

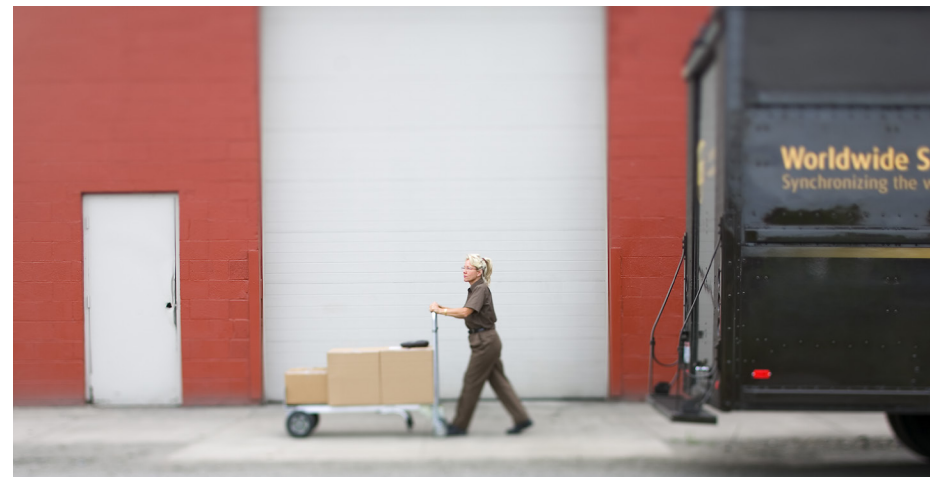


# THE NEW ECOMMERCE ECOSPHERE

---



HOW ONLINE PLATFORMS  
ARE RESHAPING RETAIL





**By Kevin Warren**  
UPS Chief Marketing Officer



## FOREWORD

We live in the age of the Platform Economy — using Uber and Lyft to catch a ride, Airbnb to rent a room, and OpenTable to get a reservation at the trendiest new restaurants. And those are just a few of the myriad companies that have succeeded in turning old-fashioned products and services into marketplaces with their own ecosystems.

And so it is with online retail, where marketplaces like Amazon, Alibaba, Mercado Libre, and Flipkart have become the first stop for many shoppers. Merchants can list their wares on the big marketplaces, reaching audiences far larger than they could themselves. At the same time, they can engage Shopify, Square, ShopRunner, or the hundreds of discreet service providers that have emerged to set up or enhance their own market platforms.

You may know UPS best for our delivery service, but we provide our retail customers. Through strategic partnerships with best-in-class providers and the in-house expertise we've honed over 112 years of serving retailers, UPS has the resources and knowhow to help merchants of all sizes succeed in the platform economy.

This report shares some of our thinking on the marketplace movement, but there's so much more we can share face-to-face. I encourage you to read the white paper, and hope you let us show how UPS can help you achieve your e-commerce goals.



## RETAIL: A LONG LEGACY OF INNOVATION AND DISRUPTION

**Some say e-commerce has disrupted retail. The truth? Retail has been in a continuous state of change and innovation for more than a century.**

---

In the late 1800s, department stores and mail-order catalogues threatened smaller merchants that couldn't offer the same all-in-one selection and convenience. In the 1900s, enclosed shopping malls then supermarkets and big-box stores brought an unprecedented breadth and depth of merchandise.

By the end of the century, retail had become a game of scale where “category killers” captured an outsized share of all purchases. As recently as 2017, the world's 250 largest merchants generated more than \$4.5 trillion in revenues,<sup>1</sup> or roughly one-sixth of global retail sales.<sup>2</sup> And UPS was there through this century of change — making home deliveries for department

stores in the 1920s, for catalogue retailers by mid-century and the first “e-tailers” in the '90s.

