



DECEMBER 11, 2020

KEY TAKEAWAYS

- > On December 10, we hosted a conference call with LJM Group, a consultant that helps shippers save time and improve profitability with expert FedEx and UPS auditing, as well as shipping consulting services focused on cost management and recovery since 1998.
- > Carriers have the upper hand, given the surge in online orders this year, and are controlling package sizes, increasing prices, and adding surcharges.
- > Retailers should be ready to deal with returns during peak delivery days, given an earlier start to the holiday shopping season.
- > Retailers that work with multiple carriers and have a diversified supply chain are better positioned than others.
- > Dark stores should continue to be utilized as DCs, as they help deliver goods faster and cheaper.
- > In 2021, shipping expenses are expected to rise 8%-9% (or higher).

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TAG'S CONFERENCE CALL SERIES**Shipping & Logistics Update with LJM Group**

On Thursday, December 10, we hosted a conference call with LJM Group, which specializes in supply chain management and services customers across industries, including retail. Thomas Andersen, Partner, VP of Supply Chain Services, and Kenneth Moyer, Partner, VP of Supply Chain Strategies, discussed the shipping and logistics environment.

It's A Carriers' Market: LJM indicated that FedEx and UPS have the upper hand right now, given the significant surge in online orders (digital sales up 33% in 3Q20), which seems unlikely to slow in the near term. Carriers are leveraging the trend by dictating terms, such as limiting volume, selecting package sizes, increasing prices, and adding surcharges. Even a light package costs \$10-\$12, on average, for retailers to ship locally. To manage the demand surge, FedEx and UPS are rapidly expanding capacity, adding more planes, trucks, and associates, but their fixed infrastructures and trained staffs remain constrained. For guaranteed delivery before Christmas, FedEx and UPS are pushing for a cut off day of December 15. As a result, some retailers already announced customers may not receive their orders by Christmas, if they are not placed in the next few days. That said, customers should be able to pay a premium to have orders shipped by Christmas. LJM believes some companies are using this early cutoff for free/low cost shipping to flatten the curve.

Returns Could Be A Bigger Issue This Year: Unfortunately for retailers, an earlier start to the holiday shopping season this year may result in earlier returns than usual, which could be more heavily concentrated in December than in prior years. This means retailers may have to start dealing with returns during peak delivery days. LJM believes there are two ways retailers can mitigate this problem: 1) letting customers keep low-priced items or 2) accepting returns only after the holiday season.

Who is Well Positioned? Retailers that work with multiple carriers should be able to manage order flow more effectively. In addition, a diversified supply chain, with multiple fulfillment facilities reduces the stress on supply chain. LJM believes, and we agree, that Home Depot, Lowe's, and Walmart are doing an excellent job to manage shipments and store fulfillment. Target also has impressively transformed its supply chain network by leveraging stores as fulfillment centers, with BOPIS, curbside, and Shipt last-mile delivery. Amazon continues to expand its own fulfillment capabilities to support growth, with Amazon Logistics supporting more than half of deliveries, a solid competitive advantage.

Role of Dark Stores: Dark stores are essentially an extension of the ship-from-store model. Typically, dark stores are located closer to consumers than a regular DC and can fulfill orders within a few hours during peak demand periods at lower costs. Online retailers, such as Amazon.com, and several physical retailers with high volumes, are experimenting with the model to quickly meet customer demand. The use of last mile delivery providers, such as Walmart Spark, Target Shipt, and Instacart, support the growth of dark stores.

Shipping Price Increases in 2021: Looking ahead, LJM expects shipping expenses to rise 8%-9% (or higher) in 2021. Note, carriers have announced a rate hike of 4.9% in 2021, but it often ends up a little higher.

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