer than a traditional trip to the store. By the time this news was released, Amazon had already hired 175,000 new workers to support eCommerce delivery and make up for issues it faced when the pandemic first hit the U.S.

Delivery options matter

96% increase in level of importance of curbside pickup options for consumers—going from 27% before the pandemic to 53% after.[4]

Not all retailers were prepared

In 2020, there will be more than twice the amount of store closures than during the height of the Great Recession in 2008, in which 6,200 stores closed.

More than 14,000 stores closed in the first three quarters of 2020.18 An astonishing number, especially when you compare it to previous years.

+ 9,800+ stores closed in 2019
+ 5,700 stores in 2018
+ 8,000 stores in 2017

14,000 store closures in 2020—more than double the 6,200 closures in 2008 [19]

So, what now?

Sixty-two percent of consumers say they shop online more often now than they did before the pandemic.16 On one end of the spectrum, there's Amazon. No business can invest in losing billions to provide the fastest shipping possible.

Then, there are the other big-box retailers that have been funneling money into innovation for years. These companies—Walmart, Target, Costco, and more—they were able to scale operations to support the immediate, and massive, shift to online retail because a level of their operations already supported omnichannel fulfillment. The groundwork was already placed, putting them in a strong position to pivot quickly and continue to serve shoppers.

Top-performing retailers in 2020[17]

+ Walmart
+ Amazon.com
+ The Kroger Co.
+ Costco
+ Walgreens Boots Alliance
+ The Home Depot
+ CVS Health Corporation
+ Target
+ Lowe's Companies

Shifting to support higher online shopping volumes and other curbside initiatives comes down to logistics. But that portion of the industry wasn't left unscathed, especially in the beginning.

Let’s talk logistics

COVID-19 had significant impacts on the global supply chain, but it happened in waves. And it persists.

China is the world’s epicenter of manufacturing and supply chain, and it was impacted first. Production came to a screeching halt. Retailers and brands with manufacturing operations in China found themselves without inventory.

Then, as China started to reopen, the U.S. shut down and stores closed.

In China, manufacturing operations resumed, inventory was put on ships, and the ships got stuck on the water. Once freight was able to dock, companies found themselves with excess inventory and little logistics network capacity to support. Especially as throughput slowed when stores closed.

The impacts to supply chain businesses have varied immensely. Some businesses have benefited from increases in eCommerce volumes, but others have not had the same experience.

In a recent survey[20] to logistics providers, the majority (53%) of respondents said the impact of COVID-19 has been negative, resulting in delayed or cancelled projects, lower project volumes, and fewer new project opportunities.

