

The Impact Of Logistics Services On E-Commerce In Canada

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Executive Summary

This study, commissioned by Industry Canada, is investigating whether Canada has the right economic framework to foster a thriving e-commerce marketplace, and, in particular, examining the role of logistics services. The work was done in the first quarter of 2013.

We conducted interviews with and gathered survey data from a cross section of 17 e-commerce companies, including B2B and B2C companies; small, medium sized and larger companies; and companies based in and around Toronto and in and around Vancouver.

We found that:

- Larger e-commerce companies tend to have lower unit delivery costs and lower overall logistics costs as a percent of revenue.
- There are differences in the logistics models of B2B and B2C e-commerce companies.
- E-commerce transportation and warehousing costs are lower in the United States than in Canada.
- The scale of business and the geography of the US are more conducive to lower logistics costs.
- The availability of logistics services for e-commerce does not appear to be a problem.
- The pricing of parcel delivery has been a problem for some e-commerce companies – particularly smaller e-tailers.

I Introduction

Introduction

This report is about how well logistics services support e-commerce in Canada. The research was commissioned by Industry Canada, and conducted by Dr. Alan Saïpe of Supply Chain Surveys, Inc. between December 2012 and March 2013. The study involved holding discussions with and gathering data from a cross-section of Canadian retailers, manufacturers, wholesalers and logistics service providers, as well as industry experts and several US logistics service providers.

The main purpose of the work is to better understand the way that logistic services influence the Canadian e-commerce market. In particular, we are trying to find out if the availability and price of transportation, warehousing and related services present a barrier to starting and growing e-commerce businesses in Canada.

The report is organized as follows:

- In Chapter II we focus on the importance of e-commerce, explain the role of logistics, and make the case that Canada's e-commerce market place is underperforming.
- In Chapter III we explain how we conducted the research.
- We present our findings in Chapter IV, drawing on information from our interviews and survey questionnaires.
- In Chapter V we present conclusions and note possible future research.
- The Appendices contain a list of the companies that participated in this research and copies of the survey questionnaires.

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II Background

Importance of e-commerce in Canada's economy

The Internet has had a massive effect on Canadian consumers and businesses, changing the way we live and the way business is done. Sometimes the changes are small, such as being able to confirm your dental appointment on line. Sometimes the changes are profound, such as transforming entire markets like music, video, software, books and news.¹

Our focus for this research is e-commerce, which refers to the sale or purchase of products or services on computer networks.² E-commerce is only one dimension of the digital economy, though certainly an important one. We need to note the distinction between the terms e-commerce and e-business. E-business is much broader, referring to all business activities conducted on the Internet, including, for example, providing technical or customer support and collaborating with business partners. E-commerce deals specifically with selling and buying on line.

By allowing seller and buyer to connect and communicate one-to-one, the Internet underpins the e-commerce marketplace. Two of the largest market segments are business to business (B2B) where companies sell to other companies, and business to consumer (B2C) where companies sell to individuals. In this research we deal exclusively with these two segments, although other kinds of e-commerce activity do take place, including consumer to consumer (C2C) and business to government (B2G), for example.

E-commerce has grown from a standing start in the mid 1990s. Today many different kinds of e-commerce websites and business models are in use. Common B2B e-commerce business models include:

- E-Distributors, such as AcklandsGrainger.com or TheSurgicalRoom.com, where single firms provide online versions of retail and wholesale stores.
- E-Procurement, such as Ariba.com and CommerceOne.com, where single firms create digital markets where numerous sellers and buyers do business.

Many other B2B business models exist, including Exchanges, Industry Consortia, Single-firm Networks and Industry-wide Networks.³

Common B2C e-commerce business models include:

- E-tailers, such as MEC.com or Indigo.com, that are on-line versions of retail stores.
- Transaction Brokers, such as Expedia.com or Hotels.com, that are processors of on-line sales transactions.

Many other kinds of B2C web-sites exist, including Portals, Content Providers, Market Creators and Service Providers, for example.⁴

E-commerce has grown to be a large and important part of the Canadian economy. Retail e-commerce sales amounted to \$15.3 billion in 2010, nearly double the 2005 level. In the same year, the average

¹ OECD, 2012

² OECD definition cited in E-COMMERCE IN CANADA, 2012

³ Laudon, 2004

⁴ *ibid*

value of internet orders per person reached \$1,362.⁵ By 2012 Canadian retail e-commerce sales had grown to \$22 billion,⁶ and the expectation is that it will continue to expand. Canada's internet economy is forecast to grow by 7.4% a year through 2016 according to a study commissioned by Google.⁷

The same kind of rapid growth in Internet retail sales is happening throughout the developed world. Citing a 2011 on-line retail study published by Datamonitor, Graves reports that global online retail sales grew by 16.3% annually between 2006 and 2010.⁸

Seeing the digital economy as a policy area with increasing priority, the Canadian Government launched a national consultation on a digital economy strategy in May 2010. The goals were to drive the adoption of new technology across the economy, encourage new ideas and also to strengthen laws governing intellectual property and copyright.

The next year the House of Commons Standing Committee on Industry, Science and Technology began a study of e-commerce and mobile payments in Canada.⁹ Why so much focus on e-commerce? Because it matters both to individual companies and to the economy as a whole.

From a macro-economic standpoint, the growth of e-commerce can be an important factor in increasing national productivity: e-commerce can be a key driver of increasing sales while using fewer production resources such as labour. From a micro-economic standpoint, e-commerce could be a key element in enhancing a company's competitive advantage, and allow it to capture market share.¹⁰

The development of the digital economy and the rapid growth of e-commerce present both an opportunity and a challenge to Canadian businesses and our economy. If you are not in the game, you are falling behind. Companies that don't use e-commerce are not only missing a chance for growth, but run the risk of losing revenue and share to others that are keeping pace. An e-commerce marketplace that lags the rest of the world means our economy is losing business to foreign competitors.

In the global marketplace, any productivity or competitiveness gap between Canadian businesses and their international competitors is a critical issue that should be analyzed on a sector-by-sector basis...¹¹

Logistics enables e-commerce

Supply chain logistics is concerned with the flow of purchased goods and materials inbound to the business, and the flow of goods that have been sold outbound to customers. Logistics represents a large cost centre for many businesses and has a major impact on how well they service their customers, how effectively they compete in their markets and how well they perform financially.

Of course logistics is not critical for all e-commerce businesses. Those that deal in services or in products that do not require delivery are not concerned with outbound supply chain logistics. In these situations, the customer either pre-books or pre-pays for a future service or has the product or service delivered online. Some examples:

⁵ E-COMMERCE IN CANADA, 2012

⁶ www.comScore.com

⁷ The Canadian Press, March 21, 2012

⁸ Graves, 2012

⁹ E-COMMERCE IN CADADA, 2012

¹⁰ ibid

¹¹ The Challenge of Change, 2004

Airline tickets	E-music
Hotel reservations	Online surveys
Car rentals	Online banking
Movie tickets	Online trading
E-book, magazines & newspapers	Online gaming

However, when a website sells a product that must be delivered to the buyer, then supply chain logistics becomes a key enabler. To fulfill a customer's web order any or all of the following activities can come into play:

- Sourcing and procurement – If the item was bought for resale, the supplier was chosen, commercial arrangements were agreed, it was purchased and either transported to its storage point or to the customer. If borders were crossed, customs and duties were paid.
- Production – If the item was produced in house, it was produced and either transported to its storage point or to the customer.
- Warehousing – If selling from stock, the item was held in the company's own facility or in a third party warehouse, and the item was kept secure and in good condition.
- Inventory planning and control – Forecasting, planning and control steps were taken to make the item available in its storage location when it was needed.
- Customer order processing – The customer order was received, qualified, possibly batched, and then sent to the warehouse for fulfillment.
- Pick, pack and ship – The order was issued to the warehouse floor, the item was picked, packaged, labeled for shipment and staged for delivery to the customer.
- Transportation management – The carrier was chosen and commercial arrangements were agreed.
- Transportation – The package was picked up, transported and delivered.
- Returns – If the item is returned, it is packaged, delivered to a sorting point, may be disposed of, or may be refurbished and returned to stock.
- Other business activities – Many other activities are also involved, including billing and payment, accounting and reporting.

