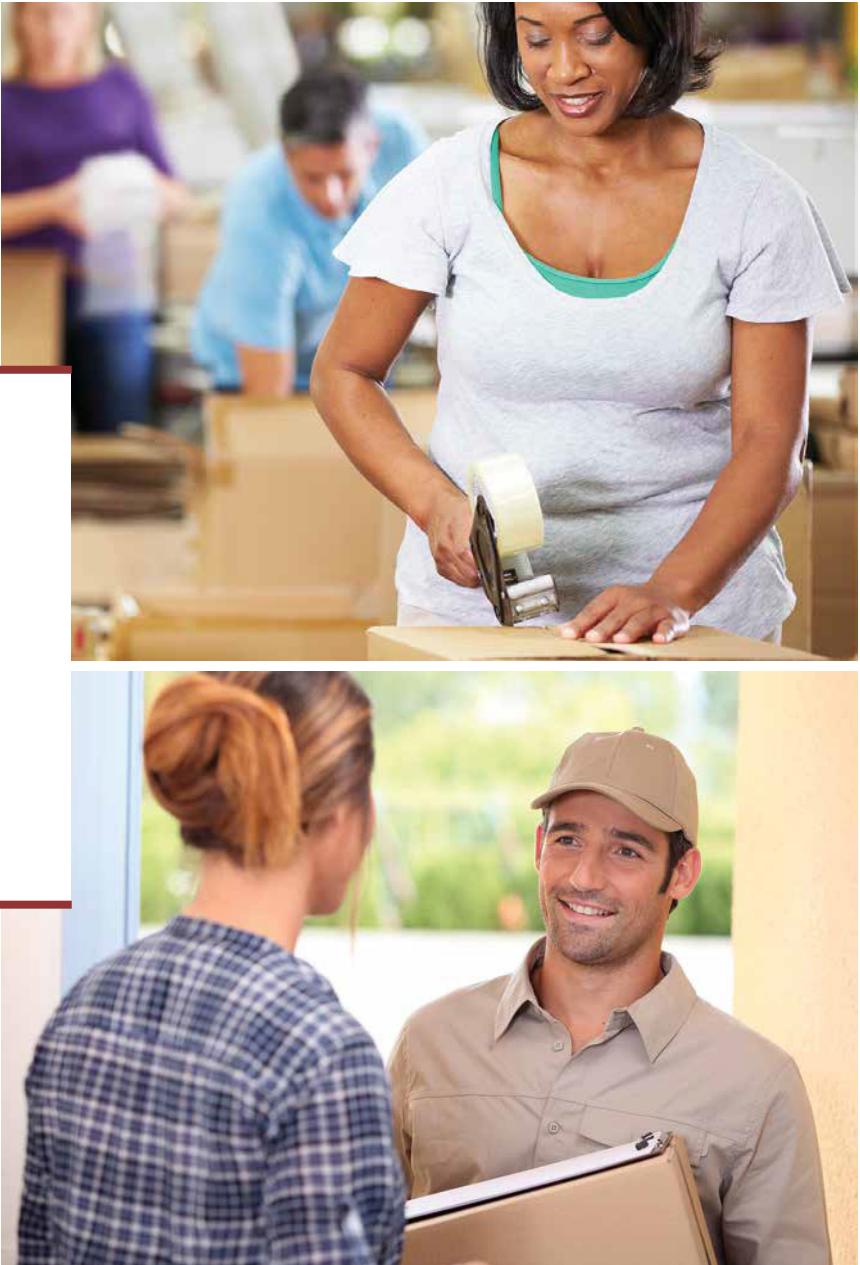


# Omni-channel: Protective packaging considerations

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How to positively impact your customer life-time value via protective packaging choices

## Executive summary

Protective packaging choices made by omni-channel retailers can help improve consumer experience, increase sales and grow lifetime value. Omni-channel retailers will receive a basic tutorial on bridging the gap between consumer buying expectations and retailer fulfillment strategies.

## How to positively impact your customer life-time value via protective packaging choices

With the ongoing evolution toward omni-channel fulfillment, retailers are being challenged to provide their customers with a seamless purchasing experience regardless of where the product is being shipped from. The objective is to make the right packaging choices which will positively impact quality, speed, shipping costs and the all-important customer life-time value.