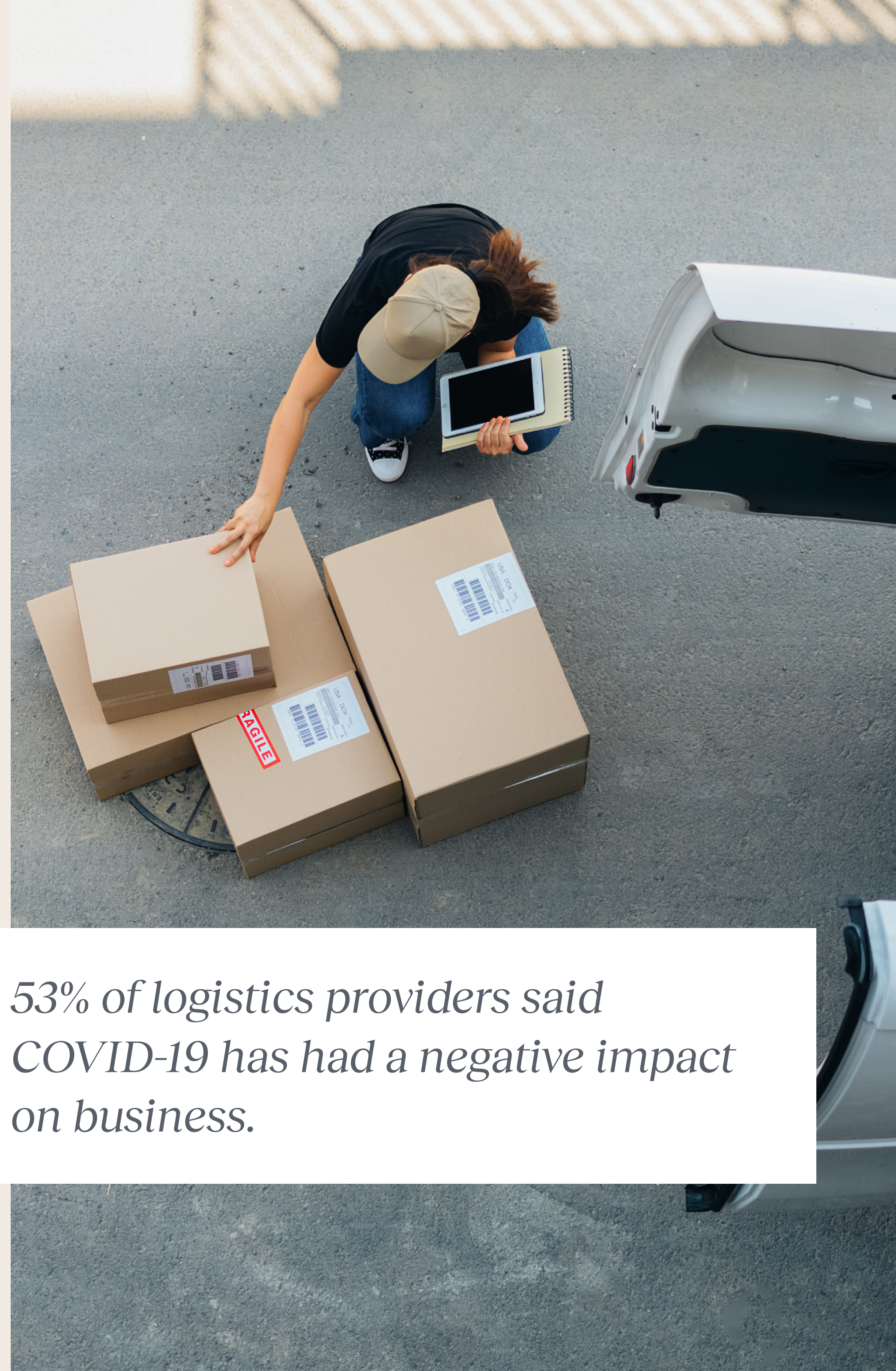
Business impact

53% have had a negative impact on business

+ 33% said projects have been cancelled or delayed
+ 25% said project volumes and number of new projects have decreased

Only 29% say the impact has been positive

+ 30% said new projects have increased
+ 23% said project volumes have increased



53% of logistics providers said COVID-19 has had a negative impact on business.

Labor market

In the same survey, 65% of logistics providers say that the shortage in the labor market has impacted business and 56% believe labor shortages have increased.

In terms of wages, 59% of respondents believe wages are getting more competitive and more than half (52%) believe that will persist after the pandemic.

Capacity shortages

Industry statistics show that U.S. average vacancy rates remain below 6% and every major market is under 10%.[21]

But according to the Flexe survey, available capacity varies, but it exists.

+ 42% of respondents said they are operating above 81%
+ 35% indicated they are operating between 61-80%
+ 23% are operating below 60% utilization

Parcel carrier networks

Retailers and brands are being capped by UPS and FedEx for parcel deliveries because they can't manage the volumes. Many are turning to smaller, regional carriers for support, but that's what SMBs use.

In the 2019 carrier performance survey, it showed that there was already an increasing trend to diversify carrier networks to include smaller, regional businesses like OnTrac, LSO, and others.[22]

But, according to recent data from Convey, there has been a 650% increase in carrier mix from January 2020 to October.[22]