The retail structure of late-1900s is now being disrupted by the first major paradigm of the 21st century — the rise of online platforms that give consumers unprecedented convenience, choice and cost options. For shoppers, online marketplaces provide what Amazon founder Jeff Bezos famously described as an “endless aisle” of merchandise with selections up to 80 times larger than traditional brick-and-mortar and multichannel retailers.<sup>3</sup>

And with two-day shipping now the standard — and next-day deliveries in sight — consumers get selection and speed. No wonder global e-commerce sales are projected to more than double, to \$6.5 trillion by 2023.<sup>4</sup> In the U.S., e-commerce sales will double as well, to \$1 trillion, growing at six times the rate of all retail transactions.<sup>5</sup> <sup>6</sup> More than half of that growth is being driven by marketplaces, the online channels that enable merchants to offer their goods for sale to audiences far larger than they could attract on their own.

For all of the popularity of marketplaces, many merchants maintain online stores — and small retailers often turn to alternative platforms and service providers like Shopify, Weebly and Magento to get their ecommerce platforms up quickly and cheaply.

*“The retail structure of the late 1900s is being disrupted by the first new paradigm of the 21st century — the rise of online platforms that give consumers unprecedented convenience, choice and cost options.”*



---

Consumers aren't the only winners. The marketplace movement creates countless benefits and opportunities for retailers of all sizes that ride this wave successfully. Consider that the largest marketplaces like Amazon, Rakuten, JD.com and Zalando enable the smallest of sellers to act like multinationals, reaching billions of consumers directly around the world at relatively modest cost without the expense of distributors and other middlemen. And while most marketplaces offer the full suite of e-commerce services, many also unbundle their services so sellers can handle advertising, payment, fulfillment, distribution and other individual tasks themselves. [See E-commerce, à la carte, page 8.]

Marketplaces aren't just another retail fad. Rather, they represent a fundamental shift in how goods are bought and sold. And four transformative trends are driving the rise of marketplaces and shaping the future of e-commerce, if not all retail:

- **Greater consumer expectations.** Increasingly, e-commerce has put consumers in control, and today's shoppers dictate when, where and how they receive — and return — orders. As consumers become more demanding, the market is shifting to product and delivery experiences that are even more-personalized.

- **The rise of frictionless commerce.** Retail is moving beyond omnichannel and becoming increasingly integrated into daily life. Customers demand seamless shopping and fulfillment across all channels of consumption.

- **Globalization.** As digitalization eliminates geographic boundaries, cross-border e-commerce is exploding. In time, consumers will shop the world as easily as they shop locally. However, global e-commerce increases the complexity of every facet of the supply chain, including operations, logistics and fulfillment.

- **On-demand delivery.** Two-day shipping used to be prohibitively difficult and expensive. Today, it's the baseline. And Amazon has upped the ante with its push toward next-day deliveries. In the future, retailers and their delivery services will use predictive analytics to anticipate consumers' next orders and store those goods nearby so they can be delivered within hours.

Just as UPS supported every retail megatrend of the past century, we embraced the marketplace movement early on. Today, UPS offers a comprehensive portfolio of services to help sellers seize the boundless opportunities available in the new platform economy. That also means helping sellers navigate the attendant challenges of selling across scores of marketplaces.



For instance, savvy sellers know they must be on multiple marketplaces to reach the most people, but managing inventories, sales and shipping across different sites can be hard. To help sellers address this pain point, in 2018, we enabled UPS Marketplace Shipping for more than 20 such channels.

[UPS Marketplace Shipping](#) is a technology-based solution that lets merchants view, process and ship orders from multiple marketplaces using a single e-fulfillment tool.