Consumers currently engage with retailers via computers, mobile internet devices, catalogs, direct mail, radio/television, as well as traditional brick and mortar stores. In some cases, companies may have their products inventoried in multiple locations including manufacturing facilities, distribution centers, retail stores, fulfillment houses, etc.

The consumer shift in how purchases are being made is pushing retailers to find solutions that will work in multiple location types. These include retail "Ship from Store" locations with limited floor space, as well as larger distribution/e-fulfillment centers or manufacturing environments. The objective is to provide consumers with a high-quality, consistent packaging experience, regardless of shipping location and employee skill set.

When shipping from a handful of distribution points, standardizing packaging is a fairly simple process. However, when the product is actually located in hundreds of stores and/or distribution centers, shipping can be a much more complex proposition—complicated further by the transition to dimensional weight pricing by the national freight carriers.

The protective packaging<sup>1</sup> types selected to represent the brand can determine whether or not a customer has a positive experience or turns to social media to complain about a damaged product and substandard packaging. Will you be growing your customer lifetime value or will your choices result in low retention and reorder rates?

Like most decisions in retail, it starts with the consumer. And while the brand experience, competitive environment and product mix vary widely based on the items being purchased, a few things remain the same. Consumers want:

- 1)** Options in how they receive their products including pick up in store and/or delivery to the destination of their choice
- 2)** Free or low-cost shipping
- 3)** Free (and easy) returns
- 4)** Quick, on-time delivery
- 5)** A positive customer experience!

Satisfying the customer without exceeding budgetary considerations is not always as easy as it sounds. Retailers spend a considerable amount of time and resources focused on inventory and supply chain

management. Making the right packaging decisions, however, can be a daunting task if there is a lack of familiarity with the latest protective packaging solutions and how to integrate them into your order fulfillment process.

Distribution center operations are built for speed and efficiency. Retailers rely on them to fulfill ecommerce orders and provide store replenishment due to the cost-effective nature of the operation. However, the shift to an omni-channel model has resulted in combining several fulfillment options to satisfy online orders. These include traditional ecommerce fulfillment, pick up in store or ship from store.

## **Growing sales, improving profitability, making customers happy**

So, how does a retailer grow sales, improve profitability and still make customers happy? Your protective packaging choices can play a big role in creating a positive outcome.

Retailers should incorporate the following considerations into their omni-channel fulfillment strategies.

**Package Aesthetics.** How important is customer experience to your business? Are you able to achieve a uniform packaging look regardless of product origination point? Is the package delivered to the consumers' door in a condition consistent with your brand promise?

**Cost.** In order to get a clear picture of your packaging-related bottom line, we have to go beyond the cost of packaging materials/systems. Damage and shipping costs, which have even more of a bottom line impact, should also be part of the packaging conversation.

**Damage.** Nothing hurts your brand image and lifetime value more than damaged or non-functioning products. Correct protective packaging choices can make the difference between a satisfied customer and one who will never buy your product again. Do your selections meet product protection objectives?

**Shipping Charges.** Increasingly, customers are expecting retailers to absorb shipping charges, particularly for items at higher price points. The savings resulting from making the correct packaging choices and improving packing efficiencies can oftentimes enable you to absorb shipping costs. In turn, that can help improve your competitive position.

**Shipping Choices.** What method(s) do you use to deliver packages? Have you taken dimensional weight billing into consideration when selecting packaging components? Dimensional weight reflects package density, which is the amount of space a package occupies in relation to its actual weight. For domestic ground shipments UPS uses:  $(\text{length} \times \text{width} \times \text{height}) \div 166$ .) The system was developed to address large, lightweight packages, occupying a considerable amount of truck space, but paying less than a same-sized package with heavier contents.

**Operational Considerations.** How do you create a seamless fulfillment environment from the distribution center and a brick and mortar store? Are you going to leverage your existing store footprint? If so, do you have limited space to accommodate a pack station and inventory?

**Labor.** Are the packaging materials easy for packers to use? How are you going to train the packers so there is consistency from the distribution center or the store? Are you constantly diverting labor to order, stock and store large quantities of packaging materials?

