



# THE E-COMMERCE SUPPLY CHAIN: **OVERCOMING GROWING PAINS**

DHL Supply Chain

E-commerce represents a powerful sales channel and growth opportunity for businesses that's forcing companies – both B2C and B2B – to rethink their overall sales and distribution strategies.

But as it continues to gain in importance and influence, businesses must quickly solve their supply chain challenges to ensure they capture available business value.

The push to adopt and excel in e-commerce presents both challenges and opportunities for businesses that integrate e-commerce into an overarching omnichannel sales strategy.

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## **SO WHERE DO BUSINESSES CURRENTLY STAND IN THEIR E-COMMERCE EFFORTS...AND WHERE ARE THEY GOING?**



## **> ABOUT THIS REPORT**

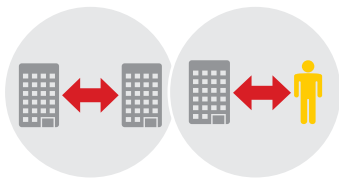
E-commerce has outgrown its 'infancy' and is rapidly moving into second-stage maturity. At the core of this stage is an effective e-commerce supply chain that can constantly evolve and adapt to solve the challenges posed by this fast-growing business channel.

To help companies understand the imperatives for capturing business value, DHL Supply Chain conducted a global survey on the evolution of e-commerce supply chains in the B2B and B2C markets. The survey captured the opinions and insights of nearly 900 decision-makers responsible for logistics/supply chain management and e-commerce distribution strategy across the globe. Respondents hailed from all the major industry sectors, including retail, consumer goods, life sciences, high tech, auto and engineering & manufacturing.

We wanted to learn:

- How far have companies come in building the next-generation supply chain?
- Are companies' supply chains agile enough to support rapid growth?
- What are the biggest e-commerce challenges facing companies today?
- What types of supply chain strategies, networks and operating models are employed today, and how will these change in the next three to five years?

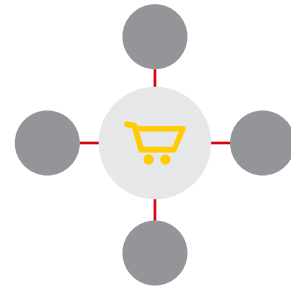
## > PULSE CHECK: THREE KEY INSIGHTS



1. While B2C e-commerce – especially retail – has been around longer than B2C, B2B has caught up in terms of offerings and execution quality.



2. Escalating consumer expectations is the key challenge for businesses that serve both the B2B and B2C markets. This concern focuses around the pressure to deliver excellent customer service – e.g. ease and convenience of ordering and tracking shipments, and near-instant service.



3. There is no single e-commerce distribution method that is dominating the industry. Many e-commerce distribution strategies continue to be evaluated and defined, presenting implementation challenges.

## > KEY INSIGHT 1: B2B HAS CAUGHT UP WITH B2C

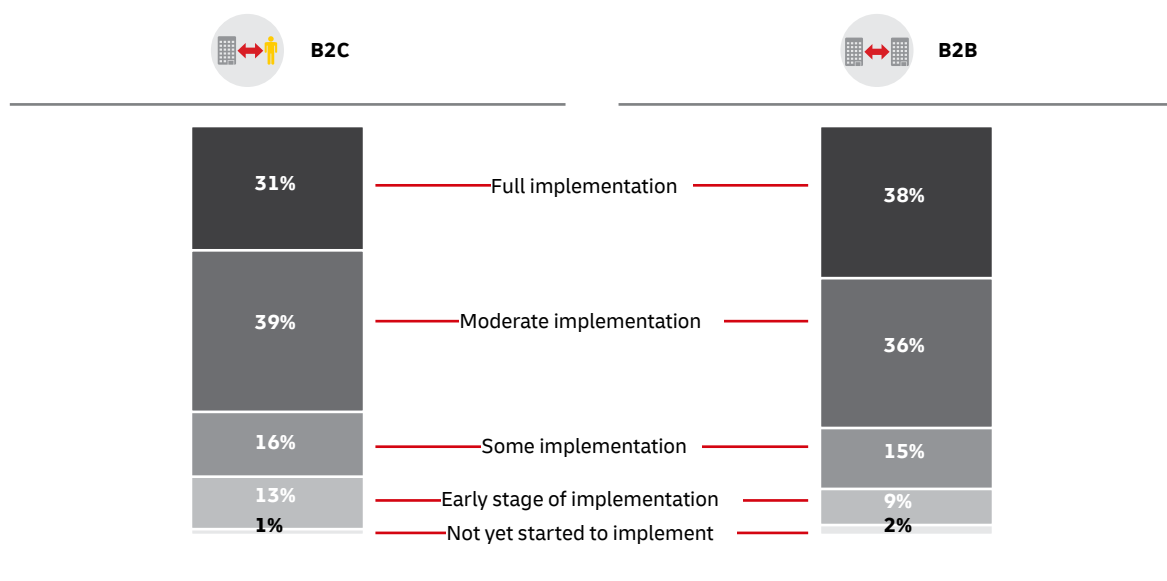
**‘The need for accurate information about product availability, shipping and inventory counts will become the single-most strategic element for driving bottom-line success and establishing customer loyalty.’**