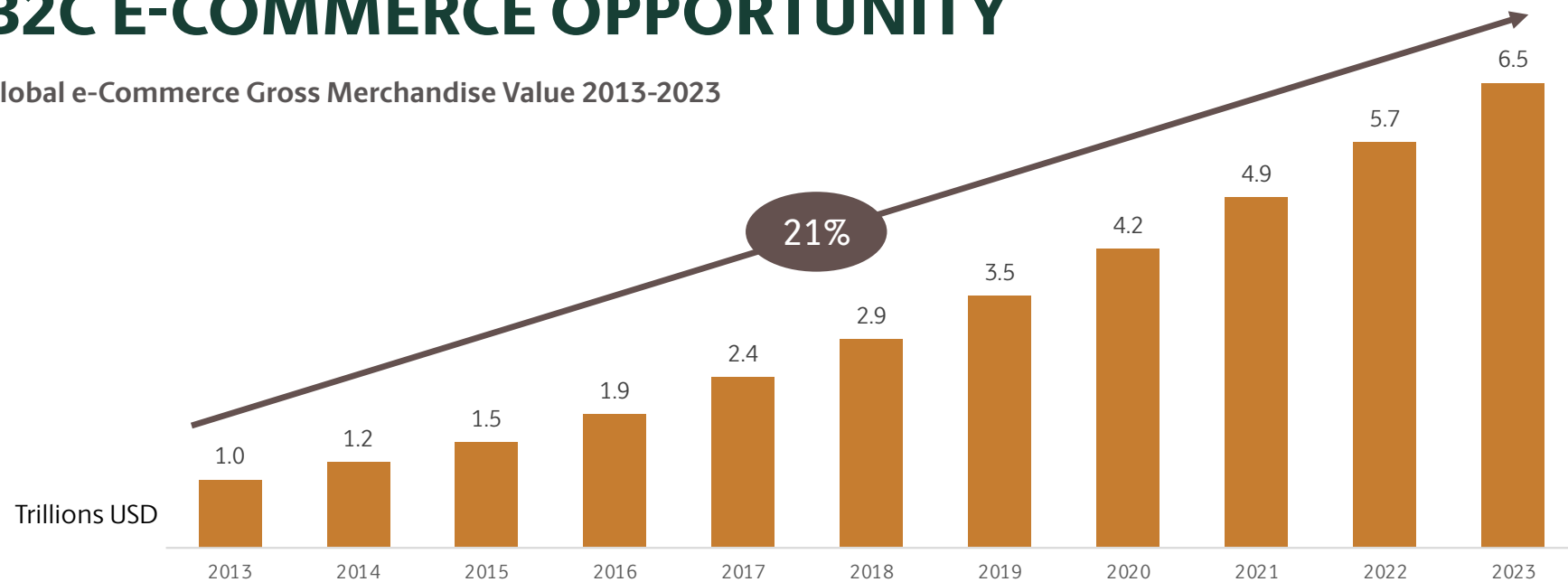
And now, with the new UPS Digital Access Program, sellers can take advantage of our preferred relationships with leading service providers like Shopify, ShopRunner, Square and Stamps.com in one or more aspects that

help merchants build their web stores, accept payments, or provide other functions in the e-commerce value stream. Our Digital Access Program gives retailers a seamless connection between platform providers and UPS's shipping and logistics solutions, as well as competitive UPS shipping rates for ground and air deliveries.

These services demonstrate UPS's commitment to the platform movement, which extends from demand generation and fulfillment to shipping and returns. And we'll continue to provide even more innovative services in the new ecosystem that has formed around marketplaces.