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<sup>1</sup>Protective packaging definition

Protective packaging is what is added to the inside of your shipping container to cushion, block and brace, wrap, etc., your product. It can be made from paper, plastic or foam and can come in the form of air pillows, crushed paper, foam planks and a myriad of other material types and subsets.

To begin answering some of these questions, here is a helpful list of data points you should gather to help you and a packaging professional make an informed decision about your omni-channel fulfillment strategy and packaging needs:

**1 How would you rank the following in order of importance in your omni-channel strategy?**

Customer/brand experience       Speed to customer       Shipping cost

**2 What pick up and return option(s) do you offer to customers?**

Free shipping       Free returns       Pick up in store       Click & collect

**3 What types of orders are being shipped?**

- Product types: home goods, hardware, apparel, shoes, jewelry, electronics, appliances, others
- Order characteristics: fragile, heavy, large/odd sized, high value or low value
- Products per order: estimated number included in the average order?
- Shipment mix: does the typical shipment contain varying product types?

**4 Where do your orders ship from? What is the estimated shipping volume by location?**

- Fulfillment warehouses (direct-to-consumer or regional distribution center)
- Brick & mortar store (Ship from Store)
- Fulfillment partner (retailer or manufacturer)

**5 If you ship from store (or are planning to), determine the following:**

- What is the approximate size of store shipping station?
- Are the pack stations uniform across all stores or site dependent?
- What type of protective packaging medium are you currently using (if known)?
- How do you provide training or insure compliance at each store?
- What is your inventory replenishment model? (Do you source from your distribution center or from a local vendor?)

**6 Describe your distribution center operations:**

- What is the approximate square footage of your distribution center(s)?
- Is your packaging operation centralized or decentralized?
- What type of protective packaging mediums are you currently using (if known)?
- What are you using the packaging materials for? Void fill, cushioning, wrapping or block & bracing

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# Right-Sizing: Where Protection and Function Intersect

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Overpacking is a widespread issue across industries, particularly in ecommerce, where businesses often rely on a one-size fits all box approach to package products. From unnecessary waste to excessive costs and negative brand experiences, the drawbacks of overpacking are pervasive.

## The solution is right-sizing.

It's a strategy with multiple applications, and each can be beneficial to the intricacies of your operation. The key is understanding the ways to right-size and which approach will help you strike the balance between protection and function.

## Too Much Packaging All Too Often

Overpacking contributes to a host of problems that many businesses are focused on solving every day—namely reducing excessive materials and transportation costs while minimizing environmental impact.

## Overpacking: A Negative Proposition



### Increases Package Weight and Dimensions

Unnecessary material means increased packaging weight and dimensions. This, in turn, leads to higher freight and transportation costs.



### Negative Environmental Impact

Excess material usage undermines corporate sustainability goals by contributing to greater carbon emissions and waste.



### Materials + Labor Costs ↑

Overpacking can bring upon the need for more materials and accessories like tape, boxes, and cushioning/void-fill material. It also requires more labor: assembling, packing, labeling—all can cause logjams in fulfillment processes and drive up costs.



### Inefficient Use of Shipping and Storage Space

Storing oversized boxes takes up more room in warehouses and shipping requires more vehicles—increasing your routine logistics costs.



### Customer Dissatisfaction

Excessive packaging can create a poor unboxing experience and make a company seem wasteful—damaging the overall brand. This both lowers perceived value and risks the likelihood of repeat orders.

# The Right-Sizing Remedy

A thoughtfully implemented right-sizing strategy can address all the concerns laid out, and proactively benefit a company's brand and bottom line. Determining the right approach for your business is a matter of identifying exactly how much protection your products need in order to A) survive their journey B) provide the customer experience you're looking for and C) fit within your operations environment.

Once you've then evaluated which material will allow your business to reach its operational and sustainability goals—you've found the right-sizing approach that's right for you.

## Key Considerations: A Closer Look

**Material Optimization.** Material optimization is a matter of determining the right amount and type of protective materials without overusing them. This includes a consideration of sustainability and performance goals: Are you seeking solutions containing recycled content? What about curbside recyclability for end of life disposal? Cushioning protection or just containment? This answer will be highly dependent on your unique company goals and customer experience expectations.