Typically the costs of transportation, warehousing and the pick, pack and ship steps will account for the largest portion of a company's outbound logistics costs – often between 60% and 90%¹². These costs are determined by several key variables, particularly, the physical characteristics of the product, how far the product has to be shipped, and the costs of labour, fuel, real estate, and capital. One way to have low outbound logistics costs is to have higher-valued products that don't need temperature control, aren't hazardous, don't weigh too much and are easy to handle, and put them into storage shortly before they are ordered, in a warehouse on inexpensive land that is close to your customer.

Most companies use a mix of in-house and third party services to meet their logistics needs. Transportation is often outsourced. Warehousing is more often being outsourced - the third party logistics (3PL) industry has grown, and today is seen as a viable option for almost all situations. It is the availability and cost of these services, specifically for e-commerce, that we are concerned with in this research.

The cost of logistics activities as a percent of the sales dollar will differ from industry to industry and from company to company. For instance, in the bulk agricultural and mining industries, with lower value products that are shipped around the world, supply chain logistics costs can consume much more than 50% of the sales dollar. Manufacturers of high volume consumer goods typically incur logistics costs of from 5% to 20% of sales revenue. Most high volume mass retail companies have logistics costs in the range of 3% to 6% of sales.

¹² Typically the costs of sourcing and procurement, production and what are noted above as other business activities are not included in the calculation of supply chain logistics costs.

Since logistics costs are high, companies can gain a competitive advantage by having highly efficient and, as a result, lower cost logistics. They can turn lower logistics costs into better pricing for their customers and better returns for their shareholders. However, that is not the only way that companies gain an edge through logistics.

In many situations customers pay more for speed, reliability and flexibility of service, and choose companies with products that are offered that way. Dell Computers built its business by providing quick, reliable delivery of its customized products; Grainger maintains its strong customer franchise by having exceptionally high product availability across an unusually wide product line; and companies like Xerox and IBM keep their equipment down times low by having replacement parts delivered to most of their customers' locations in minutes when their equipment is being repaired.

Logistics is critical for many traditional businesses and is also a key enabler of businesses on the Internet. It takes many things to have a successful online business including, for example, appealing product, an attractive website that is easy to use and ample web traffic; but the business cannot succeed without good logistics. The following quote from Jeff Bezos, the founder of Amazon.com, is revealing. He is speaking about where e-commerce companies go wrong.

The logistics and the customer service – the non-glamorous parts of the business – are the biggest problem with e-commerce. A lot of these companies that are coming online spend all their money and effort building a beautiful website and then they can't get the stuff to the customer (US News & World Report, 1999).¹³

Logistics cost matters in both e-businesses and traditional businesses and, in many cases, so does speed, reliability and flexibility.

¹³ Quoted in Cho, 2008

Logistics framework

The logistics model that an e-commerce business uses determines the mix and amount of logistics services that it needs. The following table shows the logistics framework we have used in this study. The choices that a company makes for each of the factors establish its logistics model.

Factor	Explanation
Sell from stock vs. Make or buy to order	Some e-commerce businesses fill customer orders from stock. Others make or buy the product when the customer orders it. Some use a combination of both methods.
Ship to customer vs. Ship to a pick-up point	Two common delivery options are shipping to the customer's location and shipping to a pick-up location, such as a retail store. Other delivery options are also used.
Shorter delivery time vs. Longer delivery time	The speed of delivery of e-commerce orders can range from minutes to weeks.
Same warehouse for e-commerce vs. Specialized e-commerce warehouse	Some companies carry their e-commerce stock in the same warehouse(s) used for their traditional business. Others use special e-commerce stocking points or use a shared-service facility.
Own warehouse vs. Outsourced warehouse	In some cases companies use their own warehousing. In other cases warehousing is outsourced.
Own customer transportation vs. Outsourced customer transportation	In some cases companies use their own customer transportation. In other cases customer transportation is outsourced.
Own returns processing vs. Outsourced returns processing	In some cases companies do their own returns processing. In other cases returns processing is outsourced.

To illustrate, consider the first factor, selling from stock versus making or buying to order. Many e-commerce businesses fill their web-orders from their inventory. They make a portion of their product line available on their website, carry enough stock to support sales for the web business as well as the traditional business, and fill their web orders from stock.

Other e-commerce businesses use a different approach. As well as offering products that they carry in inventory, their website will also offer products that are not carried in stock, but are bought or produced when they are ordered.

One example is the growing use of drop-ship sales by companies like Wal-Mart, www.walmart.ca, and others. When an order is received for a drop-ship item, the company that made the sale forwards the

order electronically to its drop-ship supplier, which fills the order from its own stock and sends it directly to the customer, often packaged and labeled as though it had come directly from the company that made the sale.

There are several advantages to drop-ship selling:

- The selling website offers more choices to its web customer, which can produce more web traffic and more sales.
- By offering related items the selling website is more convenient for the shopper, more of a one-stop shopping location.
- As well, logistics costs are lower on drop-ship sales – the item goes to the customer directly from the supplier rather than first being sent to and held at the selling company's warehouse.

Typically contribution margins on drop ship sales are lower than on sales from stock, and the selling company may have fewer packaging and insert options available from the drop-ship supplier. There can also be concerns about product availability and delivery reliability.

Making or buying to order changes the logistics requirements for the selling company. The biggest impact is that its logistics costs and inventories are lower. To work well the process requires a rapid transfer of web-orders to the drop-ship supplier. Specialized services are available to facilitate this – see, for example, www.commercehub.com.

In a similar way, each of the factors in the logistics framework determines the type and amount of logistics services that an e-commerce business will require. Some examples:

- Ship to customer vs. Ship to a pick up point – For a B2C business, shipping to the customer typically requires delivery to the customer's home, which often attracts additional charges, while a shipment to a pick up point is normally a part of a larger consolidated shipment to a business address, which is less expensive. For B2B businesses, shipping to a pickup point is rare; however, shipping to a business address tends to be less costly because standard rates will not include any additional charges for home delivery.
- Shorter delivery time vs. Longer delivery time – Shorter delivery times typically require premium transportation services, such as expedited parcel services or air freight, and as a result are more expensive than longer delivery times.
- Same warehouse for e-commerce vs. Specialized e-commerce warehouse – Warehouse methods for storage, handling and order picking are very dependent on order sizes. A company whose e-commerce orders are much smaller than the orders in their traditional business will need to process those orders differently to keep their costs in line. If the volume of orders is large enough, this may require a separate warehouse, or a separate section of an existing warehouse, or a separate time of the day to be devoted to e-commerce orders only. This is one of the main reasons that companies consider outsourcing the warehouse for their e-commerce business even if they operate the warehouse for their traditional warehouse themselves.
- Own warehouse vs. Outsourced warehouse – Many companies use third party warehouses for their traditional business and also for their e-commerce business.
- Own customer transportation vs. Outsourced customer transportation – This is another difference between B2B and B2C e-commerce businesses. Although most customer transportation is outsourced, some B2B web businesses do their own customer deliveries.
- Own returns processing vs. Outsourced returns processing – In their traditional business some

companies rely on third party services to receive, inspect and refurbish, or dispose of product returns. The same is true of e-commerce businesses.