E-commerce research interviewee

B2C companies, especially in consumer-oriented sectors like retail and consumer goods, have been operating in e-commerce for far longer than companies operating in the B2B world. This includes fulfilling online orders in the era of ‘instant gratification.’ However, B2B is quickly moving in this direction – leveraging technology (data analytics, robotics, automation) and the ‘right’ people, processes and partners to help get them there.

According to our research, almost 40% of those responsible for B2B e-commerce feel they have fully implemented their e-commerce strategy. This is in comparison to just over 30% for those operating in the B2C market.

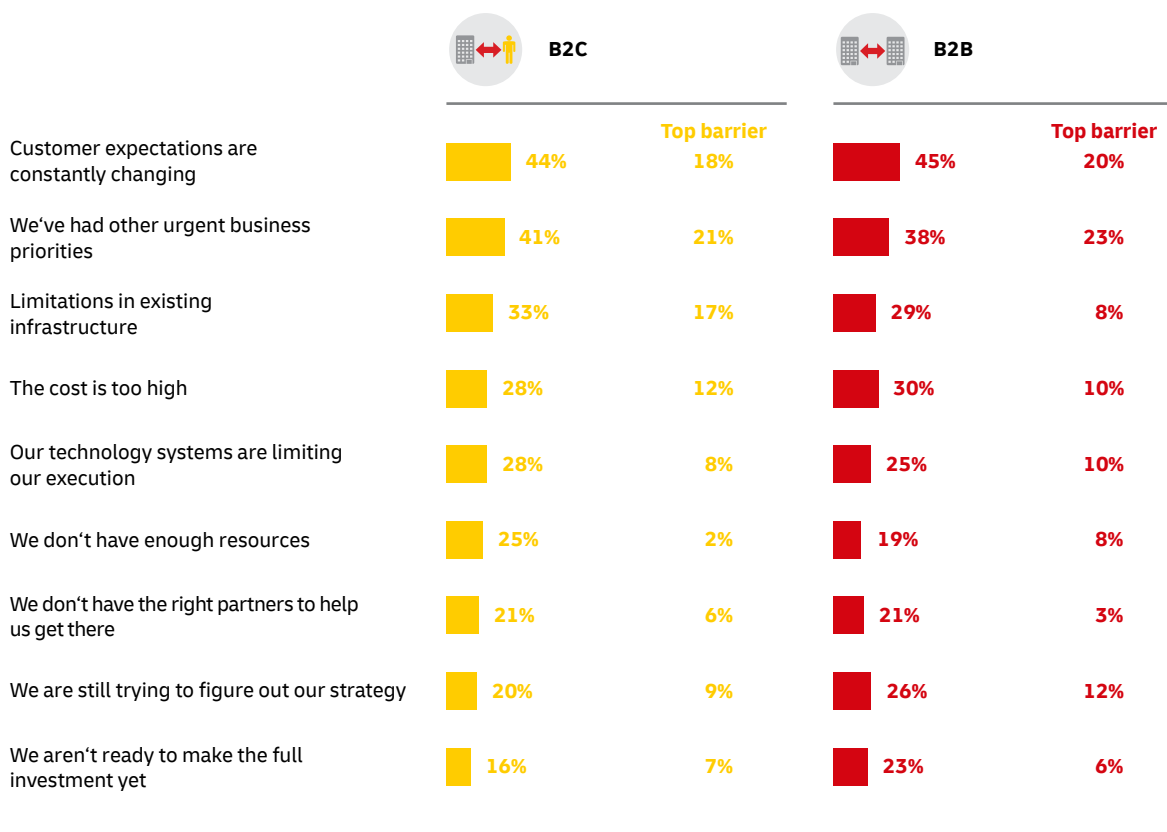
**FIGURE 1: EXECUTION OF E-COMMERCE STRATEGY**