Shippers turn to alternate parcel carriers

Carrier mix of Convey shipments

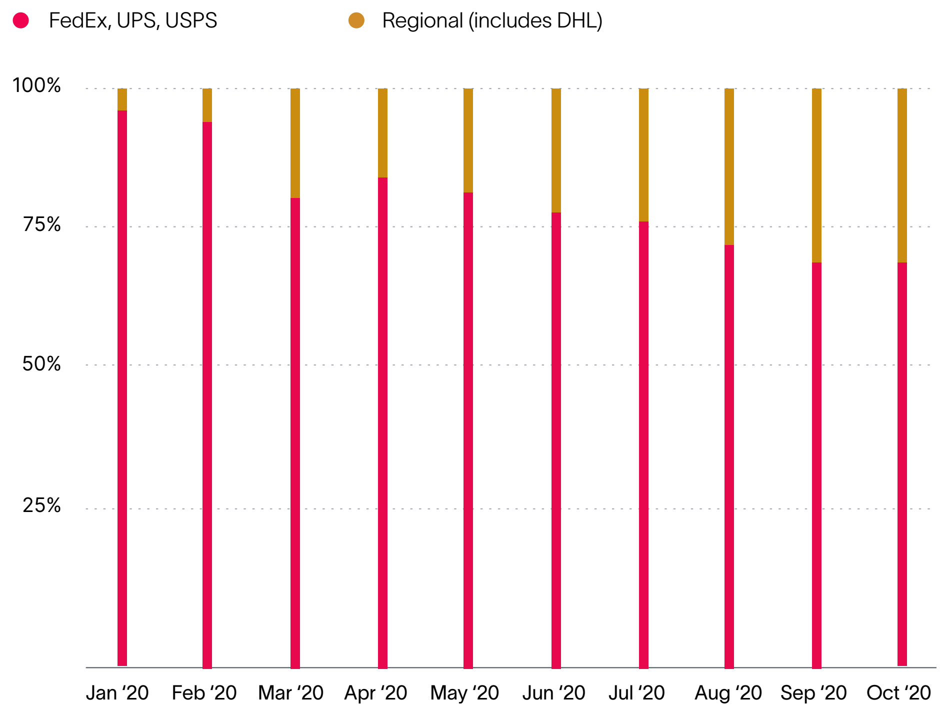


Chart via Supply Chain Dive, Source: Convey[22]

To compete in the labor market, 47% of logistics providers are increasing wages for warehouse workers.

Section 02

Looking Ahead

The cause and effect of COVID-19 and how it has impacted both the retail and supply chain industries will invariably alter the future of both. It already has.

The acceleration of eCommerce sales growth is forcing retailers and brands to innovate faster so they can support omnichannel retail and a variety of order-fulfillment operations. Never has it been more critical to figure out how operations can support the most compelling experience for consumers.

Looking ahead, retailers and brands must focus on diversifying operations—from upstream in the supply chain to logistics providers and all the way through to channel mix. It's one of the most effective ways to build resilience—both in supporting new sales motions, and also in making disruptions are less disruptive.

Keep customers at all costs

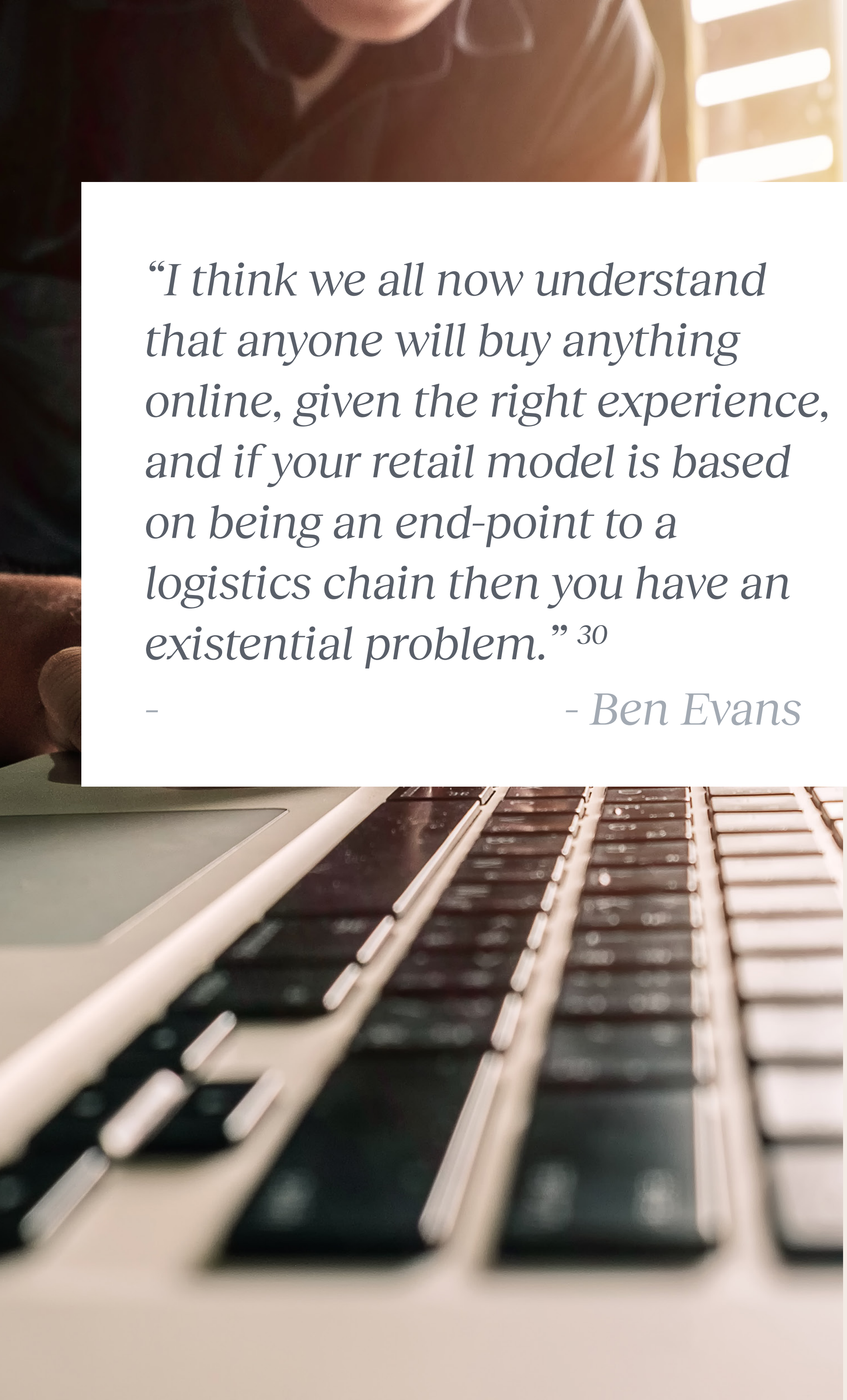
Consumers are also less loyal since the pandemic started, primarily due to products not being available due to stockouts and panic buying. Nearly 40% of U.S.consumers have tried new products or brands since the onset COVID-19.[23]