Special challenges of e-commerce logistics

E-commerce gives companies new business opportunities. It is a different way to do business with existing customers and a way for a company to expand its reach and sell to new customers. It can also be a way for a company to enlarge its product offering. However, e-commerce has its own logistics issues.

Selling on the web gives a company access to new customers, but when those customers are farther away, its logistics costs are higher; and, if they are out of country, customs and duties will come into play. If a company's products are unique, its customers will be more willing to pay for delivery and wait longer for their order. However, if its products are commodity-like and it mainly competes on price, then higher logistics costs will come directly out of profit margins.

As a case in point, LLBean, www.llbean.com, the large e-tailer based in Freeport Maine, carries its own branded line of apparel and equipment and operates in a highly competitive sector. It offers unconditional free delivery on consumer orders to Canada and gives 3 to 11 day delivery. In contrast, Hammacher Schlemmer, www.hammacher.com, the specialty e-tailer based in Fairfield Ohio, carries a unique selection of niche merchandise. It charges \$14.95 (U.S.) per order for standard shipping to Canada and gives 7 to 12 day delivery. Both offer faster premium delivery options for additional charges.

E-commerce customer shopping habits are also becoming an issue for bricks-and-mortar retailers. Some customers go to retail stores to figure out just what size or model of an item they want to buy, and what features they need. Then they price shop on the Internet and make their purchase on line.¹⁴ The behavior is called "showrooming" and bricks and mortar retailers hate it. However, it underlines the importance of all-in delivered cost for some Internet customers.

E-commerce can also put a company head-to-head against new competitors with different business models that use logistics as a competitive weapon. An example is the appearance of free delivery and free returns on a growing number of Canadian websites. Free delivery for orders over a set amount and free returns, which together put considerable pressure on small business margins, look to be the emerging standard in some sectors.¹⁵

Companies that begin to sell direct to end customers but are not experienced in direct selling and delivery have to adapt their operations to accommodate smaller order sizes, new handling methods and higher per unit logistics costs. This can require the redesign of handling methods and capital investments in new equipment, or the use of third party services that are already suitably equipped. It is not an overstatement that the expansion of Internet sales is fundamentally changing the nature of the retail supply chain.¹⁶

B2C companies also have to come to grips with the realities of home delivery. In their study of the costs of home delivery Boyer et al. found that "unless customer density is high enough and the delivery window is wide enough, the costs of home delivery can be extremely high"¹⁷. A related issue is that all too often no one is at home when the package arrives. If it cannot be left at the door, the package is often taken to a depot for the customer to pick-up, and if not picked up in a week, is returned. This is

¹⁴ Deloitte, 2012

¹⁵ White, 2012

¹⁶ Graves, 2012

¹⁷ Boyer, 2011

only one of the reasons why product returns are notoriously higher from Internet sales than from in-store sales.

Objectives of the study

Although Canada is a leader in Internet usage¹⁸, is active in e-commerce and the amount of business done on the Internet is growing, there is evidence that our e-commerce is not as well developed and is not growing as quickly as some other G20 countries, particularly the United States.

An international study, conducted for Google by Boston Consulting Group, found that the Internet accounted for about \$49 billion or three per cent of Canada's GDP in 2010, the latest year for which information was available. However, that was lower than the G20 average of about 4.1 per cent of GDP and put Canada ninth among the G20 pack.¹⁹

By 2016, BCG forecasts that the digital economy would represent 12.4% of U.K. GDP, 5.4% of the U.S. economy, and only 3.6% of the Canadian economy unless something markedly spurs accelerated digitization in Canada very soon.²⁰

Canada is one of the most extensively wired countries in the world with relatively inexpensive internet access costs. Canada is also a leader in privacy and security initiatives ... (but) Canada compares poorly to the U.S and U.K. with respect to the percentage of leading traditional retailers that sell online.²¹

Another study by Google showed a major gap between the amount of Internet buying done in Canada and in the US as a percent of retail sales.

(In 2010) eCommerce retail sales in Canada were about 1% of total retail sales...In the US, eCommerce sales were 8.6% of total retail sales.²²

The BCG study cited earlier reported a smaller gap, with Canada at 3.4% and the US at 5.0%²³; however, both are estimates, and both show a sizable gap that is disadvantageous to Canada. According to the BCG study, part of the gap is that Canadians tend to research products online, but not actually make purchases like their American peers, according to the BCG study. However, a bigger factor is that our small and medium sized businesses (SMEs) are not particularly active in e-commerce. This was first recognized more than a decade ago.

Viewed in 2002, Canada is well prepared for e-business and e-commerce, but adoption rates are lagging – especially for SMEs which are crucial to the success of the Canadian economy.²⁴

Today it is still of concern. In 2011, CEFRIO surveyed more than 2,000 SMEs on their use of Internet communication technology, and found that only 18% of small businesses and 30% of medium sized businesses reported having online sales.^{25,26}

¹⁸ E-COMMERCE IN CANADA, 2012

¹⁹ The Canadian Press, March 21, 2012

²⁰ Cooper, 2012

²¹ ibid

²² Scurfield, 2011

²³ Boston Consulting Group, March 2012

²⁴ Fast Forward, 2003

²⁵ E-COMMERCE IN CANADA, 2012

²⁶ Small businesses are those with 100 or fewer employees; medium businesses have between 101 and 500 employees.

The lack of SME participation makes a difference because this sector is of critical importance to Canada's economy. In 2011, it accounted for more than 60% of private sector employees, more than 50% of private sector GDP and more than 95% of exports in Canada.²⁷

Finally, there is considerable informal evidence that logistics, and particularly transportation costs, are problems for some e-commerce businesses.²⁸

This study looks at whether logistics services are a main contributor to Canada's e-commerce gap. More precisely, the purpose of this project is to better understand the role and impact of logistics services on e-commerce in Canada. We want to determine if the availability and pricing of logistics services is posing a barrier to starting and growing e-commerce businesses.

The specific research objectives include the following:

1. Outline the different business models of logistics in the context of e-commerce and determine the main differences between small, medium and large firms.
2. Determine if there are differences in the costs of logistics services with respect to different sectors, according to firm size and with respect to different provinces.
3. Compare the costs of logistics services in Canada and the USA, where possible. For example, determine if transportation (including shipping) and warehousing costs are higher in Canada than in the USA.
4. Identify reasons for differences in logistics costs with the USA. This could include an analysis of the differences between USA Postal Services and Canada Post and an analysis of the impact of industry composition on the costs of logistics services.

²⁷ Key small business statistics, 2012

²⁸ See Strauss, 2012 and White, 2012

III Research Design

Our work has involved making contact with e-commerce companies and logistics service providers, interviewing them and gathering further information by questionnaire. Most, but not all, of the companies that we interviewed also completed a questionnaire (Appendix B).

We also interviewed executives at selected industry associations and a number of industry experts.

E-commerce businesses

We interviewed and gathered information from a cross section of e-commerce businesses, as we show in the following table. Three of the sample companies did both B2B and B2C e-commerce business.

Segment	Sector	Size	Ontario	British Columbia
B to C	Primarily Retail	Small	1	4
		Medium	2	1
		Large	3	2
B to B	Primarily Manufacturing and Wholesale	Small	2	0
		Medium	1	1
		Large	2	1

The design has allowed us to make comparisons between segment, size and province.