**Transportation Efficiency.** Smaller, lighter packages allow for reduced carbon emissions and freight costs by keeping more trucks off the road. It's worth noting that the EPA lists the transportation sector as the largest generator of greenhouse gas (GHG) emissions.

**Cost Reduction.** By reducing labor, storage, material use, and package size and weight, companies can reduce their total cost of ownership (TCO), or how much it costs to implement a packaging solution.



# Many Ways To **Get It Right**

Investigating the above considerations will lead a company to the right-sizing strategy that is best for their business. For example, as a recent study conducted at the Pregis Innovation Headquarters (IQ) illuminated, it's not always about eliminating the void-fill. In the study, Pregis explored two right-sized options—one utilizing poly void-fill and one utilizing paper void-fill, to determine the impact and viability of each course.

## Option 1: Cost Conscious

After reducing the original box volume by 30%, the right-sized solution utilizing plastic void-fill led to TCO savings of nearly 10% (Pregis IQ Internal Evaluation), while reducing GHG emissions by almost 50% (Compass Ecolmpact).

## Option 2: Hit Your Targets

A shift from plastic to curbside recyclable paper can deliver on a consumer preference/help hit potential corporate agendas, but can be an added expense for a business. However, when done alongside right-sizing the box during the study, the TCO came down by as much as 7% (Pregis IQ Internal Evaluation).

**This is where Pregis leads:** Protecting the product, while also improving operational efficiency, reducing costs, and prioritizing sustainability efforts.

Whatever Your Right-Sizing Goal, **Pregis Has a Solution For You.**

**EverTec Cushioned and Non-Cushioned Mailers:** Curbside recyclable mailing solutions that allow for a tailored protection level that is 4x faster than manual box and prep.

**EasyPack® Void-Fill Paper:** Renewable material that offers a sustainable option for companies looking for a curbside recyclable solution.

