

Bridging the e-commerce divide: Meeting consumer demands with merchant offerings

In the world of e-commerce, converting potential customers into buyers and efficiently fulfilling their orders is critical for success. While the convenience of home delivery appeals to consumers, online purchasing decisions are heavily influenced by perceived affordability, especially in an inflationary environment. Merchants need to strike a balance between meeting customer expectations and managing their own offerings.

FedEx commissioned a study of 510 US merchants and 2,103 consumers, and the following includes the results of those who responded. This study captures consumers' and merchants' perceptions on key areas of online purchases: purchase drivers, shipping offerings, and order fulfillment.

Key findings:

The winning formula to securing higher conversion rates is a combination of free shipping, free returns, as well as accurate tracking and on-time delivery:

- **Consumers prefer free shipping (75%) over faster shipping (25%),** prioritizing cost savings over speed of delivery. When making an online purchase, consumers seek out free shipping (57%) and the best prices (54%). This presents an opportunity for merchants to better meet consumer expectations as less than half offer free shipping (48%).
- While consumers prefer to not have a minimum dollar amount to qualify for free shipping, most are **willing to spend more to avoid paying for shipping (81%).** There is an opportunity for merchants to improve sales by setting a higher but attractive minimum threshold allowing them to meet consumer expectations, encourage larger cart sizes without deterring purchases, and maintain customer satisfaction.
- Although free returns (23%) ranks as the third most important factor when making an online purchase, it is the **return policy that has the largest impact on the likelihood to follow through with making an online purchase (62%).** Again, merchants have an opportunity to meet consumer needs as less than half offer free returns (46%).
- Besides affordability, convenience is key for consumers. When placing an order from a retailer with a brick-and-mortar store in their area, consumers prefer to have their order delivered to their home next-day (40%) or in 2 days (23%) rather than picking it up in-store (19%) or curbside (18%). **Most of the consumers who prefer to have their order delivered say it is more convenient for them (59%).**
- Similarly, **63% of adult consumers have used a gig or quick-turn delivery service, with over 80% of Gen-Zers and Millennials having done so.** While groceries dominate the purchase categories (74%), there are notable opportunities in delivering Pet Supplies (26%) and Clothing/Retail (25%).
- Despite the demand for quick delivery options, **less than half of merchants offer same-day (33%) or next-day (44%) delivery.** With approximately half of consumers willing to pay for same-day delivery (55%) or next-day delivery (45%), this represents an opportunity for merchants to capitalize on charging more for these services.
- Consumers show a desire for transparency throughout the shipping and delivery process by considering accurate tracing information (49%) and shipping updates (40%) important. **Merchants, understanding this need for transparency, say real-time tracking information (73%) is one of the top three most important post-purchase management solutions.**

Closing the gap: aligning consumer expectations with merchant offerings

Free shipping versus fast shipping

In the realm of online shopping, affordability is the priority. A majority of **consumers identify free shipping (57%) and getting the best prices (54%) as the most important factors in their purchasing and delivery decisions.**

Additionally, when faced with the choice between free shipping and faster shipping, 75% of consumers prefer to save on delivery even if it means waiting longer for their purchases.

Merchants are aware of the consumers' preference for affordability, identifying free shipping (28%) and low-cost shipping (18%) as having the greatest impact on customers' purchasing decisions. However, merchants have an opportunity to better meet their customers' needs as less than half offer free shipping to their customers (48%).

While merchants understand that in a market affected by inflation consumers are prioritizing cost savings over quick delivery, most are not providing what the customer is looking for. Retailers now have an opportunity to capture consumers, who value affordability above all else when making online purchases, by providing free shipping.

Delivery speed expectations

While a quarter of consumers prefer faster shipping over free shipping, 71% say delivery speed is important after they have received a package. However, shipping timeline expectations are different for purchases with free or paid shipping. Interestingly, expectations vary based on shipping costs: when shipping is free, two-thirds of consumers find delivery within 2-5 days acceptable, with nearly 40% finding a 3-5-day timeline acceptable. In contrast,

when consumers pay for shipping, they expect quicker turnaround times, with a plurality saying overnight (38%) or 2-day (36%) delivery is acceptable.