We made these contacts in two ways. First, we interviewed and asked for the help of the following three industry associations:

- Supply Chain and Logistics Association of Canada (SCL)
- Retail Council of Canada (RCC)
- Canadian Manufacturers and Exporters (CME)

Second, we networked with industry contacts and used direct solicitation.

Logistics service providers

We also interviewed and gathered information from a cross section of logistics service providers in Canada and in the US.

We made these contacts in two ways. First, we were assisted by the following organizations:

- The International Warehouse Logistics Association, Canada (IWLA)
- The Supply Chain Centre of Excellence, Niagara University

Both arranged a focus group for us with six to ten service providers, some of whom completed our questionnaire.

We also acquired information from Canada Post, The United States Postal Service and several transportation companies, including Purolator, UPS and Fed Ex, through direct contact and from their websites.

Many of the patterns that we have found are reasonably clear. However, it is important to note that, since our sample size is small, our findings and conclusions do not have rigorous statistical validity.

IV Findings

Logistics business models

One of our research objectives was to outline the different business models of logistics in the context of e-commerce and determine the main differences between small, medium and large firms. In this part of the report we present our findings.

We have found that there are differences in the logistics models of B2B and B2C e-commerce companies. B2B companies tend to ship larger orders and have proportionately lower logistics costs. We have also found that a company's size does influence its approach to e-commerce logistics. Larger e-commerce companies tend to take more advantage of the logistics choices that are available and have more specialized e-commerce logistics models.

E-commerce customer base

Not all B2C e-commerce companies are on the web with the primary, driving objective of growing their revenue by enlarging their customer base. Similarly, not all B2B e-commerce companies are on the web so that their existing customers can enjoy an easier, more convenient and more accurate way to place their orders. However, these appear to be the main goals of a number of the companies we spoke with. Which helps to explain our first finding.

Most of the B2B companies in our sample have the same customer base in their e-business as in their traditional or bricks and mortar business – whereas, most of the B2C companies in our sample have a larger geographical customer base in their web business.

This implies that the outbound logistics requirements for B2B e-commerce businesses will likely be the same as or similar to their traditional business.

However, e-commerce logistics requirements for B2C businesses are more likely to take the company into unfamiliar territory.

A second implication is that the business case for getting onto the web for B2C companies will likely be based on increasing sales, while the case for B2B companies could depend more on efficiencies and customer retention.

Selling from stock

Some e-commerce businesses assemble to order. Dell Computers, www.dell.ca, is a well-know example, but many other e-businesses do the same, for example, companies selling flower arrangements, or gift baskets. However, all of the companies from which we gathered information carry inventory of the items that they sell on the web, and fill their e-commerce orders from stock.

Is your e-commerce customer base essentially the same as your “bricks and mortar” customer base?		
	YES	NO
B2B	84%	16%
B2C	33%	67%

However, there is one interesting difference that we did learn about in our interviews. Several are involved with drop-shipping and are working on growing that part of their business.²⁹ One, a B2C company, is adding more drop ship items to its website; another, which sells on the web to both businesses and consumers, also serves as a drop-ship supplier to other e-commerce companies.

We found the use of drop-shipping among the larger companies in our sample. We are not aware that any of the small companies that we spoke to use drop shipping. Drop shipping appears to be an example of a practice where larger companies take advantage of more logistics options than smaller companies.

Customer delivery options

The most common delivery option is to ship the order to the customer's location. Almost all of the companies in our sample make that option available. Most of the B2C companies in our sample also offer their e-customers the option to pick up their order at their store or showroom and some offer a wider choice of pickup points.

We found that B2C businesses tend to offer additional delivery choices, whereas B2B businesses do not; and, larger B2C companies tend to make more choices available than smaller B2C companies.

This is another way that business size makes a difference. Pick up at store is of little value to the smallest e-tailers with only one or a small number of outlets, while it can have considerable appeal for the customers of large e-tailers with many outlets in many cities.

A wider range of pickup point options is available today in Canada than has been the case. We provide more information about that on pages 25 and 26.

Short delivery time versus long

Most of the companies in our sample offer their web customers lower cost delivery options and therefore longer delivery times as standard. Most also offer a range of choices each with their different cost, so that the customer can make a choice between cost and timing.

The B2C businesses tend to work as follows:

- Offer customers a range of delivery times – which comes with a range of costs – of course faster costs more.
- If order size is large enough to qualify for free shipping, the quoted delivery time is usually based on a ground shipment which is the slowest, as opposed to faster and more expensive choices.
- The actual times depend on how far the customer needs the order shipped.

In some B2B settings – with smaller order sizes and longer shipping distances – delivery times are handled in essentially the same way. However, in other B2B settings – for example, with regular ordering and pre-established delivery routes and delivery days – things are quite different. In these cases delivery timing is determined by the customer's pre-arranged delivery schedule.

²⁹ See page 11 for more on drop shipping.

However, there are exceptions. Some B2C companies use expedited services with resulting shorter delivery times as their standard offering, even when they do not charge the customer for delivery. Presumably this is their way of adding value for their customers as part of a growth strategy. These companies were larger, and may well have the size to acquire these delivery services at the best rates. This issue is addressed in more detail on page 20.

Same versus specialized e-commerce warehouse

Several of the companies in our sample that have both traditional or bricks and mortar businesses as well as e-commerce businesses separate their e-commerce stock from the stock in their traditional business. We have not found that this practice is widespread among our sample companies, perhaps in part because some of the e-commerce volumes may not be large enough to warrant it. We note that for those with both kinds of business, all of the e-commerce businesses in our sample are still smaller and in some cases much smaller than their original businesses.

Use of third party warehousing, transportation and returns processing

As might be expected, the greatest use of third party services was for customer transportation. Most of our sample companies used some amount of third party transportation services for their e-commerce businesses. Most of the companies with an exclusive reliance on in-house customer deliveries were in the B2B category.

The use of third party logistics (3PL) warehouse services was limited to about 10% - 20% of our survey companies, with roughly the same use in the B2B and B2C categories, by smaller versus larger companies, and by province. We would have expected to find a somewhat larger use of 3PL warehousing.

With regard to returns, those companies that handled their own customer deliveries brought the returns back on their own trucks. The rest relied on third party transportation, and some also made use of third party disposal services.

Cost of logistics services

One of our research objectives was to determine if there are differences in the costs of logistics services with respect to different sectors, according to firm size and with respect to different provinces. In this section we report those findings.

We have found that size affects the cost of logistics services, and although there are some differences between sectors and provinces, it appears that shipping volumes have the larger effect on costs and margins.

Does the size of the business influence delivery cost?

The pricing of transportation services depends upon a number of factors, and one key factor is the volume of shipments. Carriers of all kinds seek out contracts with high volume shippers and offer them their best prices. What the transportation company wants is recurring high volume business. The issue for the carrier is technically not the size of the company doing the shipping; it is the number, size and frequency of the shipments. Smaller companies with higher shipping volumes will get better rates than larger companies with lower shipping volumes. Third party warehousing and related logistics services work in a similar way.

To confirm this pricing practice, we asked the logistics companies that completed our survey for their opinion. As the table shows, the results were unanimous.

Larger companies are able to negotiate lower costs for transportation and warehousing than smaller companies.

