Fabric's 2022 Retail Report

The 3 Biggest Last-Mile Challenges the Retail Industry is Facing Today

& Key Strategies to Overcome Them

Fabric

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Introduction

Fulfillment has never been so challenging for retailers & brands

While some trends that emerged during the pandemic were wholly new — sports stadiums full of cardboard fans, DIY haircuts, *Tiger King* — in many other ways, the pandemic only accelerated changes that were already underway.

How did you go bankrupt?" Bill asked.

"Two ways, " Mike said. "Gradually, then suddenly.

— Ernest Hemingway, *The Sun Also Rises*

This is especially true for the retail space. While American consumers had been steadily shifting their spending online for years, e-commerce made a quantum leap when the pandemic transformed life as we know it practically overnight.

This jaw-dropping growth in online shopping has presented businesses with unprecedented challenges. To get a clearer sense of how this rapidly shifting landscape looks today, we surveyed 500 consumers and 200 retailers and brands. What we learned may surprise you.

Read on to learn about the three biggest fulfillment challenges retailers are facing today — fulfillment capacity, shipping carriers, and consumer expectations — and how retailers can overcome these challenges to stay competitive and best serve their customers in an unpredictable and ever-evolving market.

Key takeaways

E-commerce is here to stay:

35%

E-commerce penetration **more than doubled in 2020** and has held steady ever since

Retailers are plagued by so many challenges that

amazon

is actually **not retailers' biggest concern**

So what are retailers and brands losing sleep over?

1, 2, 3

The biggest challenges: fulfillment capacity, shipping carriers, and consumer expectations about speed

#01 Lack of fulfillment capacity is blocking growth:

99%

of retailers have **lost sales** due to insufficient fulfillment capacity

It mostly boils down to real estate and labor woes

1 billion

The additional square footage of warehouse space retailers will need for e-commerce by 2025

+490K

A record number of open jobs in the warehouse and transportation industry in July 2021

22%

The average **lost sales retailers reported last year** due to insufficient fulfillment capacity

And retailers only expect the problem to get worse

30%

The amount of **sales retailers expect to lose this year** due to insufficient fulfillment capacity

Online sales have plateaued, but that's only because retailers have reached their chokepoint

40%

What the online share of retail sales would be today if retailers had the necessary fulfillment capacity to meet consumer demand

Key takeaways

#02 Shipping carriers are squeezing the retailers who rely on them:

30%

The amount **e-commerce order volume grew last year**, the vast majority of which were residential deliveries

This unanticipated volume is overwhelming shipping carrier capacity

3 million

The number of parcels being delivered late per day prior to the 2021 holiday season

FedEx

To protect service levels, shipping carriers are taking drastic measures

1,400

The number of **retailers FedEx suddenly cut service to** in June 2021

#%@

And aggressively raising their rates:

71%

The price increase of shipping a residential package from Chicago to NYC **in just 5 years**

That's why

#1

Retailers cite shipping carrier capacity limits as a **top threat to their entire e-commerce business** and reducing shipping costs as the top factor for their success in the coming year.

Key takeaways

#03 Consumers and retailers fail to see eye-to-eye about fulfillment speed:

Oh.

61%

of consumers define **"fast delivery" as next-day or faster**

but...

77%

Of retailers define "fast shipping" as two-day or slower

58%

of consumers consider **free two-day shipping** to be very important or non-negotiable

but...

40%

of retailers **do not offer two-day shipping at all,** and among them, almost half have no plan in place to roll it out

67%

of consumers are **willing to pay for same day delivery**

yet

75%

of retailers **don't offer** paid same-day delivery

73%

of retailers believe **free next-day delivery will be an absolute requirement to stay competitive** within two years

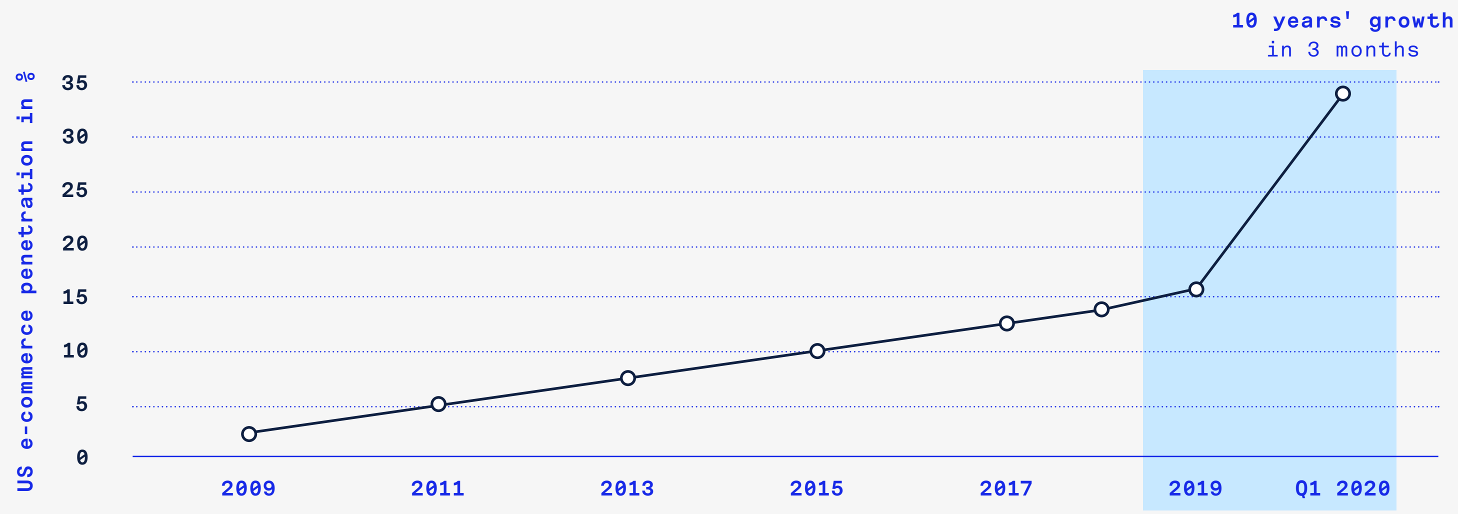
There's a gap

Between what consumers currently expect and what retailers themselves know is coming, and the plans retailers have in place

Skyrocketing e-commerce sales

Covid-19 has driven the great acceleration of e-commerce

E-commerce sales penetration more than doubled from around 16% in 2019 to 35% in 2020



Source: McKinsey, Five Fifty, "The Quickening"

While e-commerce had been growing at a steady clip of 11 percent year-over-year, in 2020, online sales penetration in the United States saw roughly ten years of growth within 90 days' time.[1] As a result of lockdowns and safety concerns, consumers flocked to online shopping in droves and the online share of retail sales skyrocketed to 35 percent.

Consumers' online shopping habits have stuck, with e-commerce sales penetration remaining about 30% above pre-pandemic levels

Since the huge leap at the onset of the pandemic, American consumers have largely maintained their online shopping habits. According to McKinsey, while in-store sales saw 10 percent year-over-year growth in September 2021, e-commerce has held strong with 35 percent year-over-year growth.[2] Although the future of the pandemic remains hard to predict, one thing is certain: online shopping is here to stay and retailers and brands need to adapt to this shift more quickly than they might have originally planned.

In this new age of e-commerce, **the big bad wolf of retail is not what (or who) you'd necessarily expect**

The media is obsessed with positioning Amazon as the ultimate existential threat to retail, mercilessly undercutting the competition by selling merchandise at a loss and bankrolling their ambitions for world domination with profits from AWS.

While it's true that Amazon continues to transform the retail landscape and set increasingly cutthroat standards, the 200 retailers we surveyed aren't losing sleep over Jeff Bezos' latest schemes. (Or the new CEO's, for that matter.)

So deeply consumed by other day-to-day challenges, retailers have more urgent fish to fry, especially ones besieging the ever-problematic last mile.

In fact, among the retailers we surveyed, most of them ranked Amazon as the lowest on their list of concerns —

less than 18% of retailers cited Amazon as a top threat.

So what *is* plaguing retailers?