## B2C E-COMMERCE OPPORTUNITY

Global e-Commerce Gross Merchandise Value 2013-2023

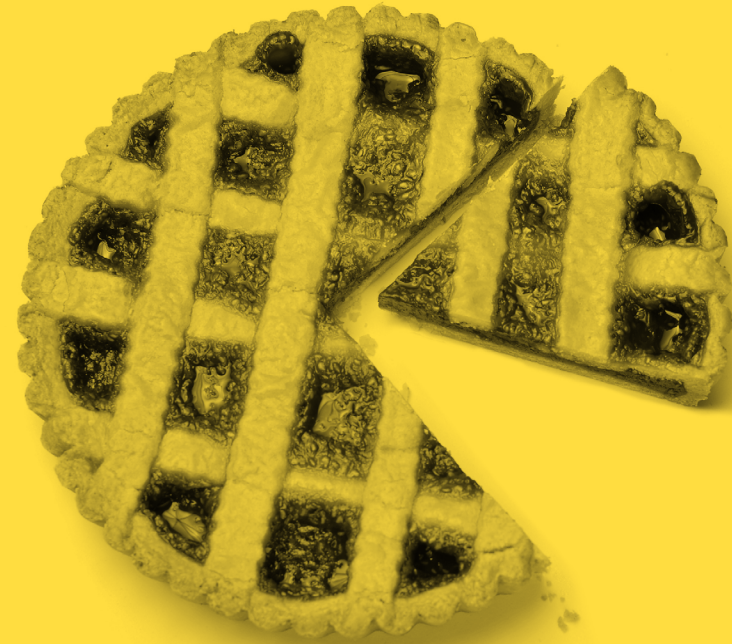


Source: eMarketer



*“ UPS embraced the marketplace movement early on, and today offers a comprehensive portfolio of services to address the biggest challenges online sellers face. ”*

# THE NEW PLATFORM ECOSYSTEM



The growing popularity of platforms has led to the emergence of a new ecosphere as companies jockey to provide services in this new value chain. Venture capitalists see the opportunity, too, and are vying to bankroll entrepreneurs and their startups in this space. Today, more than 1,000 e-commerce marketplaces or service providers have received Series A or B financing, including Mirakl, Bolt and Amify.<sup>7</sup>

As these platforms become more popular, competition is heating up as more service providers and platforms compete for a slice of the pie, including distinct functions like checkout, payments, or order fulfillment. Exhibit 1 illustrates the six primary functions comprising the new platform ecosphere. While most major e-commerce players focused on one of these six

areas initially, many have expanded into adjacent functions, either to boost revenue, cut costs or provide more value to customers.

- **DEMAND GENERATION.** Management guru Peter Drucker famously said the purpose of a business is to “create a customer”;<sup>8</sup> the biggest challenge for many of the 100,000+ e-commerce websites is generating demand. The biggest platforms — like Amazon with its vast inventories and robust search functions — provide a pool of potential customers that small retailers could never create on their own.

With marketplaces providing the IT infrastructure — including vendor onboarding, product catalog integration and order routing — sellers can open



for business within days, if not hours. Of course, many retailers still want a distinct presence with an online store and platforms like Shopify help sellers then build their own websites. Some even provide related marketing tools such as search-engine optimization and “A/B” testing for social media campaigns.

- **WEB SHOPPING CART AND CHECKOUT.** All customers go through the shopping-cart checkout process to purchase. The best checkout software includes language translations, minimizes the number of entry fields and the need for mobile buyers to scroll, and helps detect fraudulent transactions. Shopify has proved to be one of the more attractive providers in this space, giving merchants an all-in-one solution that enables fast starts and custom-design features.

- **PAYMENT PROCESSING.** Surprisingly, payment processing works independently of the e-commerce store. It's a separate system activated when the customer is ready to pay. Processors make sure transactions are secure, and comply with ever-changing regulations.

## ECOMMERCE, À LA CARTE

Online retail may have started simple – selling the products you make – but marketplaces now offer sellers a cafeteria-style menu of choices inventory holding choices. There are the five leading options:

- **1st-party retailers**, who own the inventory outright. In many instances, the first-party retailers manufacture, design and/or source the products they sell.
- **3rd-party retailers**, with the seller owning the inventory. This is the fastest-growing of these five groups. The largest, and best-known example of this arrangement is Amazon's successful “Fulfillment by Amazon” service.
- **1st-party retailers**, with owned inventory in a vendor's warehouse. This is often referred to as drop shipping. The 2018 State of the Merchant eCommerce Report found that out of 450 online stores, 16.4% were using drop shipping.
- **1st-party retailers, with on-demand inventory** in a vendor warehouse. This requires vendors to produce and store their inventory in their vendors' warehouses. This, of course, transfers the risk of unsold inventories onto the vendors.
- **3rd-party retailers, with certified inventory** that sits in the merchant's warehouse.