	AGREE	DISAGREE
B2B	100%	0%
B2C	100%	0%

The effect of shipping volume on the cost of logistics services did show up in our data. We asked our survey companies for the total cost of their e-commerce logistics as a percent of their e-commerce sales. The smaller companies reported an average of 10% while the larger companies reported an average of 8%.³⁰

Two natural questions are how much volume is required to get the best price, and how deep are the discounts? Both are easier to ask than to answer because competition between carriers makes shippers and carriers reluctant to share too much detail. Informally, it would appear that the way to qualify for the best parcel prices in Canada is to spend about \$1 million a year with the carrier, or to ship about 100,000 parcels a year. And how deep is the discount? We suspect that the best rates can be as much as 50% or more off list. However, it is not all or nothing – pricing is progressive and there are a number of price points along the way. Of course with parcels, as with other kinds of transportation pricing, there are important differences between carriers, and pricing involves many variables and considerations.

Delivery cost as a % of sales

We asked the web businesses in our sample for information about their typical order sizes and the cost of shipping a typical order to a local customer. Many of our sample companies were willing to provide

³⁰ Note that not all of our sample companies provided this information. Our small sample size means that these results are not statistically valid estimates for other e-commerce businesses.

this information. The table provides summary information about the average orders for the B2B and B2C companies in our sample.

Cost of delivery as a % of order value – averaged over our sample B2B and B2C companies

	Av. ORDER SIZE	Av. COST of DELIVERY	% COST of DELIVERY
B2B	\$679	\$51	8%
B2C	\$106	\$17	16%

The B2B companies in our sample tended to ship higher valued, and also heavier orders than the B2C companies. Their average delivery costs came in at a lower percentage of the value of the shipments than for the B2C companies.

In percentage terms these delivery costs are high relative to the value of the shipment. In some cases the customer pays all of these costs, and in some cases only a portion of these costs are recovered from the customer.

Logistics cost differences between segments and provinces

Many of our survey companies were able to provide estimates of the total costs of their e-commerce logistics activities as a percentage of their e-commerce sales revenues. The table shows summary information by size of company, by segment and by province where the company’s business office is located.

In interpreting this information, the difference between the larger and smaller companies is most likely caused by the differences in their e-commerce product characteristics, order sizes and shipping volumes, with the larger companies tending to have larger e-commerce volumes.

The difference in logistics costs between the B2B and B2C segments is most likely caused by the larger order sizes and resulting lower percentage delivery costs for the B2B companies in our sample. Note that the percentages are lower in this table than in the one above because these are net costs, after the recovery of any customer delivery charges.

	NET LOGISTICS COSTS AS A % OF SALES REVENUE
Smaller	10%
Larger	8%
B2B	7%
B2C	10%
Ontario	7%
British Columbia	10%

The differences in the costs by location of corporate office is not a reflection of the costs of doing business in a province, but rather the result of having more sample B2B companies in Ontario.

Cost differences between Canada and the US

Another objective of this work was to determine if transportation and warehousing costs are higher in Canada than they are in the US. In this section we present our findings.

As we will see, all of the opinion that we have gathered is that US logistics costs are indeed lower than in Canada. We have also been able to confirm this through the comparison of selected standard parcel rates in the two countries.

Experience and opinion

In speaking with e-commerce business managers, the unanimous opinion was that transportation costs in Canada are higher than in the US. We asked for comments in our survey questionnaires, and here is the kind of comment we received:

- “The US has much lower transportation costs as well as more and faster delivery options.”
- “The problem is that our domestic shipping rates for small package delivery in Canada are extremely high compared to US domestic rates.”
- “Good Gawd!!! USPS rates are much lower!”

We also asked the logistics service providers the same question. The Canadian and the US service providers all agreed that logistics costs are lower in the US.

Comparing parcel rates

Comparing transportation rates can be a complicated matter. The reason is that many variables come into play, and one has to be careful to compare apples to apples. As well as specifying the size and weight of the package, the kind of merchandise and how far the shipment has to go, other things influence the cost of the transportation. These include the time and place of pick up, the time and place of delivery, whether or not the delivery time is guaranteed, the kind of packaging that is used, the insured value of the merchandise, and a number of other things.

In order to quantify the delivery cost differences between Canada and the US, we have taken standard rates for shipping a parcel of the same size and weight. We picked ship-from and ship-to locations that are approximately the same distance apart in both countries, and shipment times that are comparable.

As a first step, we compared the cost of shipping a 6 pound, medium-sized box from Toronto to Vancouver, a distance of 4,370 km, using Canada Post’s Expresspost service with the cost of shipping the same parcel from New York to Los Angeles, a distance of 4,443 km, using the United States Postal Service’s (USPS) priority mail service. Both provide delivery on the second business day after the shipment. The Canadian shipment is guaranteed and the US shipment is not. It turns out that the US shipment costs \$11.30 and the Canadian shipment costs \$40.63, which is 3.6 times more. Ignoring currency exchange, for the same money one can ship 36 boxes from New York to Los Angeles and only 10 boxes from Toronto to Vancouver.

Canada Post’s regular service for the same package takes seven business days to make the trip, and costs \$18.50, which is well below their Expresspost rate, but still 60% higher than the faster USPS priority mail rate.

It is important to note that businesses sending many parcels a day will be able to do much better than these rates – just how much better will depend primarily on the volume that they ship. But discounting these rates still leaves the Canadian rate well above the US rate.

To fill out this picture, we have also compared rates for shorter shipments out of Toronto and Vancouver with shorter shipments out of New York and Los Angeles. The following table shows the rate differences on those shipments.

The costs of shipping a six pound medium sized box from City Hall to City Hall in selected cities in Canada and the US. Canada Post rates are for 2-day Expresspost service. USPS rates are for 2-day Priority Mail service.

From	To	km	Canada Post Cost	USPS Cost	km	From	To
Toronto	Vancouver	4370	\$40.63	\$11.30	4443	New York	Los Angeles
Toronto	Thunder Bay	1392	\$32.80	\$11.30	1491	New York	Jacksonville Fla.
Vancouver	Prince Rupert	1497	\$21.76	\$11.30	1427	Los Angeles	Boise Ida.

We also did the analysis to compare UPS and FedEx prices for the same shipments in Canada and in the US. For the same ship from and ship to points in the table above the UPS rates were 35% lower on average in the US, and the FedEx rates were 38% lower on average in the US.

We also compared the best rates in Canada, choosing from among Purolator, UPS and FedEx with the best rates in the US from among UPS and FedEx. For the same ship from and ship to points in the table above the best US rates were 16% lower than the best Canadian rates.

Reasons for Canadian/US cost differences

Why are US logistics costs lower? In discussing the difference with the shippers and logistics service providers in our study, two key reasons were emphasized: first, economies of scale and the differences in geography; and second, the higher intensity of business competitiveness in the US. The first produces lower costs; the second produces lower prices.

The scale of business and the geography in the US are more conducive to lower logistics costs than in Canada. In 2012 GDP in the US was \$15.1 trillion, which was 10.8 times higher than Canada's GDP of \$1.4 trillion. And per capita GDP in the US was 19.5% higher than it was in Canada.³¹ At 314 million, the population

	Canada	United States
GDP	\$1.396 trillion	\$15.094 trillion
GDP per capita	\$40,541	\$48,386
Population	34.9 million	314.0 million
Area	9.99 million sq. km	9.83 million sq. km
Urban Population	81%	82%

³¹ See www.indexmundi.com

in the US is nine times larger than Canada's figure of 34.9 million.³²

Although the land area and urbanization rates are about the same, as illustrated in the previous table, in the "lower 48" the US population is spread over more of a rectangular area with shorter distances between concentrations of urban population, while much of Canada's population occupies a long narrow ribbon which produces longer distances between urban centres.

As a result, the US has more shipments, shorter distances to travel and higher delivery densities than in Canada, all of which result in lower transportation costs.