That means approximately 70% of B2C and 60% of B2B companies are still working towards the full implementation of their strategies. So what is stopping companies from delivering on their e-commerce strategy? Our research highlighted three major challenges:

1. Constantly-changing customer expectations
2. Other urgent business priorities
3. Limitations in existing infrastructure

**FIGURE 2: BARRIERS TO FULL IMPLEMENTATION OF E-COMMERCE STRATEGY**



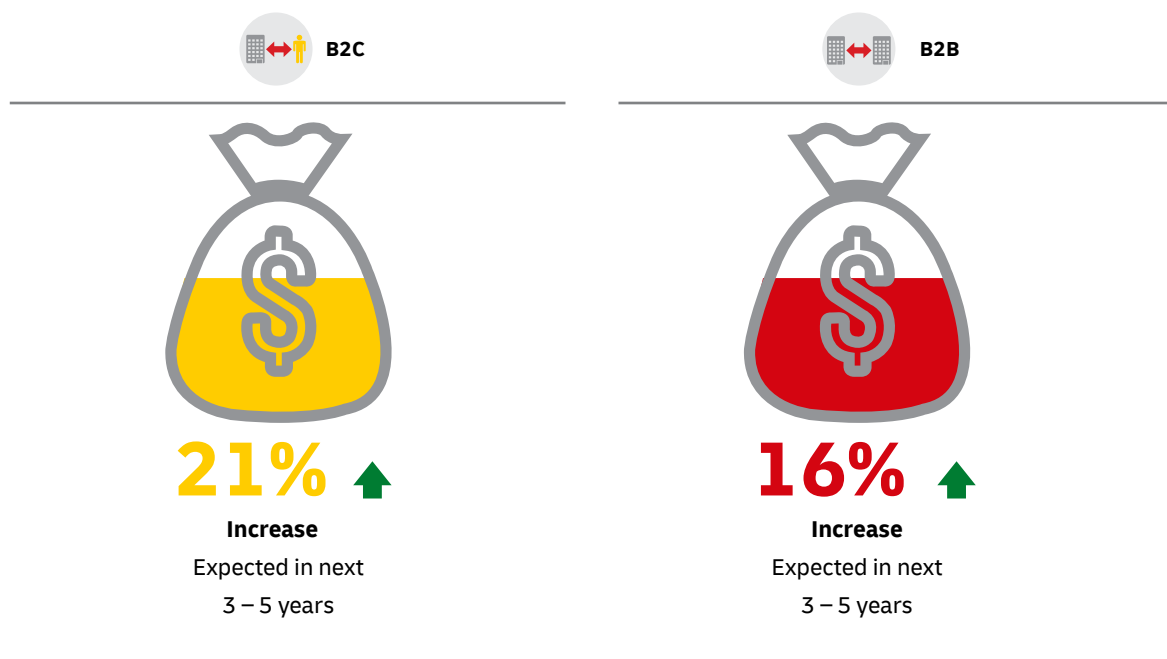
### Revenue from online sales

Almost 70% of respondents rate e-commerce as Very Important or Extremely Important to their business in terms of volume and revenue today. Additionally, both B2C and B2B businesses expect the percent of online sales for their business – in terms of both volume and revenue – to continue to increase over the next five years. While growth will be incremental in the next one to two years, a significant increase is anticipated from three to five years out.