• **LOGISTICS.** The marketplace platforms offer a range of distribution and fulfillment services. In fact, there are four distinct functions:

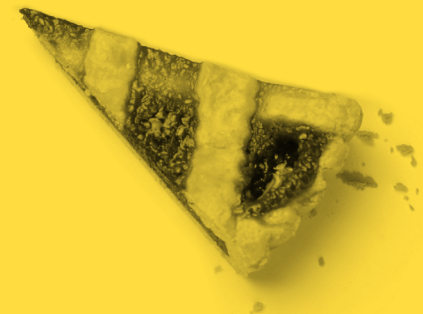
**1. Warehousing and Distribution.** E-commerce warehousing is the storage of physical goods before they are sold online. Warehousing includes storing products safely and securely, as well as tracking where items are located, when they arrived, how long they've been in stock, and the quantity on hand at any given time.

**2. Fulfillment.** Software available today helps businesses pick, pack and stage orders for delivery — at a single location or across the full supply chain. The best platforms enable businesses to track what's most important, such as peak fulfillment times and sales by channel. They even can help forecast demand or connect sellers with verified suppliers from around the world.

**3. Delivery.** The number of packages delivered annually in the U.S. is expected to rise from 11 billion in 2018 to 16 billion by 2020.<sup>9</sup> The popularity

of marketplaces continues to change the composition of those shipments: Business-to-Consumer (B2C) deliveries now account for more than half of today's volume and will make up two-thirds of volume by 2020. As part of our three-year Transformation initiative, UPS is investing \$21 billion to modernize and expand the capacity of our Smart Global Logistics Network. These investments enable UPS to meet our customers' needs today and for years to come. Coupled to a leading consumer application, UPS My Choice offers a provider-of-choice solution for most.

**4. Returns & Disposition.** E-commerce returns average about 15 percent, with apparel returns closer to 30 percent. By comparison, only 5 percent to 10 percent of physical-store purchases are returned. The cost to online retailers is substantial: In 2017, U.S. returned goods cost merchants \$381 billion, and the total is expected to reach \$550 billion by 2020.<sup>10</sup> As tempting as it might be to implement strict return policies, most sellers know they'd risk losing customers.



# UPS: UNIQUELY POSITIONED IN THE NEW MARKETPLACE ECOSYSTEM

While UPS is best known for its delivery service, our services in the new marketplace ecosystem extend well beyond the proverbial “last mile.” As seen in Exhibit 2, UPS’s footprint extends across every link in the e-commerce value chain, in both the B2B and B2C<sup>11</sup> segments. For instance, our My Choice® service enables us to help merchants deliver consumer convenience. What’s more, our My Choice® for business offering helps retailers with everything from Order to Cash and delivery visibility to returns.

That’s not all. As the marketplace revolution expands, UPS holds a unique position: we accumulate and manage roughly 50 million petabytes of first-party data each day, market intelligence no other e-commerce player has access to. UPS amassed this data from the tens of millions of transactions and touchpoints made each day involving pickups, transportation, “WISMO” [“Where Is My Order?”] requests and receiver preferences. These touchpoints, which include compliance stipulations, can be understood only by logistics players with the experience of UPS.

## UPS E-COMMERCE ECOSYSTEM



Sourcing



Demand Generation



E-Commerce Platform



Payments



Warehousing and Fulfillment



Shipping



Returns

**WEB SHOPPING CART & CHECKOUT.** Our UPS Developer Kit Application Programming Interfaces (APIs) integrate with more than 25 shopping-cart software platforms for seamless shipment tracking, address validation, and real-time rate calculations. [See the [complete list here](#).]

**PAYMENT PROCESSING.** Similarly, our e-commerce APIs integrate with several leading payment-processing platforms, including ClickCart Pro and Fortune 3's Storebuilder. [PayPal users](#) also can print UPS shipping labels and pay for shipping seamlessly from their PayPal account dashboards.

**LOGISTICS.** UPS Ready software makes it easy for large shippers to integrate our services into their inventory management systems. The software acts as a plug-in, integrating UPS shipping and billing options with more than 1,200 of the most popular warehouse management and order management software platforms. While UPS Ready provides transactional

visibility, shipping rates must be negotiated separately. However, UPS's new Digital Access Alliance provides the same visibility, and gives merchants the option of shipping at the option of shipping at rates designed specifically for their needs.