As well, a number of other key factors contribute to lower transportation and warehousing costs. Compared to Canadian companies, the opinion is that companies in the US have:

- Lower costs for transportation and warehousing equipment
- Lower costs of labour
- Lower costs for fuel, and
- Lower costs for employee benefits

The combination of better scale and lower costs for the key inputs to the business means that operating costs per unit for logistics service providers are inevitably less in the US than in Canada.

Further, the clear opinion of the logistics industry people that provided information to the study is that the US is a more intensely competitive logistics market than is ours in Canada, which means that lower operating costs translate into lower market prices.

Other Findings

In this section we report two additional findings of interest.

Parcel rates can limit small e-tailers

When we asked if the availability and pricing of logistics services held back the growth of their business, most of our survey companies said no, but one group of companies stood out. A large part of the SME e-tailers said that high parcel delivery rates were a big problem for them.

On reflection, it is easy to understand why. An e-tailer trying to make a \$50 or \$75 sale to a price-sensitive e-customer across the country will face a sizable delivery cost. If they try to pass the full cost on to their customer, most of the time they won't make the sale. If they don't charge for delivery, much if not all of their profit will disappear. This is a classic lose-lose situation. Clearly this means that their reach will be shorter, their effective sales territory will be smaller and their potential for growth will be limited.

In probing further, we learned that parcel rates are not the only things that are of concern for some of these companies. Here are several other issues that were raised.

- The apparent trend to free delivery and free returns that is well developed in the US and appears to be quickly gaining momentum in Canada is changing e-customer expectations, which magnifies the problem of high parcel rates.

³² Ibid

- Competing with higher volume US-based e-tailers is not only about logistics. Often tariffs do not work in favor of Canada's retailers either. So, the US company starts with lower cost merchandise, and then can also deliver it for less.
- Another problem for small e-tailers is simply getting found on the Internet. Their limited marketing budgets reduce their off-web visibility, and their lower web hit-rates mean that their websites rarely make it to the first page of a Google search, which reduces their on-web visibility.

These issues do not hit all small e-tailers with the same intensity, depending on the kind of merchandise they offer and other factors. However it would appear that a great many are affected and that this is a large and meaningful issue.

Perhaps because they are aware of this issue, the parcel industry offers discounts to small businesses. The following highlights come from the selected parcel companies' websites.

- Canada Post – offers savings of up to 8% on parcel rates and 5% on packaging supplies to small businesses through their Venture One program
- FedEx – offers savings of 30% for the first two months, and then from 5% to 15% off parcel rates to small businesses based on average monthly spend with FedEx through their Business Bonus program.
- Purolator – offers savings of from 3% to 30% off parcel rates to small businesses based on average monthly spend with Purolator through their Purolator Business Rewards program.
- UPS – offers savings of 20% off parcel rates to small businesses through their Small Business Promotion program.

These attractive discounts appear to be a meaningful step in the right direction for small e-tailers.

Targeted logistics services are available

The growth and potential of e-commerce clearly have the attention of the logistics services industry. In our survey we asked those that are already providing services to e-commerce businesses if they find that demand is growing. Most found it growing slowly and some found it growing quickly. As well, 3PL companies on both sides of the Canada/US border are gearing up to provide cross-border services.

We have found that a number of targeted services are available specifically to support the logistics requirements of e-commerce businesses. Here is a short list of some that came to our attention. This is certainly not a comprehensive list and we have not qualified these services in any way. They merely serve as examples of the kind of services that are available today.

- Buffer Box – www.bufferbox.com - A drop-box service featuring self-service parcel pickup stations in high volume urban areas.
- ideaLever – www.idealever.com – A website design, development and consulting service with a sensitivity to logistics issues.
- The Marco Corporation – www.themarcocorporation.ca – A 3PL specializing in promotional programs that bundles logistics and web development services for its e-commerce customers.
- Shopify – www.shopify.com - An inexpensive on-line web store set-up and hosting service.

- SPICE Technology Group – www.spicetg.com – A technology services company that integrates e-commerce websites within the client company and with their logistics service providers.
- Spring Global Mail – www.springglobalmail.com – A mail services company that offers international mail and destination mail services.
- Think Logistics – www.thinklogistics.com – A 3PL that offers logistics services targeted to e-commerce fulfillment.

As well, Canada Post has begun to offer a package of specialized services targeted to e-commerce. Among the features are:

- A new option that lets e-customers ship their parcel to the postal depot of their choice for pick up. The service sends an email when the parcel has arrived and allows 15 days for pickup.
- Parcel tracking.
- A range of returns management options and processes.
- A range of warehousing and fulfillment options through SCI Logistics, their 3PL subsidiary.
- The ability for e-commerce websites to show accurate shipping costs and expected delivery times, based on the customer's ship to address.
- The offer of application programming interfaces to web developers.

The emphasis on easier and more complete integration to users' websites appears to be priority for a number of parcel delivery companies, based on their websites.

V Conclusions

In this part of the report we draw our conclusions.

Size matters in e-commerce logistics too

The largest corporations always top the lists of the leading supply chain companies³³; they have the resources to stay at the forefront of technology, the staff to perfect their processes, and the scale to get the best rates for the logistics services they buy.

We have found that size can make a difference for e-commerce logistics too. Not only can larger e-commerce businesses negotiate better transportation and warehousing rates, they also have other advantages. We have found that the larger companies in our sample use a wider range of logistics choices. They:

- Offer more delivery options to their e-customers.
- Are more likely to specialize their warehouse processes for e-commerce and, as a result, gain efficiencies.
- Are more involved in drop shipping.

They also have the resources to grow their e-commerce businesses more quickly. They can spend more to promote their web-site, can keep their website fresh and up-to-date, and can incorporate the newest integration features more quickly.

Differences between B2B and B2C e-commerce logistics models

Some of the B2B companies in our sample use their e-commerce website more as an order entry tool than as a sales tool. This means that their e-commerce logistics are essentially the same as their traditional business. The other B2B companies in our sample use their website much as a B2C company does, and as a result have logistics requirements like B2C companies. The following table highlights the main differences we have found between B2B and B2C logistics models in our sample.

Factor	B2B	B2C
Customer order sizes	Tend to be larger	Tend to be smaller
Charges for delivery	Tend to be a smaller % of revenue Tend to charge	Tend to be a larger % of revenue Tend not to recover the full cost but often roll it into the price of the goods
Customer transportation	Some do their own delivery	Most use third party services
E-commerce customer base	May have the same sales territory as in the traditional business	Typically have a wider sales territory than in the traditional business

³³ See www.gartner.com/technology/supply-chain/top25.jsp

Availability of logistics services is apparently not a problem

We have not found the availability of logistics services to be a problem for Canadian e-commerce companies. Our large and multifaceted transportation and logistics industry certainly appears to be doing a good job servicing the needs of the e-commerce businesses we spoke with.

We also found that transportation and logistics companies are expecting their e-commerce volumes to grow, and are investing to expand and improve their services. And, as we noted in the last chapter, we have found that a number of specialized services are in place and are specifically geared to support the needs of e-commerce businesses.

If another study were done that asked companies that do not yet sell on the Internet why they don't, it could be that some of them might identify "logistics" as one of their reasons. However, we would expect that other more compelling reasons would be much higher on their list.

A number of the companies that we spoke with noted that since beginning their e-commerce businesses they have learned more about the logistics services that are available and how to operate better. Once in the game they have found ways to become more efficient and reduce their logistics expenses.

Cost of logistics services is a problem for some

The pricing of delivery services is and has been an issue, particularly for smaller e-tailers. The cost of home delivery appears to have limited the growth in Canada of some companies. It has probably also kept some companies from beginning to sell on the web.