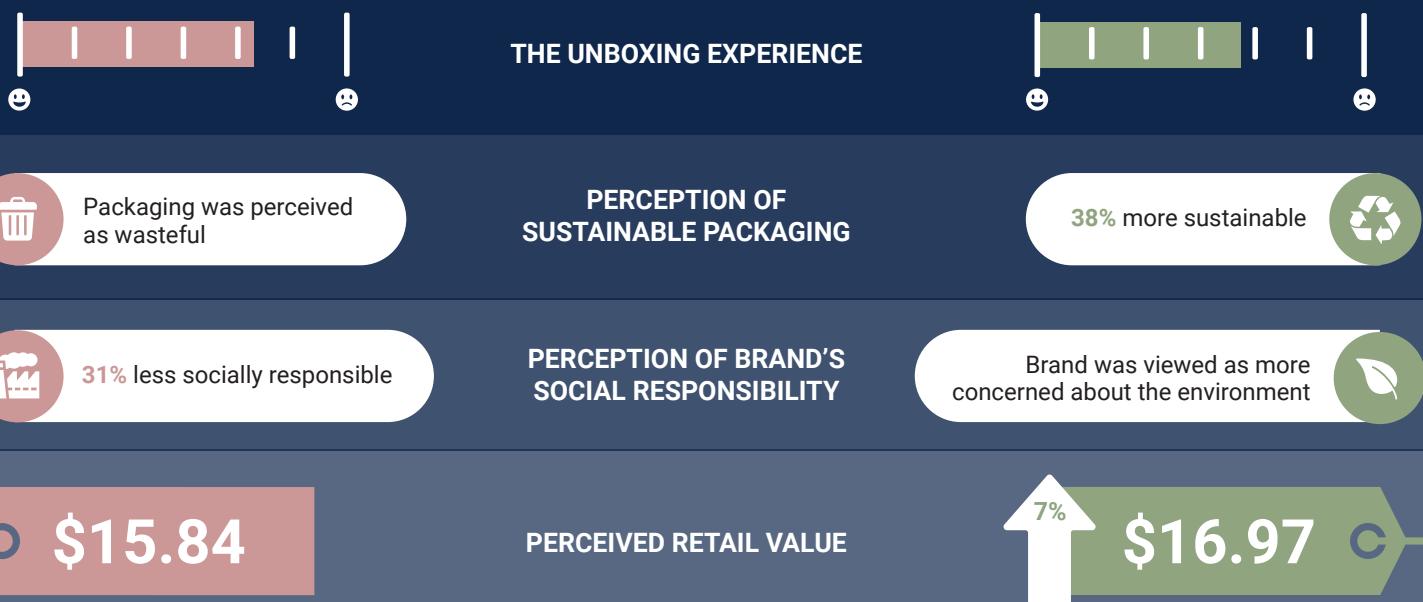
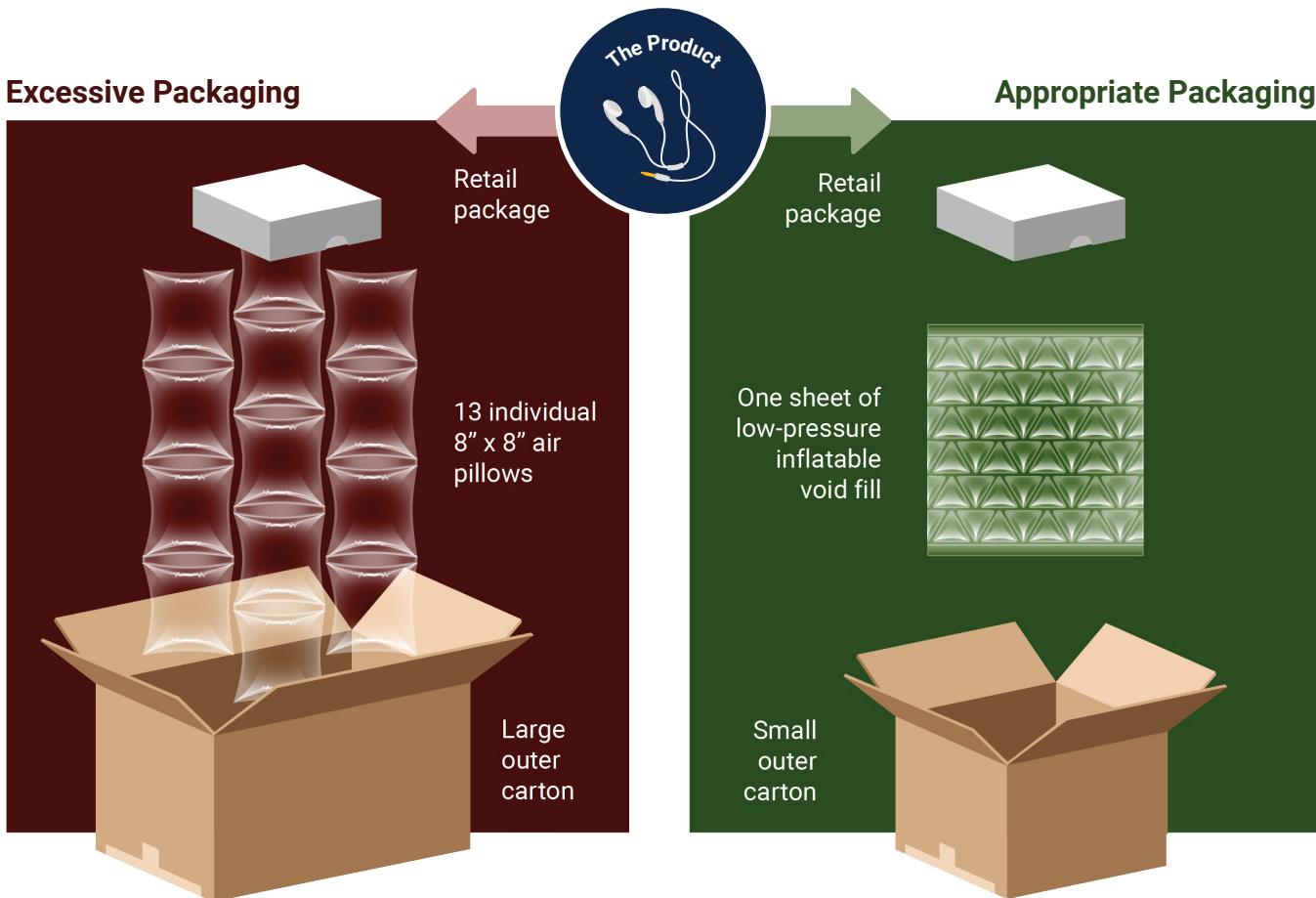
**AirSpeed® Renew™ Air Pillows:** Lightweight, store drop-off recyclable air pillows that provide the optimal void-fill with minimal material use and inclusion of 30% recycled content.