In this report, we'll explore three unique challenges — **"the 3 Cs"** —that retailers are currently confronting:

Capacity

Carriers

Consumer Expectations

Challenge #1: **Capacity**

TL;DR

99%

of retailers and brands have **lost sales due to insufficient fulfillment capacity**

The main constraints

Lack of real estate & labor shortages

Retailers lost an **average of 22% of sales last year** due to insufficient fulfillment capacity

54% of retailers **have inventory in stock they're not advertising**
45% of retailers **aren't running promotions**
50% of retailers have a backlog of **orders that are being shipped late**

...because they lack the **necessary fulfillment capacity**

\+ Retailers expect the problem to only be worse and are **bracing to lose nearly 30% of sales** this year

\+ Retailers say that increasing fulfillment capacity is the #**1 critical factor** to their e-commerce success

If retailers had the fulfillment capacity they needed to meet consumer demand, we project that

online sales penetration would already be 40%

Challenge #1: **Capacity**

99 percent of retailers have lost sales due to a lack of sufficient fulfillment capacity

Nearly every single retailer we surveyed reported that they lack the fulfillment capacity they need to keep up with the onslaught of online orders. The capacity problem is largely caused by real estate and labor woes.

Retailers lack sufficient real estate

- Retailers will need an additional one billion square feet of warehouse space for e-commerce by 2025, says JLL [3]
- Traditional fulfillment methods are an intensive use of real estate, with most requiring three times the space of traditional throughput distribution [4]
- Average industrial rents increased by a record 8.3 percent year-over-year in Q4 2020, says CBRE, while prices for coastal markets near dense population centers grew by double-digit percentages [5]
- Brick-and-mortar retailers may soon dedicate as much as a third of their store space to online order fulfillment [6]

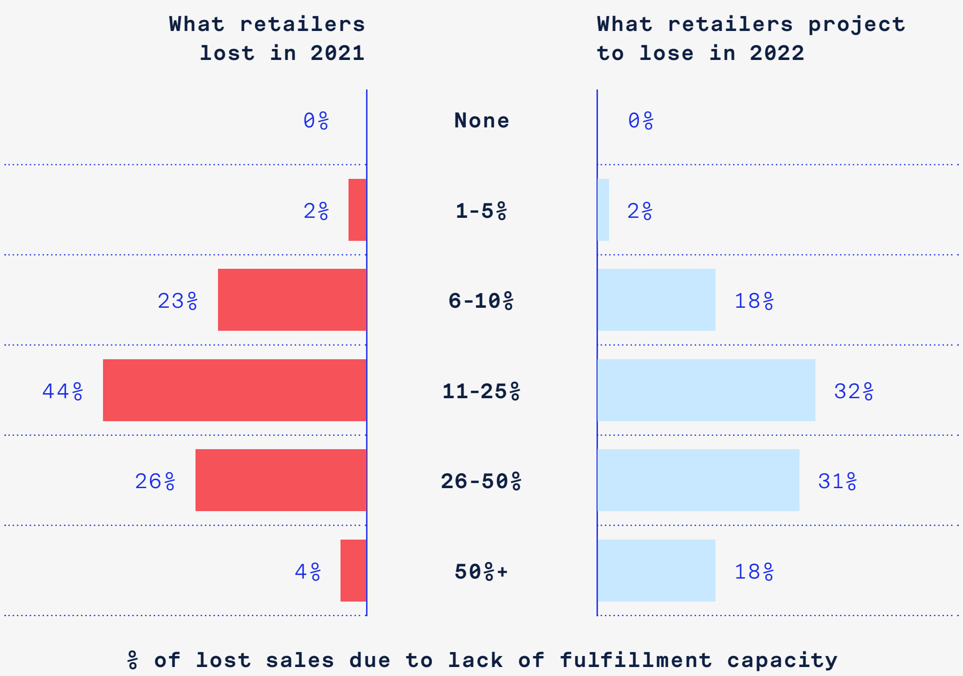
Labor shortages are acute

- 1 in 3 retailers we surveyed identified labor shortages as a top threat to their entire e-commerce business
- The US labor force shrank in September — though there are 10 million open jobs, there are five million fewer people working than before the pandemic began [7]
- The warehouse and transportation industry had a record 490, 000 job openings in July [8]

Not even the Goliaths are immune — despite doubling the size of its fulfillment network in the past 18 months, Amazon has still "been playing catchup pretty much since the pandemic started, " reported its CFO in an earnings call. Its focus is **"squarely on adding capacity to meet the current high customer demand."** [9]

Challenge #1: Capacity

Retailers lost an average of 22% of sales last year due to insufficient fulfillment capacity and expect to lose nearly 30% this year



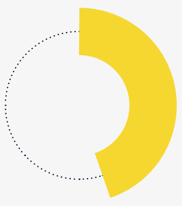
Source: Fabric survey of general merchandise retailers and brands

As a result of fulfillment capacity restraints, the retailers we surveyed estimate they lost, on average, more than one-fifth of sales in 2021, and more than 25 percent of retailers estimate they lost up to 50 percent of sales.

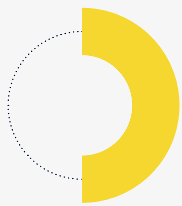
This year, retailers expect the capacity problem to only become more acute. 31 percent of retailers we surveyed expect to lose 25 to 50 percent of sales in 2022 due to lack of fulfillment capacity, and nearly 20 percent of them expect to lose more than 50 percent of sales (!).

A major driver of these losses? Retailers are holding back on promoting and advertising inventory they already have in stock due to fulfillment capacity constraints.

54 percent of retailers said that they have inventory in stock that they're not advertising