We note that this issue is not restricted to e-commerce companies. The cost of fulfilling customer orders can keep traditional companies out of certain markets, and can cause others to work through agents and distributors and as a result have lower profit margins on their sales.

Although we do not have the data, it would not be surprising to find that a higher proportion of US small businesses sell on the Internet than is the case in Canada. The lower parcel delivery charges in the US means that the effective sales territories of US e-tailers will be much larger than in Canada. For the same start-up cost an e-tailer in the US can reach a much larger market and can anticipate much better returns.

The situation appears to be improving. Smaller e-tailers appear to have several options that could be of benefit, including the following:

- Discounts from parcel companies should help smaller companies reduce their delivery costs.
- New services like Ship to Post Office, and Buffer Box, may help to make web purchases more convenient for some web shoppers.

As well, some smaller e-tailers will find the use of specialized 3PL services to be worthwhile.

It's still a young industry

Selling on the Internet is less than 20 years old. The old-timers in our sample have been in business for 12 to 15 years, while several of the companies we spoke with are less than two years old. As we did our research we found that the e-commerce industry does not yet have many of the trappings of more

mature industries. We did not find a directory of Canada's e-commerce businesses. Although the industry associations we spoke with were as helpful as they could be, e-commerce does not yet have a dedicated association to speak on its behalf or a group that is the focal point for e-commerce logistics.

Working together more effectively may be another useful path forward for the industry.

Suggestions for policy directions and further research

Several policy suggestions that arise from this work are as follows:

- Finding ways to help Canadian e-commerce companies become more visible to Canadian web shoppers would be worthwhile. This might involve creating "Buy Canadian" websites or sharing search engine optimization (SEO) practices.
- Some industry groups in Canada have successfully used group buying of transportation services. It may be worthwhile to investigate this possibility for e-commerce businesses.

As well, several issues arose in this work that may be worthy of further research, including the following:

- One of our survey companies suggested that it would be helpful to find a way to reduce or eliminate duties on products from China entering Canada from the US. Broadening this idea, it may be worthwhile to do a study to identify and suggest remedies for any tariff anomalies that are hurting our e-commerce growth.
- It would be interesting to know more about how Canada's large retailers' use of e-commerce compares to large retailers in the United States and the United Kingdom. Do Canada's large retailers take as much advantage of e-commerce as the others? How do their logistics models differ? A related issue is that in recent years many retail logistics innovations have originated in the United Kingdom and then make their way to North America. One wonders if this also applies to e-commerce logistics. If so, current practices in the United Kingdom could be a guide to future practices in North America.
- The growing use of mobile devices like smart phones and tablets appears to be changing e-commerce practices. E-customers are no longer restricted to making purchases from home or work. Today they can make electronic purchases while they are in retail stores or while they are in their car or on public transit. This has huge potential to alter their delivery requirements and expectations. It would be interesting to study the impact this will have on B2C logistics.

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Appendix A

E-commerce businesses

We used information from the following companies in this research. We also used information from five additional companies that preferred not to be listed in this report. Some were interviewed by telephone and some completed our e-commerce business questionnaire.

BuildDirect, www.builddirect.com

Comark Inc., www.comark.ca

The Costume Shoppe, www.costumechik.com

Fitness Town Inc., www.fitnessstown.ca

Heirloom Linens, www.heirloominens.com

Indigo, www.chapters.indigo.ca

London Drugs, www.londondrugs.com

The Herschel Supply Company, www.herschelsupply.com

Mountain Equipment Cooperative, www.mec.ca

The Sports Poster Warehouse, www.sportsposterwarehouse.com

The Surgical Room, www.thesurgicalroom.ca

Umbra Ltd., www.umbra.com

Logistics Service Providers

We used information from the following companies in this research. Some attended one of our focus groups (marked with an asterisk), some were interviewed by telephone, some provided information from their website, and some completed our LSP questionnaire.

Apple Express

Canada Post

Canusa Logistics*

ESSA Logistics*

FedEx

Keuhne + Nagle Ltd.*

Lean Supply Solutions Inc.*

The Marco Corporation

Laub International*

McKenna Logistics Centres *

Metro Supply Chain Group*

Modern Marketing Concepts*

NLS Canada*

PriorityBiz Distribution*

Purolator Courier

Sherway Warehousing*

Sintech Supply Chain Management Ltd.*

Sonwil Distribution*

Summit Enterprises of WNY*

Think Logistics

UPS

United States Postal Service

Welke Customs Brokers*

Appendix B

The following pages contain copies of two questionnaires that we used in this research.

DOES CANADA HAVE THE RIGHT ECONOMIC FRAMEWORK IN PLACE TO FOSTER A THRIVING ELECTRONIC COMMERCE MARKET? EXAMINING THE ROLE OF LOGISTICS SERVICES.

E-COMMERCE BUSINESS QUESTIONNAIRE

INTRODUCTION

This study is being done by Supply Chain Surveys, Inc. under contract to Industry Canada.

This short questionnaire is *STRICTLY CONFIDENTIAL*. Your individual company's data will only be seen by our principal investigator, and he will keep your information confidential. The research report will not show your individual company's replies or data.

With your approval we will include your company's name in the research report on the list of research participants. Do you approve?

YES _____ NO _____

Would you like to receive a copy of the final report?

YES _____ NO _____

INSTRUCTIONS

Please complete this short questionnaire by (date) and send it to the principal investigator in one of the following ways...

1. Scan the completed questionnaire and email it to [\(email address\)](#); or
2. Fax the completed questionnaire to (fax number); or
3. Mail the completed questionnaire to (address)

Questions? Email (email address) or call (phone number).

COMPANY & CONTACT INFORMATION

This section asks for contact information and information about your company's location, type and size.

1. Company name _____

2. Company location _____

3. Which of the following best describes your company...please pick one

Retailer _____ Wholesale Distributor _____

Manufacturer _____ Other (please specify) _____

4. How many employees _____

5. Your name _____

6. Your job title _____

7. Your email address _____

8. Your phone number _____

ABOUT YOUR E-COMMERCE BUSINESS

This section will ask about your website and selling online to both consumers and other businesses.

1. What is your e-commerce website address? _____

2. For how many years have you been selling online? _____

3. Please briefly describe the product you sell _____

4. Which of the following best describes your e-business...please pick one

B2B _____ B2C _____ B2B & B2C _____

Other (please specify) _____

5. Do you also operate a “bricks and mortar” business?

YES _____ NO _____

6. If you answered “YES” to the last question, which business has the larger annual sales revenue? Please pick one.

The e-commerce business _____

The “bricks and mortar” business _____

7. Is your e-commerce customer base essentially the same as your “bricks and mortar” customer base?

YES _____ NO _____

8. If you answered “NO” to the last question, please explain how your e-commerce customer base differs from your “bricks and mortar” customer base.

ABOUT YOUR E-COMMERCE LOGISTICS

This section will ask about how you fulfill your e-commerce customer orders and about product returns.

1. What best describes where your e-commerce customers are located?
Please pick one.

Local _____ North American _____

Regional _____ Global _____

National _____ Other _____

2. Do you primarily fill e-commerce customer orders from stock?

YES _____

NO (please explain) _____

3. If you answered "YES" to the last question, do you carry your e-commerce stock separately from the stock you hold for your "bricks and mortar" business?