Expected percent of revenue from online sales will grow by at least 15% in the next three to five years for both B2B and B2C.

**FIGURE 3**

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## ➤ KEY INSIGHT 2: CUSTOMER EXPECTATIONS ARE THE KEY CHALLENGE

**‘Same day is king. I need instantaneous satisfaction. That’s the [customer] expectation.’**

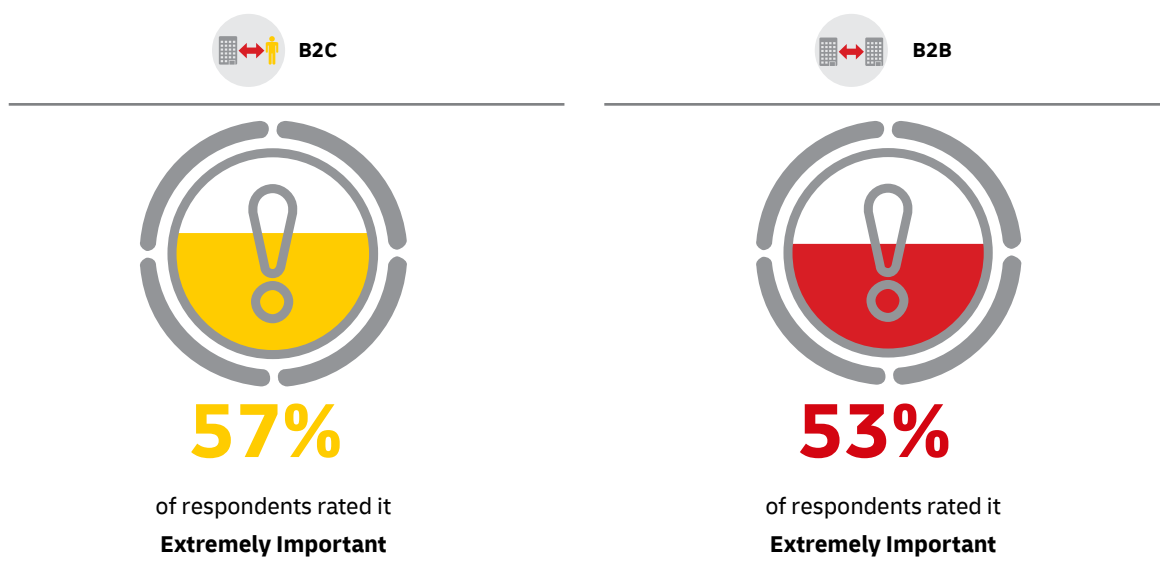
E-commerce research interviewee

Pressure to fulfill customer expectations continues to challenge businesses building out e-commerce offerings – and the new supply chains they need. Why? Primarily because of the strain of achieving perfect order fulfillment in the midst of constantly moving targets, including return options, flexible delivery offerings, instant track-and-trace capabilities and more.

### Customer Service

Our survey clearly showed that customer service was a key priority for our respondents.