45 percent of retailers say they're not running promotions

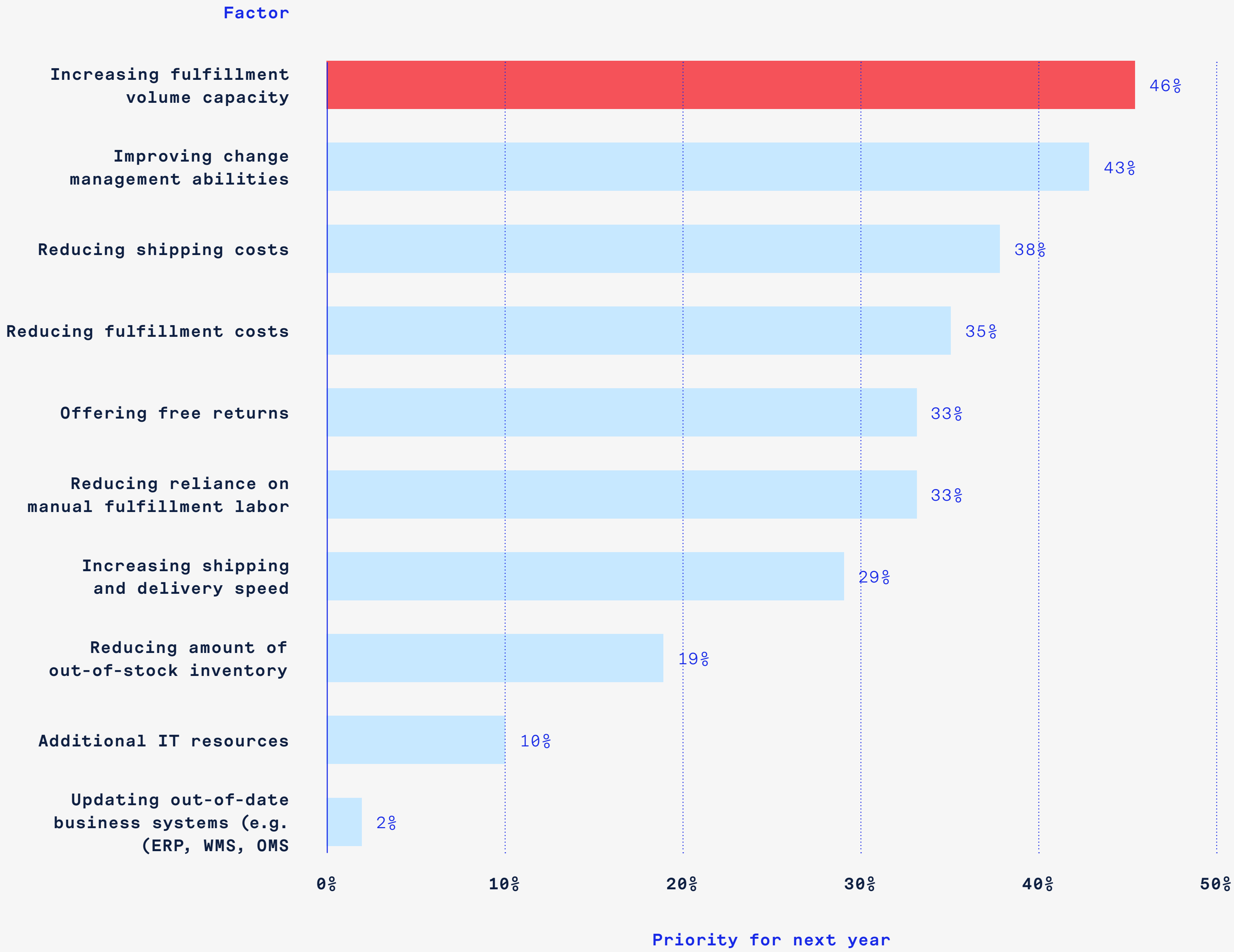


50 percent of retailers say they have a backlog of orders that are being shipped late

...because they lack the **necessary fulfillment capacity.**

Challenge #1: **Capacity**

Retailers say increasing fulfillment volume capacity is their number one priority for the coming year

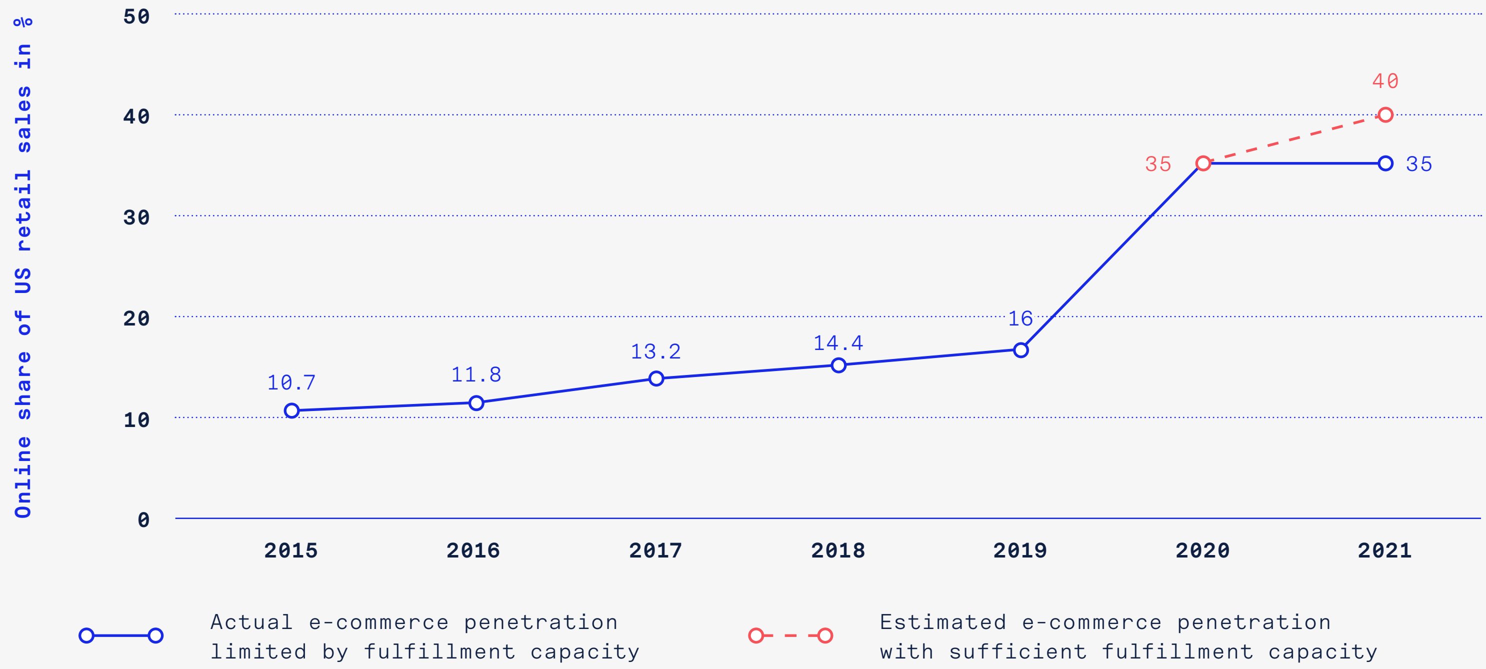


Source: Fabric survey of general merchandise retailers and brands

Although retailers have many headaches, the issue of fulfillment capacity single-handedly eclipses all other worries — more than reducing costs, improving change management abilities, or reducing out-of-stock inventory.

Challenge #1: **Capacity**

If retailers had the fulfillment capacity they needed to meet consumer demand, online sales penetration would already be as high as 40 percent



Source: McKinsey, Fabric estimations based on survey

Since its hockey stick leap in March 2020, e-commerce penetration has largely leveled off. While many have attributed this flattening to a return to pre-Covid behavior amongst consumers, we assert that penetration has only stabilized because retailers' fulfillment capacity has maxed out. It's not that demand has ebbed; it's that retailers have reached their fulfillment chokepoint and supply can't keep up with the demand. Consumer habits have permanently changed, and with no clear end to the pandemic in sight, online shopping is here to stay.

Our calculations project that if retailers had the fulfillment capacity they needed to earn the 22 percent of sales they estimate they lost last year, the online share of retail sales would already be at 40 percent today. (Given the lockdowns and safety concerns that prevented consumers from making in-store visits, this calculation assumes that the sale didn't happen offline either and was entirely lost.)

The Fabric Take

Brands and retailers need to solve the fulfillment capacity crisis today while also building a fulfillment infrastructure that is future-proof. Retailers don't have time for long, slow initiatives like the typical three-year capital project of sourcing land and buying and installing automation. Retailers urgently need efficient, targeted solutions in the markets most critical for them.

A distributed fulfillment strategy can help merchants go live faster in their most critical markets, but it's not the only piece of the puzzle. Investing in automation will also be a key long-term fulfillment strategy to reduce retailers' reliance on manual labor, an enormous fulfillment constraint that shows no sign of improving.

Challenge #2: **Carriers**

TL;DR

The pandemic has led to a supply and demand imbalance that **puts shipping carriers in a position of power vis-a-vis retailers:**

+30%

In the past year, e-commerce order volume grew by an average of 30 percent

Most of these orders are residential deliveries, which are **inefficient and unprofitable for shipping carriers**

3 million

Shipping carriers are overwhelmed and **3 million packages a day are being delivered late.**

Because of this, they have:

Cut service to retailers that are clogging up shipping networks

Aggressively raised residential delivery surcharges by **71% in just 5 years**

2022

That's why retailers cite shipping carrier capacity limits as a top threat to their entire e-commerce business…