YES _____ NO _____

4. If you answered "YES" to the last question, what best describes where your e-commerce stock is carried...please pick one

In it's own separate warehouse _____

In a separate part of our "bricks and mortar" warehouse _____

Other (please explain) _____

5. Please make an estimate of your average or typical e-commerce order size...please answer all

_____ dollars _____ cubic feet

_____ pounds _____ pieces

6. What delivery options do you offer to your e-commerce customers...please answer all

Delivery to customer's location _____

Delivery to a pick up point near the customer's location _____

Customer pickup from their choice of optional locations _____

Other (please specify) _____

7. How do your customers send returns back to you? _____

THIRD PARTY LOGISTICS SERVICES AND COSTS FOR E-COMMERCE BUSINESS

This section asks about your use of third party warehousing and transportation services and the cost of logistics for your e-commerce business.

1. Which of the following logistics services do you provide yourself, and which do you buy from third parties, for your e-commerce business? Please check all boxes that apply.

Logistics Service	Provide In House?	Buy From Third Party?
Warehousing facilities and storage		
Customer order processing		
Pick, pack & ship		
Customer transportation		
Returns & disposal		
Other (please specify)		

2. Please estimate the total cost of logistics services – whether in house or third party – for your e-commerce business as a percentage of annual e-commerce revenue. Also, please estimate the proportion of the expense that you pay to third party service providers.

Logistics Service	Provide In House?	Buy From Third Party?
Warehousing facilities and storage		
Customer order processing		
Pick, pack & ship		
Customer transportation		
Returns & disposal		
Other (please specify)		
Total		

3. Please estimate the dollar cost of customer transportation for your average or typical order to a local customer.

ADDITIONAL QUESTIONS

In this section we ask several open ended questions.

1. Does the availability or price of third party logistics services hold back the growth of your e-commerce business in any way?

2. Are there any third party logistics services that are not available and/or not affordable that would be of value to your e-commerce business?

3. Can you provide any comparative information on the cost of e-commerce logistics services in the US?

4. How would you explain the difference in the cost of e-commerce logistics services between Canada and the USA?

5. Can you recommend any another e-commerce business to participate in this research survey?

Company _____

Contact _____

E-mail _____

Phone _____

THANK YOU VERY MUCH FOR PARTICIPATING IN THIS RESEARCH

DOES CANADA HAVE THE RIGHT ECONOMIC FRAMEWORK IN PLACE TO FOSTER A THRIVING ELECTRONIC COMMERCE MARKET? EXAMINING THE ROLE OF LOGISTICS SERVICES.

LOGISTICS SERVICE PROVIDER (LSP) QUESTIONNAIRE

INTRODUCTION

This study is being done by Supply Chain Surveys, Inc. under contract to Industry Canada.

This short questionnaire is *STRICTLY CONFIDENTIAL*. Your individual company's data will only be seen by our principal investigator, and he will keep your information confidential. The research report will not show your individual company's replies or data.

With your approval we will include your company's name in the research report on the list of research participants. Do you approve?

YES _____ NO _____

Would you like to receive a copy of the final report?

YES _____ NO _____

INSTRUCTIONS

Please complete this short questionnaire by (date) and send it to the principal investigator in one of the following ways...

1. Scan the completed questionnaire and email it to (email) or
2. Fax the completed questionnaire to (fax number); or
3. Mail the completed questionnaire to (address)

Questions? Email (email address) or call (phone number).

COMPANY & CONTACT INFORMATION

This section asks for contact information and information about your company's location, type and size.

1. Company name _____
2. Company location _____
3. Which of the following best describes your company...please pick one
3PL _____ Warehouse Company _____
Carrier _____ Other (please specify) _____
4. How many employees _____
5. Your name _____
6. Your job title _____
7. Your email address _____
8. Your phone number _____

ABOUT YOUR B2B LOGISTICS SERVICES

This question focuses on the services that you provide to B2B customers.

1. Do you provide logistics services to B2B e-commerce businesses?

YES _____ NO _____

If "NO", please skip forward to the next part of the questionnaire.

2. Please mark the services that you provide ... please answer all.

Warehousing _____ Transportation _____

Customer order processing _____ Returns & disposal _____

Inventory management _____ Other (please specify) _____

Pick, pack & ship _____

Transportation management _____

3. What best describes your customer base for B2B e-commerce services ... please pick one.

National _____ Local _____

Regional _____ Other (please specify) _____

Provincial _____ _____

4. Is your business industry specific?

YES (please specify) _____ NO _____

5. Do you currently provide B2B services to any small or medium sized businesses?

YES _____ NO _____

6. How would you rate the demand for B2B e-commerce logistics services ... please pick one.

Growing quickly _____ Shrinking

Growing slowly _____ Other (please specify)

Flat _____ _____

7. Looking specifically at small and medium sized businesses, how would you rate the demand for B2B e-commerce logistics services ... please pick one.

Growing quickly _____ Shrinking _____

Growing slowly _____ Other (please specify) _____

Flat _____ _____

8. Looking at the way the transportation and logistics industry works, would you agree or disagree with the following statements?

Larger companies are able to negotiate lower costs for transportation and warehousing than smaller companies.

Agree _____ Disagree _____ Don't Know _____

Comment _____

The cost of transportation and warehousing differs from province to province.

Agree _____ Disagree _____ Don't Know _____

Comment _____

The cost of customer transportation is higher in Canada than in the USA.

Agree _____ Disagree _____ Don't Know _____

Comment _____

9. Do you currently offer any special pricing for small or medium sized businesses?

YES (please explain) _____ NO _____

ABOUT YOUR B2C LOGISTICS SERVICES

This question focuses on the services that you provide to B2C customers.

1. Do you provide logistics services to B2C e-commerce businesses?

YES _____ NO _____

If "NO", please skip forward to the next part of the questionnaire.

2. Please mark the services that you provide ... please answer all.

Warehousing _____ Transportation _____

Customer order processing _____ Returns & disposal _____

Inventory management _____ Other (please specify) _____

Pick, pack & ship _____

Transportation management _____

3. What best describes your customer base for B2C e-commerce services ... please pick one.

National _____ Local _____

Regional _____ Other (please specify) _____

Provincial _____

4. Is your business industry specific?

YES (please specify) _____ NO _____

5. Do you currently provide B2C services to any small or medium sized businesses?

YES _____ NO _____

6. How would you rate the demand for B2C e-commerce logistics services ... please pick one.

Growing quickly _____ Shrinking _____

Growing slowly _____ Other (please specify) _____

Flat _____

7. Looking specifically at small and medium sized businesses, how would you rate the demand for B2C e-commerce logistics services ... please pick one.

Growing quickly _____ Shrinking _____

Growing slowly _____ Other (please specify) _____

Flat _____

8. Looking at the way the transportation and logistics industry works, would you agree or disagree with the following statements?

Larger companies are able to negotiate lower costs for transportation and warehousing than smaller companies.

Agree _____ Disagree _____ Don't Know _____

Comment _____

The cost of transportation and warehousing differs from province to province.

Agree _____ Disagree _____ Don't Know _____

Comment _____

The cost of customer transportation is higher in Canada than in the USA.

Agree _____ Disagree _____ Don't Know _____

Comment _____

9. Do you currently offer any special pricing for small or medium sized businesses?

YES (please explain) _____ NO _____

ADDITIONAL QUESTIONS

In this section we ask several open-ended questions.

1. In your experience, does the cost of logistics services stand in the way of more small and medium sized companies opening e-businesses?

2. Are you aware of any arrangements or programs - for example joint or cooperative programs - that could ease the cost of e-commerce logistics for SME's?

3. Can you provide any comparative information on the cost of e-commerce logistics services in the US?

4. How would you explain the difference in the cost of e-commerce logistics services between Canada and the USA?

4. Can you recommend any e-commerce business operators to participate in this research survey?

Company _____ Contact _____

E-mail _____ Phone _____

THANK YOU VERY MUCH FOR PARTICIPATING IN THIS RESEARCH