In times of uncertainty, shoppers are less likely to wait for their favorite brand to be available again. Price, product, and convenience continue to be some of the most important decision-making criteria for shoppers, and that impacts brand loyalty.[24]

Cost is still king, and it dictates a lot of online purchases. In fact, 50% of consumers will abandon a purchase because of hidden costs, specifically shipping, taxes, or fees.[25]

COVID-19 has changed how people shop forever. Retailers and brands must adapt and grow with those changes to keep up. That statement is not meant to oversimplify changes of this magnitude because they are not small shifts to make. But, they are changes that are required to keep up. Consider what the industry is already seeing for the 2020 holiday season

"Learn from the people further down the path from you and make their hindsight your foresight"[26]



> *"I think we all now understand that anyone will buy anything online, given the right experience, and if your retail model is based on being an end-point to a logistics chain then you have an existential problem."* [30]
>
> \- *- Ben Evans*

The holidays will speak volumes about the future of commerce

The 2020 holiday season may provide a glimpse into the new normal and what retail looks like when a significant portion of sales are online. It's estimated that 60% of shoppers will choose to shop online over physical stores during the holidays, and that the average spend online will be more than 2x in-store—$897 vs 390, respectively.[24]

The Black Friday / Cyber Monday shopping event is projected to see online grow 30-40% year over year. In the first 10 days of November, considered the first 10 days of the holiday season, consumers spent $21.7 billion online—a 21% year-over-year increase. All in all, online sales in the U.S. could experience a 43.3% increase from 2019, totaling $198.73 billion in sales.[28]

Before the pandemic, eCommerce was expected to increase about 13% in Q4 2020 compared to Q4 2019. Now, it'll be closer to 50%.[29] If retailers and brands aren't ready, they must figure out what it's going to take to get them there in 2021.

One last thought: Last year, eCommerce was predicted to increase 13% in Q4 2020 compared to 2019. Now, it's projected to increase 50%.[29] If retailers and brands aren't ready, they must figure out what it's going to take to get them there in 2021.

So, what's your plan?

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About Flexe

Flexe solves the hardest omnichannel logistics problems for the world's largest retailers and brands. Integrating technology, open logistics networks, and elastic economic models allows Flexe customers to move fast, at scale, and with precision. Founded in 2013 and headquartered in Seattle, Flexe brings deep logistics expertise and enterprise-grade technology to deliver innovative eCommerce fulfillment, retail distribution, same-day delivery, and network capacity programs to the Fortune 500.

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