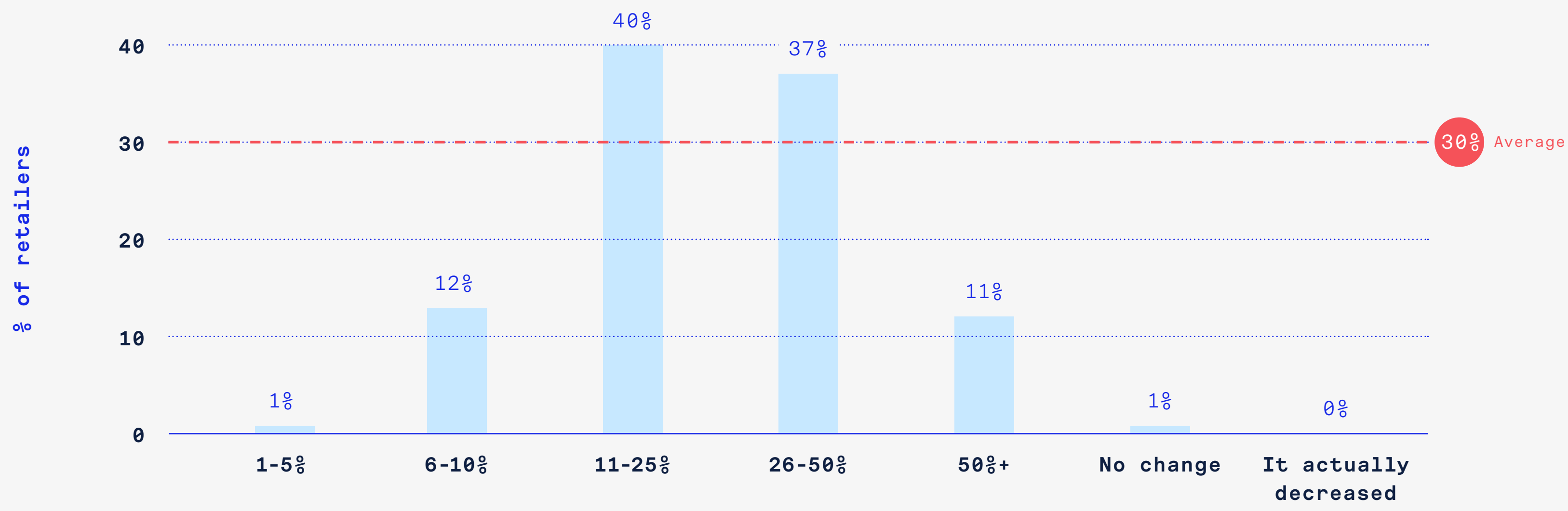
And cite reducing shipping costs as being a top factor for success in the coming year

Challenge #2: **Carriers**

The rise of e-commerce has put shipping carriers in a position of power, squeezing the retailers who rely on them

Even if retailers manage to successfully scale their fulfillment capacity to meet the surge in demand for online orders, they face daunting challenges in the next link of the supply chain: dispatching online orders and delivering them to consumers' doorsteps. The meteoric rise of e-commerce has created a supply and demand imbalance that puts carriers in a position of power. UPS, FedEx, and USPS are said to control about 95 percent of last-mile deliveries of third-party parcels. [10]

E-commerce order volume grew by an average of 30 percent in the last year, the vast majority of which was residential deliveries



Source: Fabric survey of general merchandise retailers and brands

The businesses we surveyed reported that their e-commerce order volume grew by an average of 30 percent last year, with 37 percent reporting that it grew by as much as 50 percent and another 11 percent reporting that it grew by more than 50 percent.

The vast majority of these shipments have been residential deliveries, which are inefficient and barely profitable (if profitable at all) for shipping carriers.

Challenge #2: **Carriers**

Why shipping carriers prefer commercial (B2B) to residential (B2C) deliveries

1. Residential deliveries are inefficient, one-package stops

In residential deliveries, there is an average of 1.2 pieces per delivery, whereas in commercial deliveries, the pieces per delivery is about 2-3. This makes residential deliveries way less efficient than commercial deliveries.

2. In residential deliveries, stops aren't in close proximity to each other

Compared to business deliveries, where drop-offs are in dense urban centers usually in close proximity to each other, residential deliveries are widespread and far-flung. This makes B2C deliveries slow and expensive to execute.

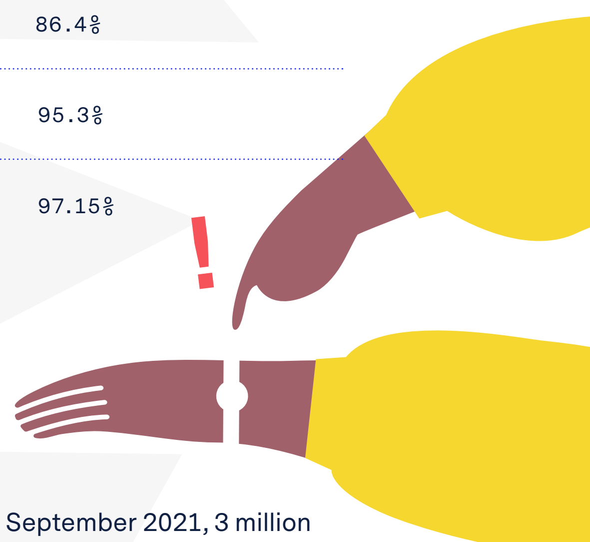
3. Residential deliveries are besieged with problems and inaccuracies

Whereas most business deliveries require a signature and are largely headache-free, residential deliveries are prone to porch piracy and delivery to incorrect addresses.

Source: Last Mile Experts

As a result of this unanticipated volume, a whopping **3 million packages a day were delivered late** prior to the 2021 peak season

	On-time performance July 2021	On-time performance August 2021
FedEx	90.2%	86.4%
UPS	96.2%	95.3%
USPS	97.2%	97.15%



Source: ShipMatrix data provided to Logistics Management

Because of this unanticipated spike in residential delivery volume, delivery on-time performance (OTP) — considered to be a key indicator of shipping carrier capabilities — has suffered. Even prior to the holiday season, FedEx, UPS, and USPS hadn't caught up to the Covid crush of demand and were struggling with their volume capabilities.

ShipMatrix estimates that in September 2021, 3 million parcels per day were being delivered late. [11] These late deliveries are a costly and burdensome problem for shipping carriers, who have negotiated money-back guarantees with retailers in the event of such delays.

Challenge #2: **Carriers**

To protect service levels, shipping carriers have cut service to thousands of businesses

The rise of residential deliveries and the stress it's placing on shipping carriers has led to an existential reckoning of the retailer and shipping carrier relationship, with shipping carriers actively culling accounts that are burdensome and unprofitable.

One Friday in June 2021, FedEx Freight announced that effective the coming Monday, it was immediately cutting service to 1, 400 customers, giving the retailers virtually no time to make alternative shipping arrangements. [12] This move impacted not only smaller businesses, but also larger brands such as Lowe's and Costco. The backlash was so swift and instantaneous that FedEx immediately reinstated partial service to a portion of the affected customer base. [13]

This aggressive culling of accounts is the main reason that on-time performance metrics were strong during the 2021 holiday season, with FedEx hitting 97.4%, UPS 99%, and USPS 98.6% for the week of November 28th to December 4th. [14] Framed differently, performance only improved because fewer residential deliveries were made.

In a 2021 Q3 earnings call, UPS CEO Carol Tome said, "We're controlling the volume that comes into our network because we are laser-focused on revenue quality. We used to think that every package was the same; we don't think that anymore. For some shippers, we're no longer delivering their packages and that's OK with us."