**AirSpeed® Renew™ PCR Air Pillows:** The expanding PCR portfolio is made from an impressive 80% post-consumer recycled content.

**Poly Lite™ Automated Mailers:** Automated recycled content mailers designed to optimize fulfillment and get products where they need to go, while reducing excessive material and shipping weight.

# The Benefits of Right-Sizing: A Case Study

According to McKinsey & Co, two-thirds of consumers—including three out of every four millennials—consider sustainability factors before purchasing. In the infographic below, you can see just how much of an impact right-sizing can have on a brand.

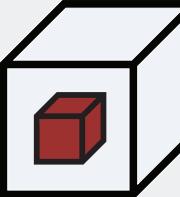
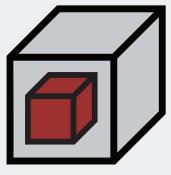
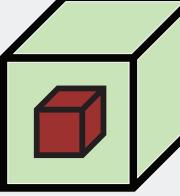
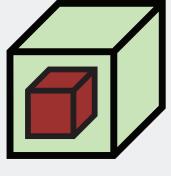


## The Results Are In

The impact of right-sizing is felt from the bottom line of businesses to their sustainability efforts and their overall brand perception. Whether utilizing the perfect amount of void-fill or ditching the box for a mailer, reducing packaging size by 30% can be transformational for companies seeking to lower costs and meet sustainability targets.

### Savings from Right-Sizing

Results per 1,000 Shipments

	Packaging (\$)	Freight (\$)	Weight (lbs)	Emissions (%)
  <b>EasyPack Quantum 45# Paper</b>	\$1,200.00	\$1,069.00	440lbs	41.5%
  <b>AirSpeed Renew Air Pillows</b>	\$735.00	\$1,069.00	210lbs	27.4%

## Why Right-Sizing Matters

As companies embrace right-sizing, they're not only enhancing customer satisfaction and brand perception but also contributing to global environmental efforts by reducing waste and GHG emissions. Right-sized packaging is key to balancing many of these factors throughout this evolving market.

Whether you're seeking overall cost savings or you want an approach that includes curbside recyclable products, Pregis has a solution for you.

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# How Damaged Product Impacts Your Profitability

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**Ryan Germann, eCommerce Segment Manager**