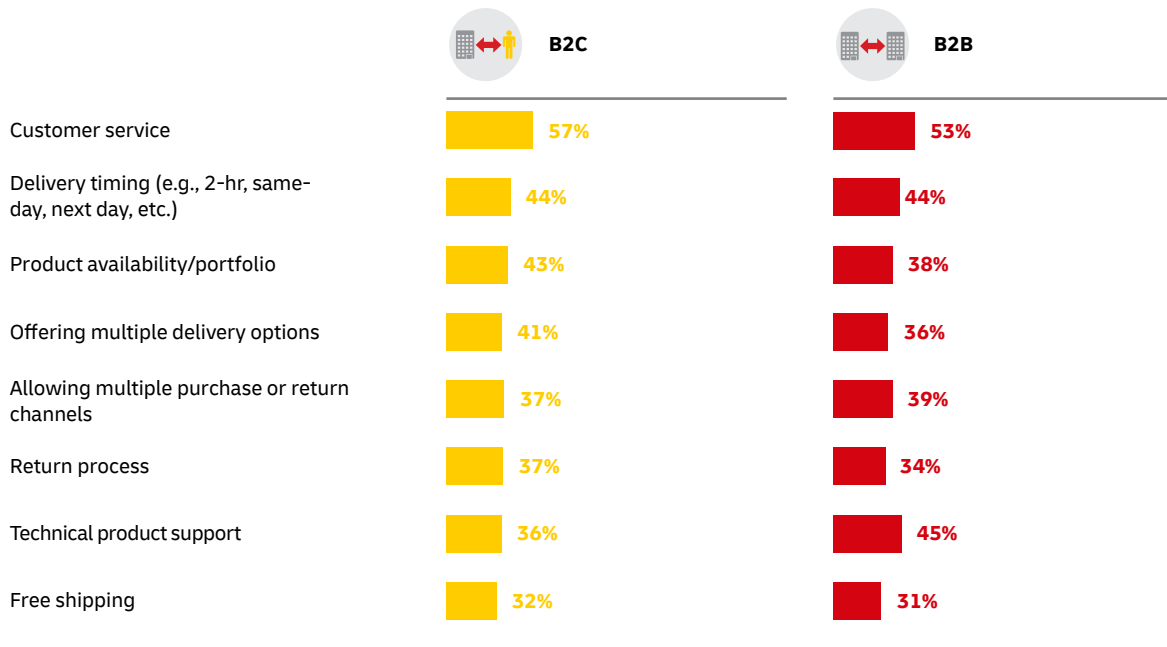
**FIGURE 4**



Simply put, customers want a great, “painless” e-commerce/online purchase experience. Not only do they want this – they expect it. And they want it on their terms. “Perfect” customer service; “perfect” customer experience.

Assuming price parity, purchasing decisions are, with increasing frequency, now based on how well businesses meet their customers’ demands. Demands that not too long ago may have been inconceivable – including two-, one-, or even same-day delivery; customization; real-time tracking; flexible omni-channel ordering; and receipt and return capabilities.

**FIGURE 5: CUSTOMER EXPECTATIONS ON E-COMMERCE STRATEGY: EXTREMELY IMPORTANT**



Because of rapid growth and rising customer expectations, companies often struggle with developing a supply chain that not only meets these expectations but can scale rapidly to provide the same or a better level of service as their business grows.

Given this reality, many companies opt to partner with a 3PL to augment their in-house resources/capabilities, enabling them to quickly and effectively scale, so they can capitalize on e-commerce opportunities.

3PLs are able to:

- Support strategy development to get it right the first time
- Ensure the e-commerce supply chain is 'fit for purpose'
- Partner for success
- Help solve issues



## ➤ KEY INSIGHT 3: FINDING THE RIGHT DISTRIBUTION STRATEGY

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**‘The sense of urgency in the marketplace is material. So, no time for retailers or B2C organizations to take their time to figure things out and do it in the methodical way you’d see in a traditional CPG model. Things are going – growing – too fast.’ You need sophisticated and automated solutions and the flexibility to handle volatility. Finding the right balance is the biggest challenge and opportunity that exists.’**

E-commerce research interviewee

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Balancing cost and service trade-offs is an essential determinant of success and profitability for an e-commerce offering. Beyond cost, which will always be a factor, businesses are scrambling to design and operate supply chains that keep up with, and respond to, new business models, service expectations and technological needs. Meeting or exceeding these constantly evolving expectations is essential to capturing and retaining customers in an environment where they are increasingly intolerant of service limitations or failures.