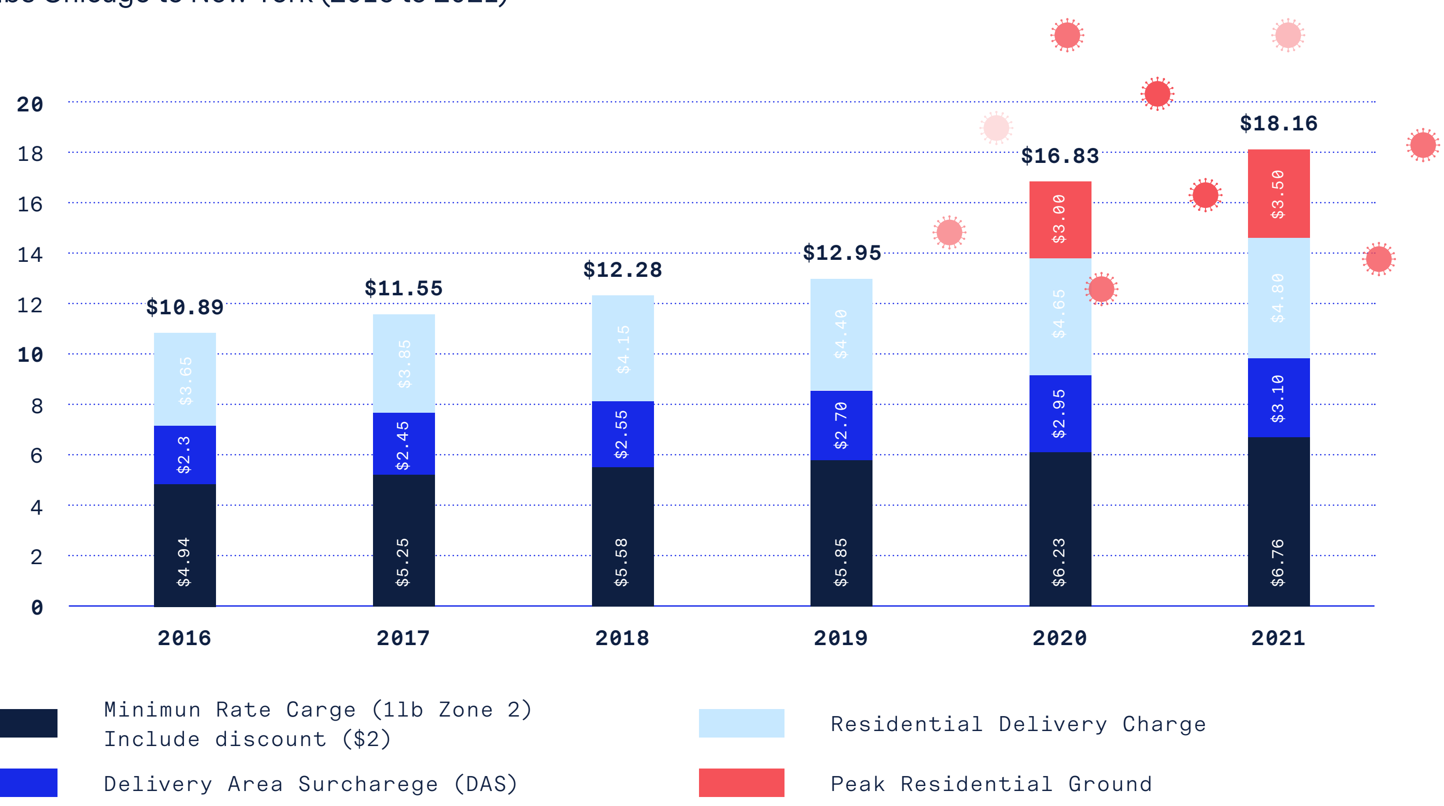
That's why retailers cite shipping carrier capacity limits as a top threat to their entire e-commerce business

We asked businesses what the biggest threats to their e-commerce business are, and shipping carrier capacity limits looms as a top threat, rivaling supply chain delays and eclipsing labor shortages and shipping and fulfillment costs.

Challenge #2: **Carriers**

Carriers have also aggressively raised their residential delivery rates, with the price of delivering a package increasing by 71% in just 5 years

FedEx/UPS Ground Rate/Surcharge/Holiday Peak Increases
2-lbs Chicago to New York (2016 to 2021)



Assumptions:
→ 60% discount off ground list price → $2 reduction in minimum shipment charge 2020 large customer, peak surcharge of $3 applied → 2021 large customer, peak surcharge of $3.50 applied → Additional handling, fuel surcharge not applied

Source:
Fabric in collaboration with the Last Mile Experts

For high-volume brands and retailers, punitive surcharges incurred by FedEx and UPS have dramatically increased the cost of doing business.

Due to peak residential surcharges imposed at the onset of the pandemic, shipping a 2-lb package via ground from Chicago to NYC skyrocketed from a little more than $10 in 2016 to more than $18 in 2021, based on our estimates.

That's an increase of 71% in just five years, inviting the question:

with free shipping now a given for most consumers, how long can merchants continue to eat these costs?

Challenge #2: **Carriers**

That's why retailers cite reducing shipping costs as a top factor for success in this coming year

The rising residential delivery surcharges have become untenable amongst the retailers we surveyed. They report that reducing shipping costs is a top factor for success, rivaling increasing fulfillment volume capacity and overshadowing all other priorities, including reducing reliance on manual labor and reducing the amount of out-of-stock inventory. With no obvious alternative to the large shipping carriers, retailers will need to take a fundamentally different approach to fulfillment to fix this power imbalance.

...And the problem is worst of all during the holidays

See our latest report

The Fabric Take

Although carriers are indeed in positions of power vis-a-vis retailers, the problem is ultimately a systemic one, with centralized fulfillment and delivery networks being stretched to the limit. Retailers and brands can best alleviate their overwhelming reliance on the national shipping carriers by augmenting their existing fulfillment operations with automated micro-fulfillment in targeted markets.

A distributed fulfillment strategy mitigates risk overall, enabling businesses to:

- Spread their inventory across a distributed network, giving them more flexibility and leverage when working with the national shipping carriers
- Diversify the types of carriers they work with, including last-mile courier services such as DoorDash and Uber, alleviating the power imbalance
- Overcome cut-off dates and extend holiday shipping windows by drastically shortening shipping distances, maximizing profits when it matters most
- Reduce shipping costs by reducing shipping distances

Oh.

Challenge #3: **Consumer expectations**

TL;DR

Retailers have a **fundamental misunderstanding** about *when* offering fast delivery will be of critical importance. For consumers, it's not one or two years from now; **It's *NOW*:**

61%

of consumers define **"fast delivery" as next-day or faster**

79%

Of retailers define **"fast shipping" as two-day or slower**

but...

58%

of consumers consider **free two-day shipping** to be very important or non-negotiable

68%

of retailers **do not think that providing it is table stakes**

...but

67%

of consumers are **willing to pay for same-day delivery**

...but

75%

of retailers **don't even offer it**

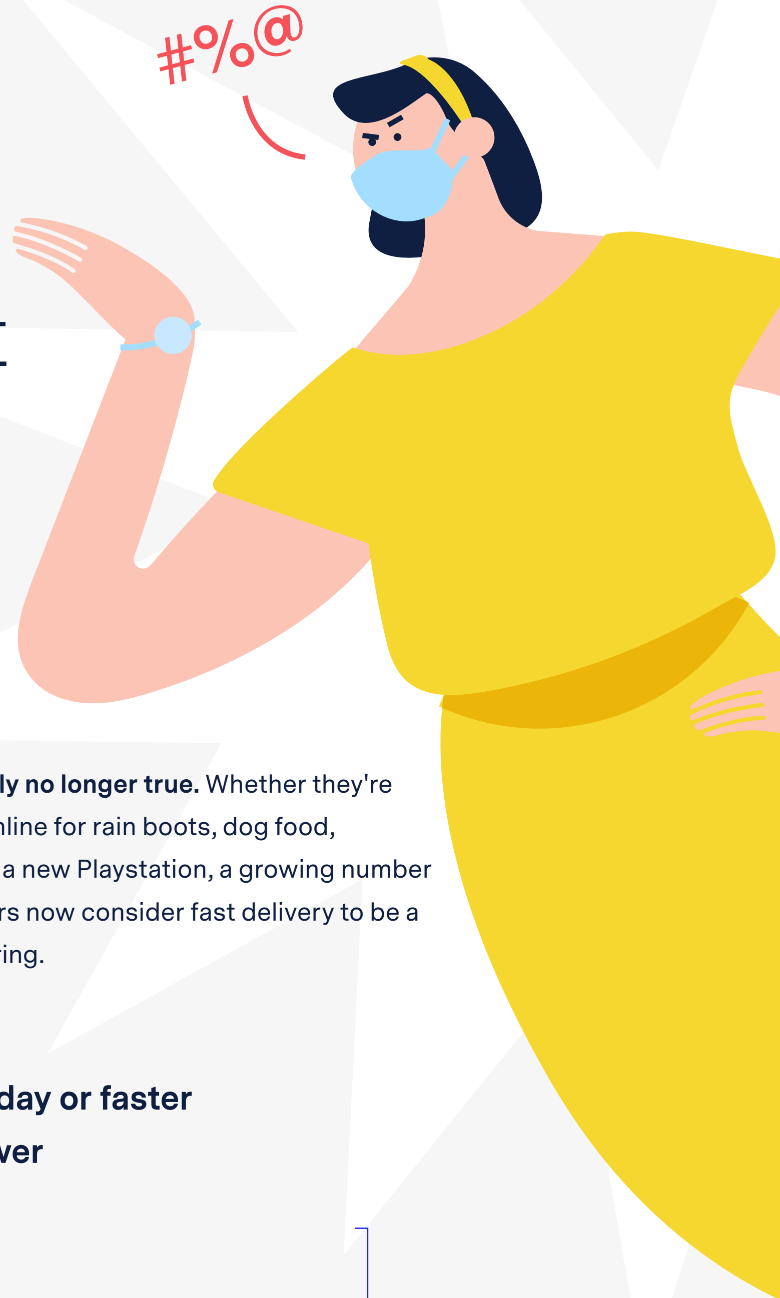
Consumers today **expect fast delivery times** ...but most retailers think it's two years out and most don't have plans in place to offer it.