As part of our logistics portfolio, UPS provides enhanced services in these four crucial functions:

- **Warehousing and Distribution.** UPS offers a wide range of warehousing and distribution services for customers in healthcare, high tech, retail, and automotive and industrial manufacturing. And our new Ware2Go platform is a nationwide, turnkey fulfillment network that helps merchants position products closer to end-customers for a fast, inexpensive and reliable order-to-delivery experience. Ware2Go offers an integrated solution for storage, pick, pack and shipping services to businesses of all sizes. Its intuitive, cloud-based technology platform makes it easy to extend your distribution footprint and scale up and down according to operational needs.



• **Fulfillment.** [UPS eFulfillment](#) offers small- and medium-sized businesses streamlined fulfillment and shipping services to consumers in the U.S. and Canada. Launched in early 2019, the solution supports purchases and orders from 20 different marketplaces and web stores, including eBay, Wal-Mart, Etsy and Amazon [including Prime]. The new platform augments UPS's suite of custom e-commerce solutions designed to support small and medium-sized companies.

• **Delivery.** UPS averages 20 million deliveries each day. With our UPS My Choice® service, we know how 60 million people like to receive their packages. We also know consumers — and the retailers they purchase from — prefer delivery services with an array of flexible delivery options. That's why we built a network of more than 30,000 UPS Access Point® locations across Europe and North America, including at popular retailers like CVS, Michaels Stores and Advance Auto Parts. With our convenient APIs and

---

## THE EVOLUTION OF UPS DIGITAL ACCESS

### Where It Begins

#### Integrate to UPS Tech



Shipping



Tracking



Returns

**Acquiring new merchants**

**Self-enrollment**

### Where We Are Going

#### Advanced Benefits

- Differentiation
- Fulfillment and Inventory Management
- UPS My Choice for business
- Cross-border Commerce
- Convenience (UPS Access Point Network)
- Personalized Logistics

Exhibit 2.

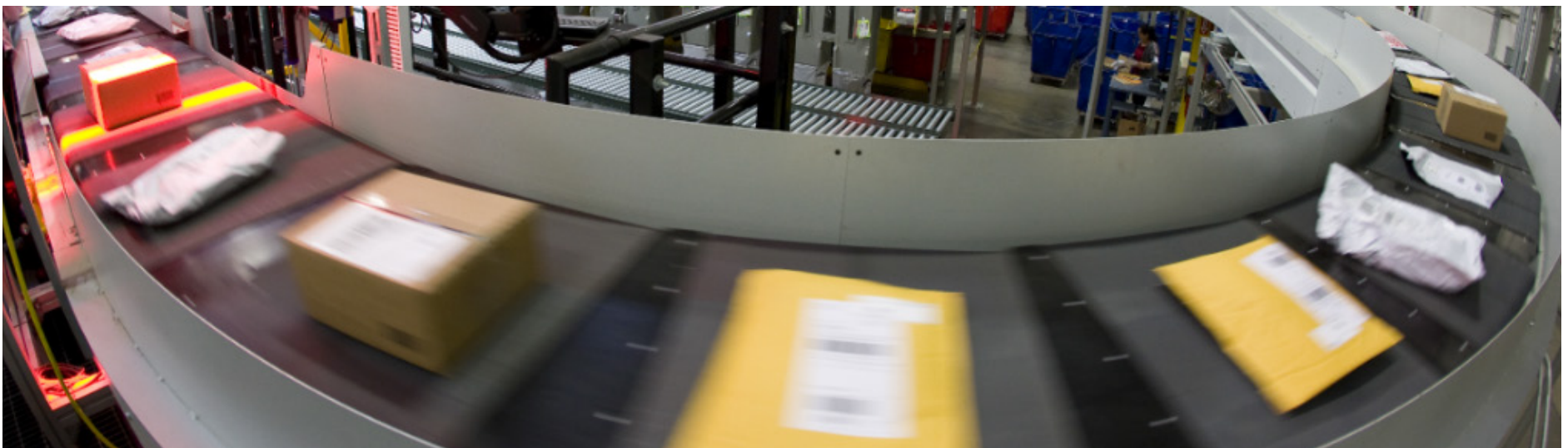


plug-in tools, retailers can easily add UPS Access Point locations to online checkout as a delivery option for eligible packages.