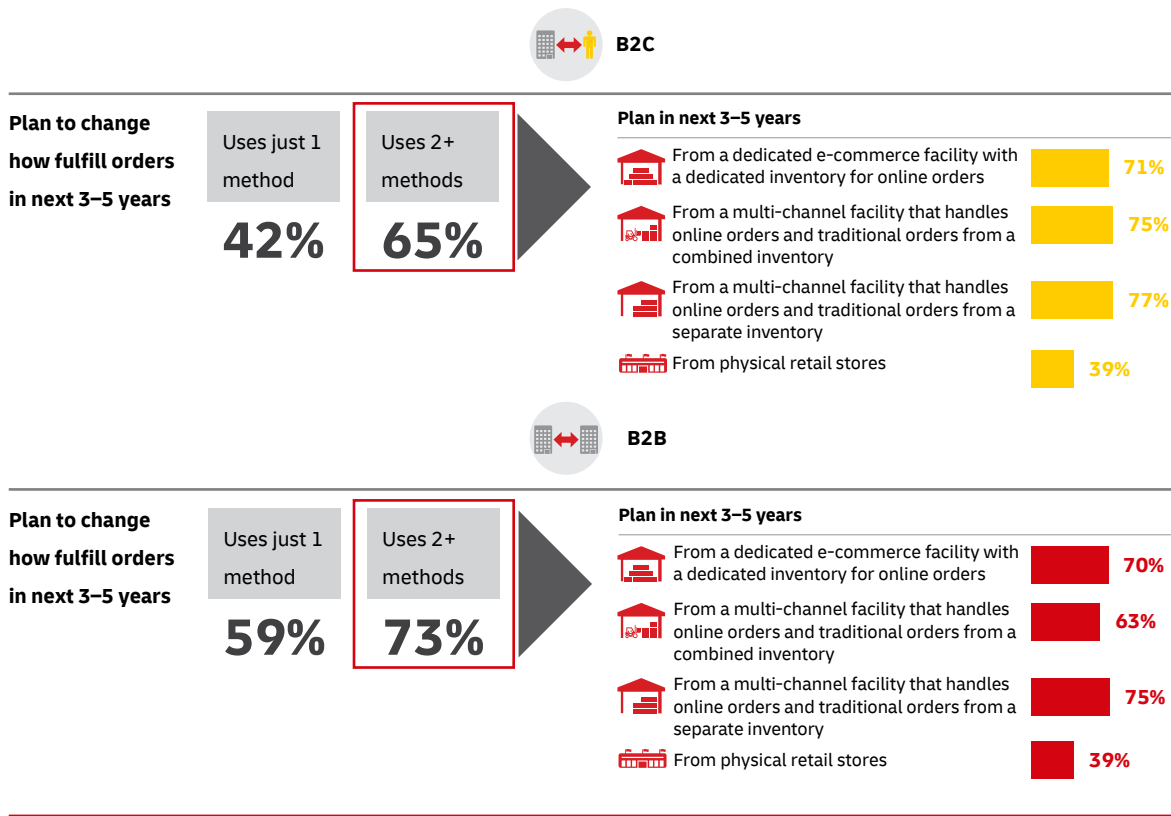
What companies need in the e-commerce journey depends on where they are coming from – they are all in different places in terms of implementing their e-commerce strategy, which means they will have different strategies and expectations about how to move forward with their supply chains.

This explains why, from an inventory and distribution perspective, businesses are mixed in terms of how they handle e-commerce orders today and how they will handle them in three to five years from now. Companies are typically using two or more distribution methods today to fulfill their orders and when you look at the next three to five years, over 50% of them intend making some type of change to their strategy.

There is major movement across each type of distribution method over the next three to five years, meaning there is no clear winner determining how e-commerce distribution should be managed in the future from:

- Dedicated e-commerce facility, dedicated inventory
- Multi-channel facility, combined inventory (online, traditional)
- Multi-channel facility, separate inventories (online, traditional)