There's a gap:

Between what consumers currently expect, what retailers themselves know is coming, **and the plans they have in place**

Challenge #3: **Consumer expectations**

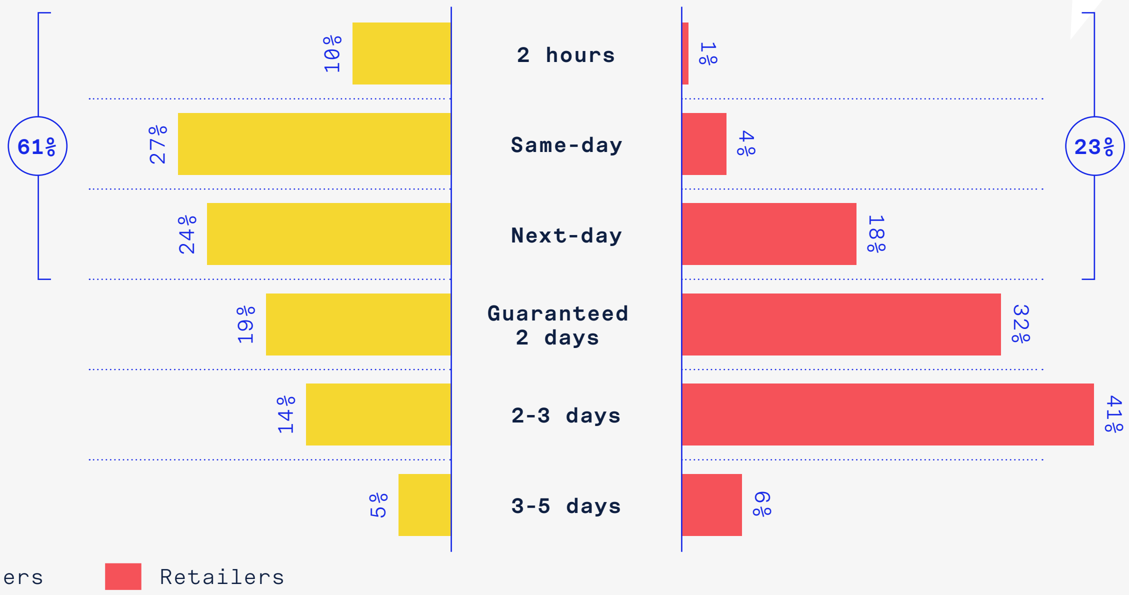
Retailers and consumers fail to see eye-to-eye about speed of delivery



Until recently, the traditional trifecta of customer satisfaction was always considered to be free shipping, price, and positive reviews; outside of food and groceries, speed of delivery wasn't considered terribly emergent. When Amazon rolled out its next-day shipping push, retailers were warned to step slowly into one-day shipping themselves. As recently as 2019, the *Wall Street Journal* warned, "A lot of ultrafast last-mile delivery solutions that consumers don't even really ask for... ultimately are high-cost endeavors that don't ultimately help a retailer's bottom line." [15]

That's simply no longer true. Whether they're shopping online for rain boots, dog food, mascara, or a new Playstation, a growing number of consumers now consider fast delivery to be a critical offering.

61 percent of consumers define "fast delivery" as next-day or faster while 77 percent of retailers define it as two-day or slower



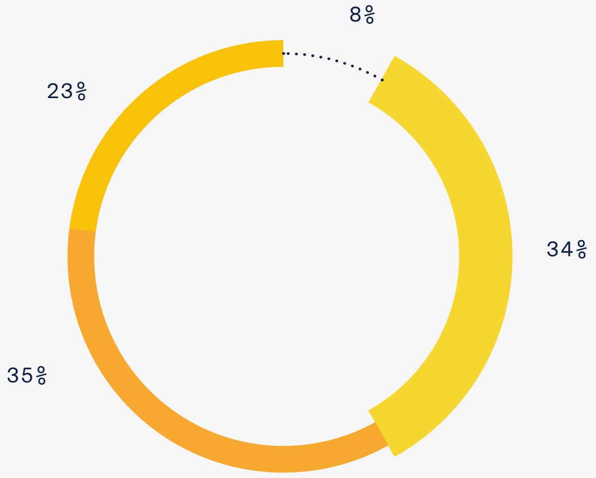
Source: Fabric survey of general merchandise retailers and brands & consumers

According to 61 percent of consumers we surveyed, "fast delivery" is next-day or faster — among them, 44 percent consider same-day to be "fast." Yet only 23 percent of retailers define "fast delivery" as being next-day or faster, and among them, less than one percent define it as "same-day." Instead, 41 percent of retailers define 2-3 day shipping as "fast, " while only 14 percent of consumers define it as such.

Challenge #3: **Consumer expectations**

Nearly 1 in 4 shoppers consider free two-day shipping to be a make-or-break factor when purchasing

The importance of free two-day shipping for consumers



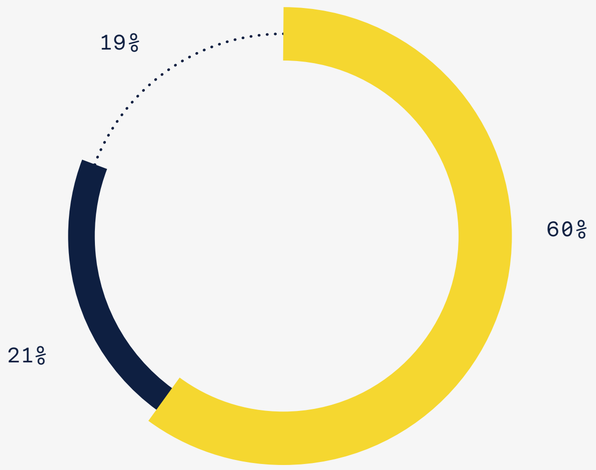
Don't care
Preferable
Will buy only if I have no other option
Won't buy without

92 percent of consumers we surveyed want retailers to provide free two-day shipping, with 23 percent considering it a "must-have" (if the retailer doesn't offer it, they won't buy), 35 percent considering it very important (if a retailer doesn't have it, the consumer will purchase but only if they preferable. In other words, almost 1 in 4 consumers will shop elsewhere if a retailer doesn't offer free two-day shipping.

Source: Fabric consumer survey

Yet 40 percent of retailers don't currently offer two-day shipping at all

Retailers offering two-day shipping



No plan in place
Already offering
Plan in place

While 60 percent of retailers currently offer two-day shipping, 4 out of 10 retailers do not and among them, nearly half have no plan in place to roll out the offering. This warrants a bell of alarm given that the majority of consumers already have demonstrated a clear expectation for retailers to provide the service — and for free to boot.

Source: Fabric survey of general merchandise retailers and brands & consumers

Challenge #3: **Consumer expectations**

In stark contrast to consumer expectations, 68% of retailers don't believe that free two-day shipping is a requirement to stay competitive

Is offering free two-day shipping a requirement to stay competitive?