Generally, speed-related options such as next-day (10%) and same-day (9%) delivery are considered far less influential on cart conversion than cost. However, those needing their packages more immediately will pay for speed, with approximately half of consumers expressing a willingness to pay much or somewhat more for same-day (55%) or next-day (45%) delivery. Merchants should explore logistical enhancements and partnerships to provide same-day and next-day delivery options to capitalize on the ability to charge more for these services.

Free shipping conditions

Merchants recognize affordability as the greatest driver in e-commerce purchases. However, discrepancies arise between consumer expectations and merchant offerings regarding conditions for free shipping.

While 38% of consumers believe there should not be a threshold to qualify for free shipping, an overwhelming amount are willing to always or sometimes add to their cart in to meet the required amount (81%). When looking at specific spending thresholds, 19% of consumers find a \$10 minimum acceptable, 25% with a \$25 threshold and 15% with a \$50 threshold. This means that while consumers prefer to avoid shipping costs, they are flexible enough to adjust their purchases to qualify for free shipping.

On the merchant side, 65% require a minimum purchase amount for a consumer to qualify for free shipping, with **only 34% providing free shipping on all purchases.** Among those who have a minimum purchase amount to qualify for free shipping, 44% set their minimum dollar amount between \$50 to \$79 and 30% between \$20 to \$49.

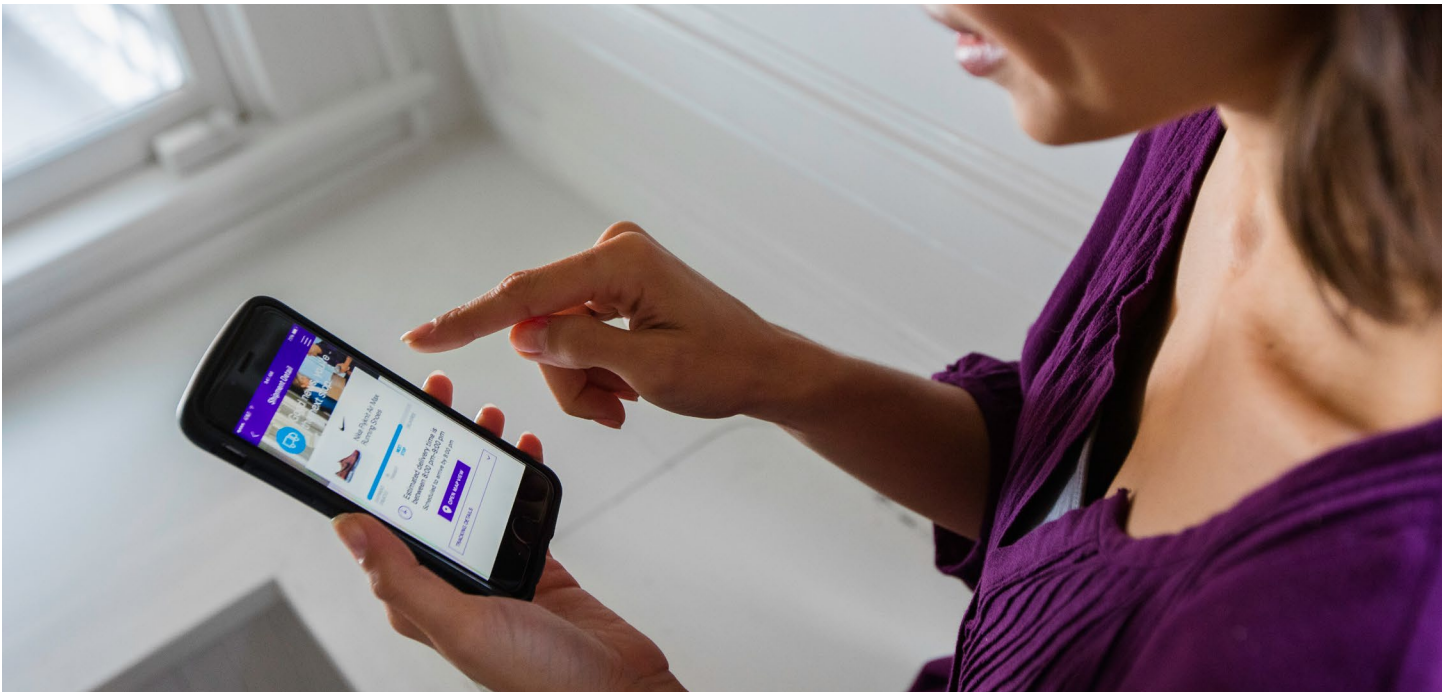
Ultimately, while consumers prefer no minimum dollar amount to qualify for free shipping, they are willing to spend more to avoid shipping costs. This provides an opportunity for merchants to improve sales by setting an attractive minimum threshold on the higher end of \$25-\$50, allowing them to meet consumer expectations, encourage larger cart sizes without deterring purchases, and maintain customer satisfaction.