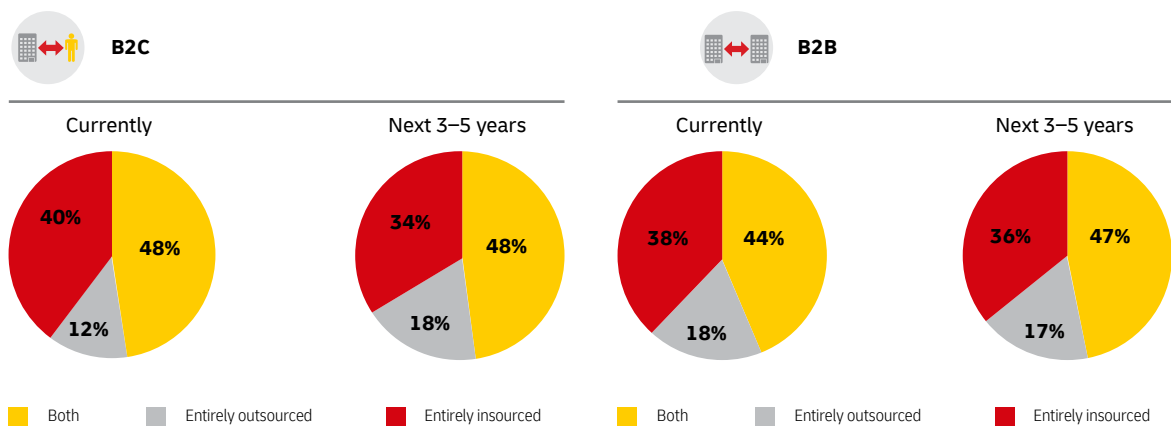
**FIGURE 6: PLAN FOR FUTURE APPROACH TO PHYSICAL ORDER FULFILLMENT**



**A hybrid approach.** The intricacies and complexities of e-commerce fulfillment are one reason companies choose to outsource some or all of their supply chains to a 3PL. This is especially true for organizations that need to scale quickly, sell across country borders, or don't want to fund the necessary infrastructure investments in-house.

Our research clearly illustrated this penchant for adopting a hybrid insource/outsource strategy, with approximately 47% of respondents opting for this approach.






**FIGURE 7: FULFILLMENT OF ONLINE ORDERS**



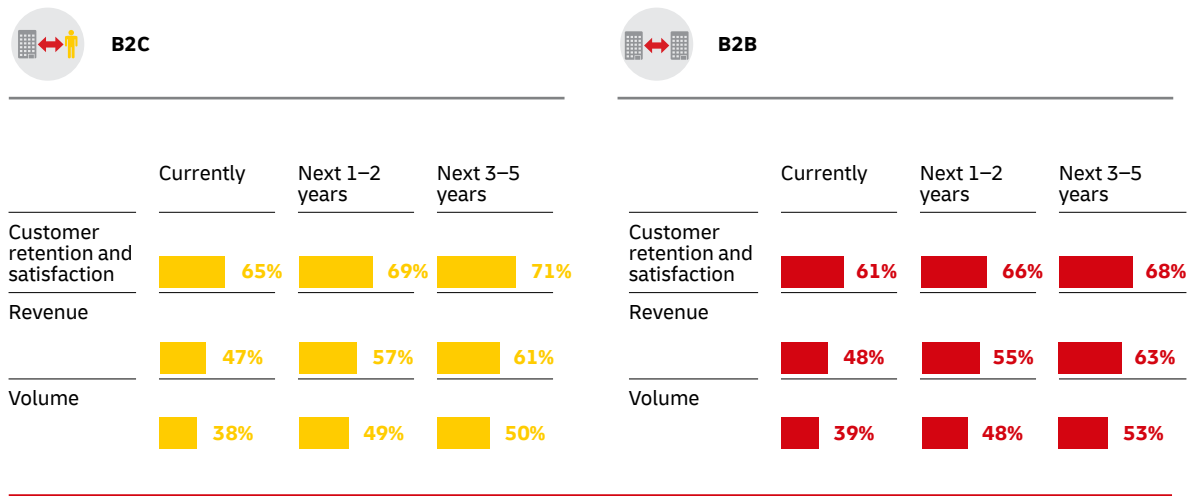
**Why outsource?**

As noted above, most firms use a 3PL for at least some of their e-commerce supply chain needs. But why do companies choose to outsource in this manner?