Source: Fabric survey of general merchandise retailers and brands & consumers

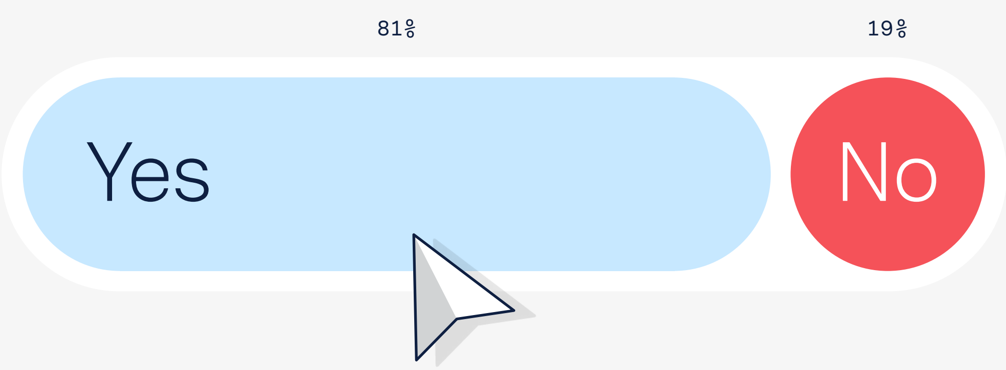
More concerning is that 68 percent of retailers do not believe that providing free two-day shipping is a requirement to stay competitive today. This number conflicts with the 58 percent of consumers who consider free two-day shipping to be very important or non-negotiable. **It's one thing to not offer a service because it's operationally and financially difficult to do so; it's another thing entirely to hold the false perception that the service is unimportant.**

Challenge #3: **Consumer expectations**

The pace is already quickening, with same-day delivery right around the corner as the new consumer standard

81% of consumers are more likely to purchase an item online if they can get it delivered the same day

Are you more likely to purches an item online
if you can get it delivered the same day?



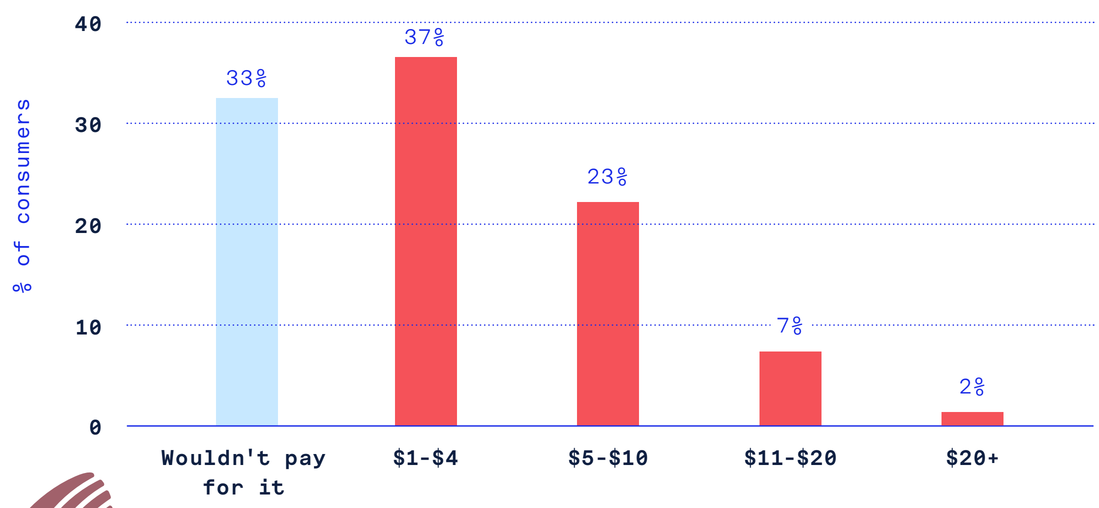
Source: Fabric consumer survey

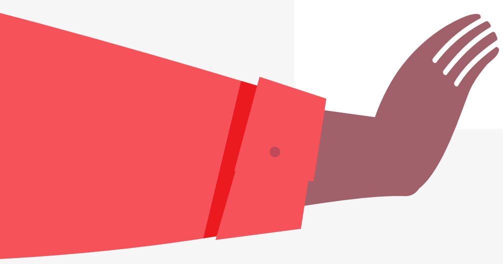
Until recently, same-day delivery was considered a premium service that not even all grocery retailers managed to provide. That has all changed now. Among the consumers we surveyed, more than 80 percent are more likely to purchase an item online if they can get it delivered the same day. According to Research and Markets, the same-day delivery market in the US is poised to grow by $9.82 billion over the next four years. [16]

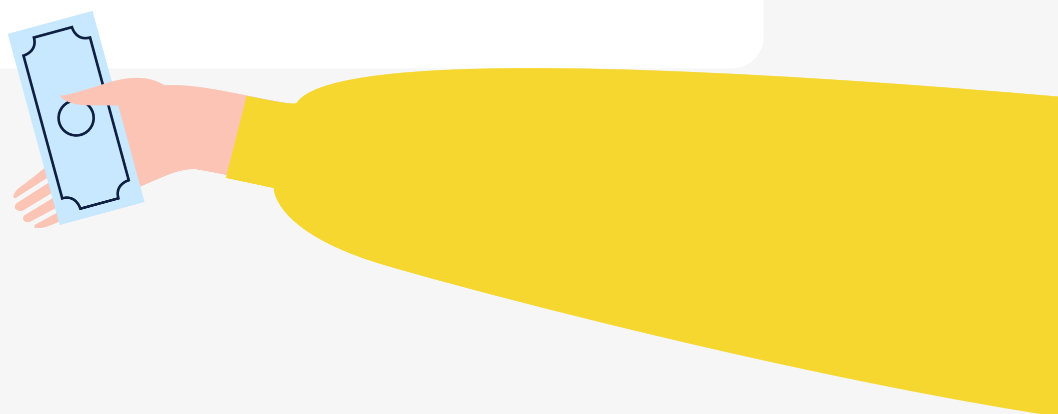
Challenge #3: **Consumer expectations**

Consumers want same-day delivery so much that 67 percent are willing to pay for it

How much consumers are willing to pay for same-day delivery?

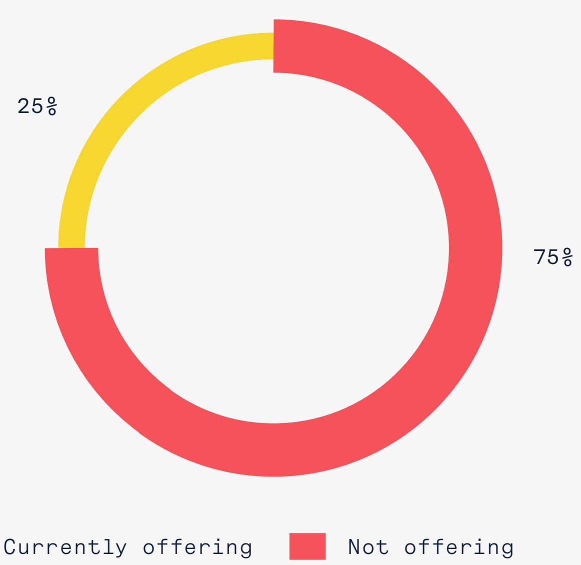






Yet 75 percent of retailers don't offer paid same-day delivery

Retailers offering paid same-day delivery



Source: Fabric survey of general merchandise retailers and brands & consumers

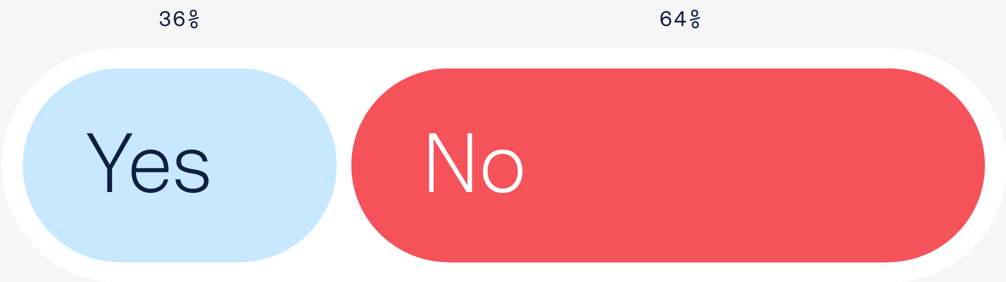
Consumers already value same-day delivery so much that the majority are willing to pay for it. Given that people have become overwhelmingly accustomed to free shipping, their willingness to pay a premium for the service reflects how much they value speed — and can reassure retailers and brands who are already stretched thin that consumers don't necessarily expect them to eat the cost of the pricey proposition.