Shoppers see available delivery locations at checkout, including up-to-date hours and contact information, and select a nearby store if that's more convenient than sending shipments to their homes or offices. Shoppers also get automatic email or text alerts when their packages are ready for pick up, depending on their preferences.

- **Returns and Disposition.** In 2016, UPS forged a strategic alliance with [Optoro](#), providing a one-stop solution for retailers and manufacturers to optimize the transportation and disposition of returns and excess inventory. Our joint reverse logistics solution combines UPS's operational and logistics expertise with Optoro's software platform to maximize recovery value and reduce environmental waste.

As comprehensive as these services are, our reach continues to expand with our growing use of data-enabled, application-focused partnerships. Category leaders in payments, fulfillment or one of the other four marketplace ecosystem functions become even more valuable when they connect their services to UPS's broad capabilities.



## THE NEXT WAVE: B2B ECOMMERCE

E-commerce 1.0 has been all about B2C, or Business-to-Consumers. E-commerce 2.0 will encompass B2B, or Business-to-Business, transactions. According to a recent Gartner survey, 49 percent of B2B companies intend to build marketplaces by 2020, a dramatic uptick from the mere 11 percent who have them today.<sup>12</sup> Yet B2B marketplaces are much more complex. While the typical B2C transaction creates 200 pieces of data, B2B transactions can involve 7,000 pieces of data [everything from who produced an industrial part, to how you oil it]. At UPS, we're particularly excited about the growth opportunity in B2B commerce. We'll discuss the vast B2B opportunities in a future white paper.

---



# REFERENCES

---

<sup>1</sup> <https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Consumer-Business/cons-global-powers-retailing-2019.pdf>

<sup>2</sup> <https://www.statista.com/statistics/443522/global-retail-sales/>

<sup>3</sup> <https://www.bcg.com/publications/2012/retail-consumer-products-secrets-online-marketplaces.aspx>

<sup>4</sup> <https://www.statista.com/statistics/379046/worldwide-retail-e-commerce-sales/>

<sup>5</sup> The Boston Consulting Group

<sup>6</sup> <https://www.digitalcommerce360.com/article/e-commerce-sales-retail-sales-ten-year-review/>

<sup>7</sup> “Series A” is typically the second stage of startup financing after an initial seed round by angel investors. Series A is typically the first stage of venture capital financing, and Series B the second.

<sup>8</sup> The Practice of Business, Peter Drucker, HarperBusiness, 1954.

<sup>9</sup> According to estimates from Strategy&

<sup>10</sup> <https://www.statista.com/statistics/871365/reverse-logistics-cost-united-states/>

<sup>11</sup> “B2B” and “B2C” are the popular acronyms for the Business-to-Business and Business-to-Consumer markets

<sup>12</sup> <https://www.gartner.com/doc/3892869/survey-analysis-bb-sellers-leveraging>

# RELATED UPS RESOURCES

---

## **UPS Ready® Providers:**

Integrate e-commerce technology integration easily with help from our partners.

## **UPS® eFulfillment:**

Let us process and ship your online orders so that you have the time to run your business.

## **UPS® Marketplace Shipping:**

View and process all your online orders in one place.

## **UPS My Choice® Service®:**

Help busy consumers get the details and flexible delivery options they expect.

## **UPS Access Point® Network:**

Offer convenient alternative delivery locations to help close more sales.

## **UPS Returns® services:**

Never be surprised by an incoming return.

## **UPS Exports:**

Reach international markets with confidence.



© 2019 United Parcel Service of America, Inc. UPS, the UPS brandmark and the color brown are trademarks of United Parcel Service of America, Inc. All rights reserved.

---