Our research identified the following as key reasons companies outsource to a 3PL:

- Supply chain expertise 
- Optimization (operational, cost and/or service) 
- Fulfillment services tailored to meet varying customer service requirements 
- Technology innovation and analytics 
- Flexibility in distribution network 

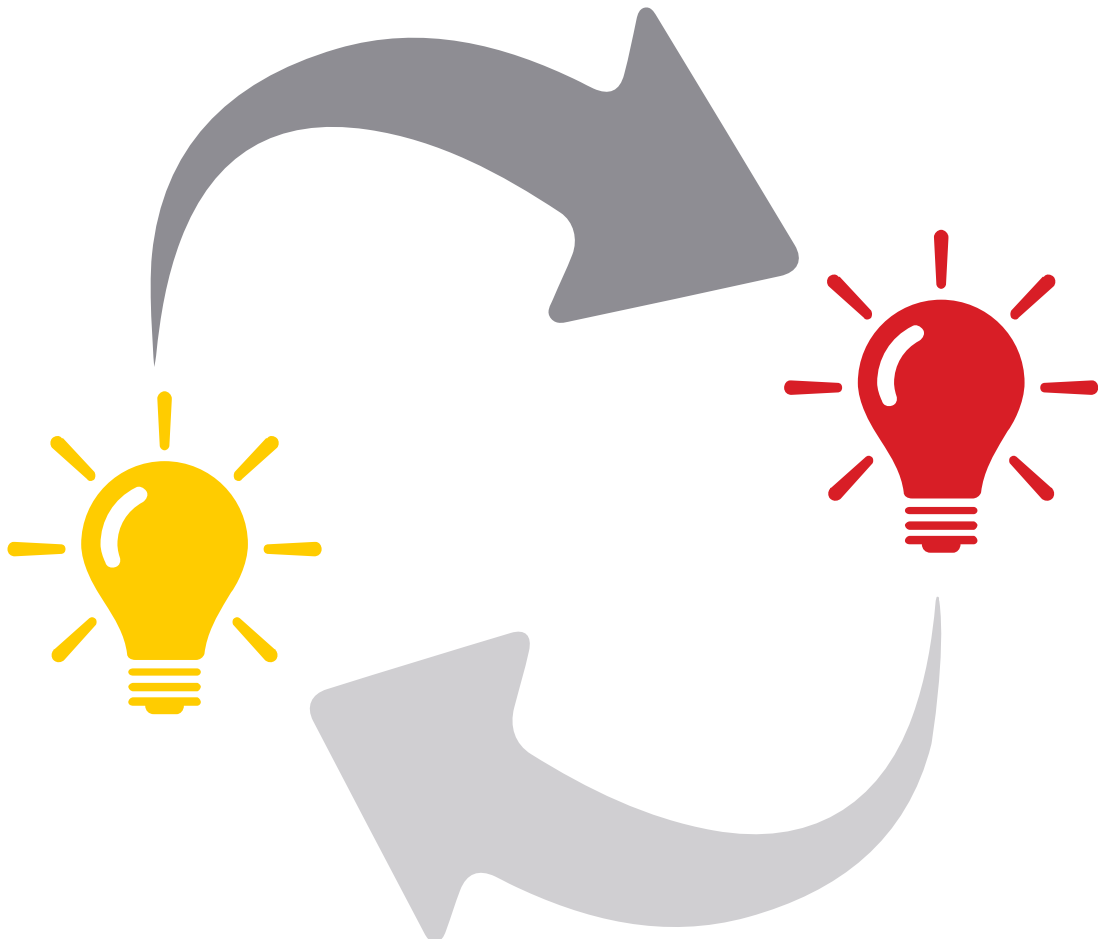
**FIGURE 8: IMPORTANCE OF E-COMMERCE ON DIFFERENT ASPECTS OF BUSINESS: EXTREMELY IMPORTANT**



## > CHANGING SOLUTIONS FOR A CHANGING BUSINESS

The one constant that can be associated with every aspect of e-commerce today, and as it evolves in the future, is rapid change. This requires highly adaptable, agile, and responsive and – at the same time – cost-effective supply chains. The solution is not to develop supply chains that meet customer expectations at any cost. The challenge, and what differentiates winners from losers on the e-commerce battleground, is to do both – provide outstanding service while driving profits.

**The bottom line:** Transformation is necessary for survival at this point – to gain competitive advantage, companies need to do everything right the first time. There is no time for experimentation. The opportunity to gain competitive advantage still exists, but it's now predicated on avoiding the common resource- and time-wasting mistakes that bog down transformative change.



**For further information**

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