Yet once again, there's a significant gap between the delivery speeds that consumers value and what retailers are currently offering. Despite almost 70 percent of consumers being willing to pay for same-day delivery, only 25 percent of retailers we surveyed currently offer it as a service.

Challenge #3: **Consumer expectations**

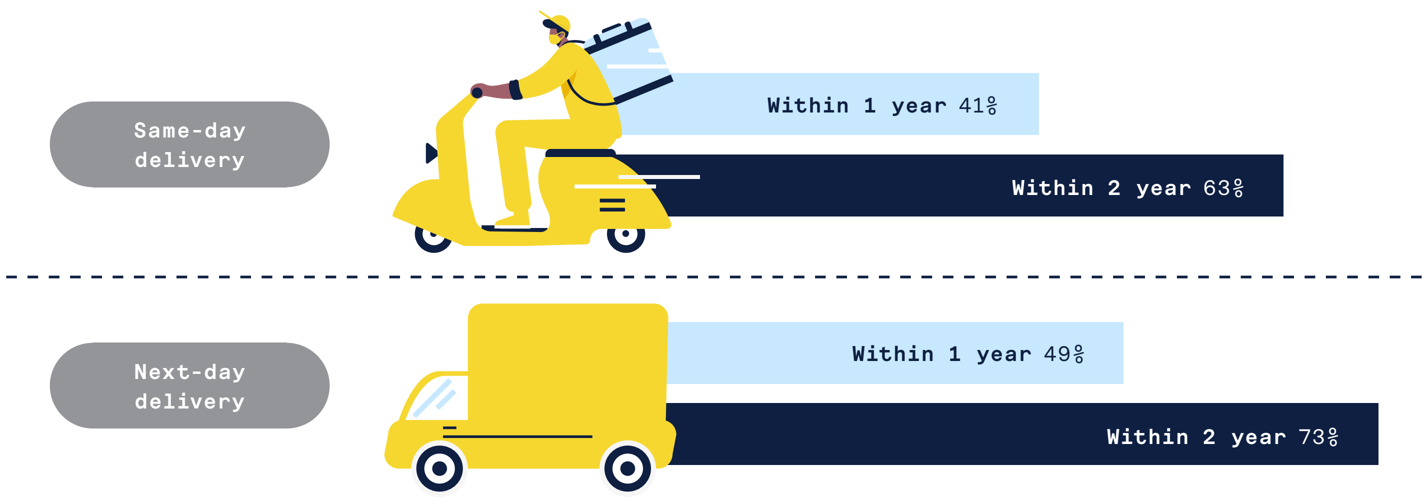
Only 36 percent of retailers think paid same-day delivery is a requirement to stay competitive today

Is offering same-day delivery a requirement to stay copetitive?



While it's understandable that retailers wouldn't offer same-day shipping, which is operationally, strategically, and financially burdensome, it's concerning that 64 percent of retailers do not consider it to be a requirement to stay competitive. Consumers have demonstrated that on-demand delivery is a service they want and are even willing to pay for; it's a dangerous trap for retailers to hold the false perception that it's unimportant overall.

Retailers *are* aware that fast delivery will be a requirement in the future



Source: Fabric survey of general merchandise retailers and brands & consumers

It's not that retailers are blind to consumers' rapidly evolving preferences for speed; the majority believe that next-day and same-day delivery will be an absolute requirement to stay competitive within two years.

Challenge #3: **Consumer expectations**

But there's a huge gap between what consumers currently expect, what retailers themselves know is coming, and the plans they have in place

Retailers' fundamental misunderstanding seems to be about *when* offering fast delivery will be of critical importance. For consumers, it's not one or two years from now; it's *now*. Their preferences have shifted so quickly that retailers haven't been able to adapt and prioritize everything at once. With other innovations such as checkout-free shopping, virtual fitting rooms, voice commerce, and other amazing omnichannel experiences monopolizing retailers' attention, delivery speed has slipped to the bottom of the list.

The Fabric Take

Fast delivery is a complicated and expensive proposition to execute. Without a cost-effective and highly efficient local fulfillment solution, even next-day shipping isn't sustainable for retailers.

While stores are a valuable network of ideally located assets, fulfilling online orders from within stores is riddled with its own problems and inefficiencies: pickers compete with in-store customers and detract from the in-store shopping experience; it's expensive; it's prone to inaccuracies.

Retailers and brands should seek fulfillment partners who can strategically distribute inventory in locations that are closer to customers, which dramatically reduces delivery times and lowers delivery costs. A distributed fulfillment strategy that leverages automation enables businesses to compete and serve their customers with on-demand offerings in a sustainable and profitable way.

Conclusion

While retail was never an easy business, the stakes have never been higher (or more complex) than they are today. Capacity constraints, carrier limits, consumer expectations — this confluence of factors is stretching retailers to the financial, operational, and strategic breaking point.

Most retailers we surveyed know that in order to sustainably meet the rise of e-commerce orders at scale, they need to increase their fulfillment capacity and implement a distributed strategy that will free them from their overwhelming dependence on national carriers and enable the fast deliveries that consumers have come to expect. But how?

> *'How can we meet growing customer demands now, without a massive investment in new distribution facilities?' We hear this all the time.*
>
> — *Bain & Company* [17]

We believe that retailers and brands would be best served by augmenting their existing fulfillment operations with automated micro-fulfillment in the right markets. If recent developments have taught us anything, it's that it's time to take a new approach to supply chains, and that by combining highly efficient robotic fulfillment operations with local last-mile operations, the right micro-fulfillment solution can enable businesses to increase their fulfillment capacity, de-risk their reliance on shipping carriers, and provide the fast deliveries their customers expect today.

Footnotes

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8. Washington Post, "Warehouses jobs - recently thought of as jobs of the future - are suddenly jobs few workers want, " Oct. 11, 2021

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10. Bloomberg, "FedEx, UPS Turn Record Holiday Surge Into Someone Else's Problem, " 26 November 2021

11. Logistics Management, ShipMatrix data provides insight into on-time performance for July and August

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13. American Shipper, FedEx Freight reverses service suspensions after outcry from big retailers

14. Logistics Management, ShipMatrix data higvhlights strong holiday season parcel metrics

15. Wall Street Journal, "Retailers are Warned to Step Slowly Into One-Day Shipping, " May 10, 2019

16. Research and Markets, "Same-Day Delivery Market in the US 2021-2025"

17. Bain, "Retail Fulfillment: The Ultimate Supply Chain Balancing Act, " January 25, 2021

Fabric

Fabric is a retail technology company on a mission to enable on-demand retail for everyone. By combining highly efficient robotic fulfillment operations with local last-mile operations, Fabric is redefining how supply chains work. The company has developed its own proprietary software and robotic micro-fulfillment technology and is running micro-fulfillment operations for grocery and general merchandise retailers in New York City, Washington, DC, and Tel Aviv. The company will expand to major U.S. metro markets in the coming year.

Fabric has offices in New York City, Tel Aviv, and Atlanta, with over 300 team members globally. Founded in 2015, Fabric is backed by leading investors including Corner Ventures, Innovation Endeavors, Aleph, Playground Ventures, Canada Pension Plan Investment Board (CPP Investments), Evolv (Kraft Heinz), Temasek, Princeville Capital, and more.

For more information visit getfabric.com

The 3 Biggest Challenges the Retail Industry Faces Today
& Key Strategies to Overcome Them

The survey is based on 700 responses from the United States split between 500 consumers and 200 senior managers responsible for Supply Chain, Innovation, or Digital in retail companies and brands with online revenue of $30M+. The respondents were recruited through a global B2B and Consumer research panel and invited via email to complete the survey, with all responses collected during September 2021.