Free returns

Beyond free shipping and competitive pricing, consumers highly value free returns. Nearly a quarter of consumers consider free returns an important factor when making online purchases and **over 60% are more likely to complete a purchase if the merchant offers this option.** This aligns with the broader consumer focus on affordability.

Merchants recognize free returns as an essential service for their customers, yet only 46% currently offer it. For those not offering this service, it represents an opportunity to boost purchasing consideration and reduce the financial strain on consumers. However, for merchants unable to provide free returns, having an easy-to-navigate return policy (30%) or convenient item drop-off locations (30%) can also positively impact cart conversion, albeit to a lesser extent.



Quick pick-up and delivery options: prioritizing consumer convenience

Convenience is just as crucial as affordability. Despite having the option for same-day pick-up at a store near them, half of consumers choose to have their online purchases delivered always (23%) or sometimes (37%).

Next-day delivery to their home (40%) is the **most preferred quick-turn delivery option, followed by 2-day delivery (23%)**. Few prefer same-day pick up in-store (19%) or curbside (18%) at a location near them, with a majority citing home delivery as more convenient (59%).

Next-day delivery is favored for items in retail (47%), electronics (40%), and home goods (37%), while same-day delivery is most popular for perishables such as groceries (37%). Consumers are generally more willing to wait for furniture, cosmetic, prescriptions, and pet supply deliveries.

Despite this demand, fewer than half of merchants offer same-day (33%) or next-day (44%) delivery, revealing a significant opportunity for merchants to meet consumers' growing preference for faster delivery options. Over a third of merchants charge less than \$10 (37%) for same-day delivery, while around half of consumers are willing to pay more for same-day (55%) or next-day (45%) delivery, particularly younger consumers and those living in urban areas.

Methodology:

Morning Consult conducted two surveys, one among consumers and one among merchants. The consumer survey was conducted between May 23-28, 2024 among a sample of 2,103 U.S. consumers. Results from the full survey have a margin of error of +/-2%.

E-commerce fulfillment

Post-purchase management plays a crucial role for merchants aiming to meet and exceed customer expectations. **For consumers, tracking information is a key factor when making online purchases (69%)**. After delivery, accurate information (49%) and timely shipping updates (40%) are highly valued, underscoring the importance of transparency throughout the shipping and delivery process.

Merchants recognize the importance of offering comprehensive post-purchase tools and services, such as tracking information and easy returns management, to boost customer satisfaction and operational efficiency. **Nearly all merchants (94%) report using these tools in their operations with 73% ranking real-time tracking information among the top three most important post-purchase solutions and half, easy returns management.**

Additionally, building and maintaining strong relationships with carriers is vital for merchants, as it ensures real-time tracking capabilities and discounted shipping rates, both of which are important to consumers.

The merchants survey was conducted between May 31-June 11, 2024 among a sample of 510 U.S. merchants. Merchants are defined as an employee or owner of an organization with over \$100k in annual revenue that sells goods online. Results from the full survey have a margin of error of +/-5%.