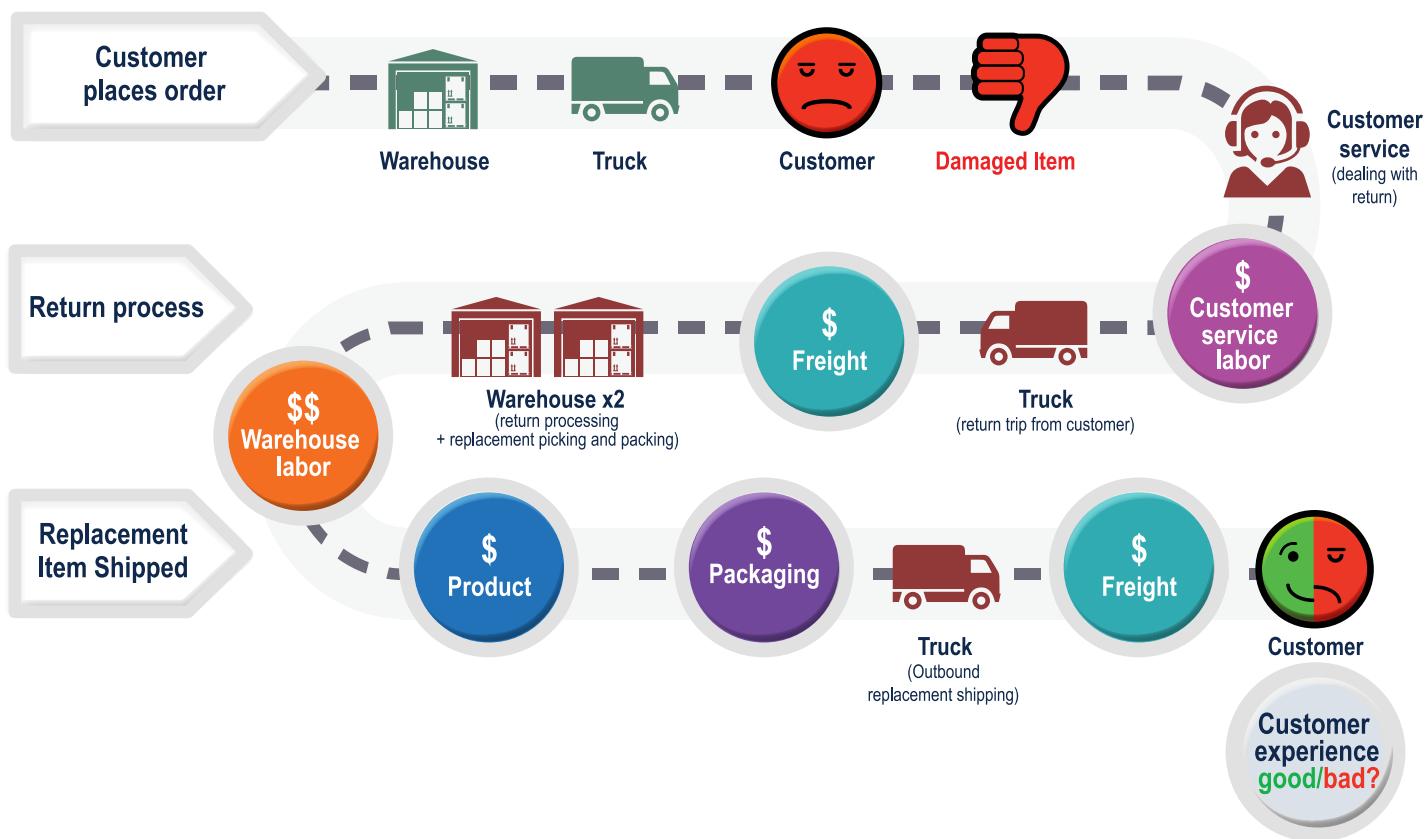
## Introduction

E-commerce retailers and manufacturers put in a significant amount of effort and investment making sure the products they produce meet quality and performance goals. However, if faulty packaging results in consumers receiving your product in damaged, broken and/or non-functioning condition, the impact to the bottom line can be significant.

In fact, for larger retailers, the impact of damaged product to the bottom line can turn into millions of dollars. For a single return, hundreds of dollars in added costs can be easily incurred if every function and process was included in the calculation.

Also, the loss of future orders based on a negative experience can add up to thousands of dollars per customer.

Why does this happen? When reviewing their protective packaging options, many companies tend to focus only on the cost of the packaging itself, missing the big picture. In addition to price, here are six key areas that each product manufacturer or fulfillment operation needs to understand when trying to minimize product damage and its resulting impact on profitability.





## 1. Freight

This profitability consideration is the most obvious one. Companies know that when a consumer receives a damaged item, they must absorb the cost of not only shipping the product back, but also sending out a replacement item. For this example, we will use a typical ecommerce average freight expense of \$11.66 for a two-day, zone 4, 5-pound residential shipment. That results in an expense and profitability loss of \$23.32 (return of damaged goods and sending replacement).



## 2. Product replacement

Next, it's important to calculate costs of the goods. When that product comes back damaged, you either need to dispose the product and send a different one as a replacement or you have to put in time, labor and parts to repair before sending out the same product. Each company and product is different, so you need to calculate what that cost looks like for your situation.



## 3. Customer service labor

On average, customer service personnel spend as little as 5 minutes on the phone (oftentimes much more) or online processing a return. However, that time allocation can be much higher if the situation is complex or the customer wants to vent. Looking at national averages, customer service labor is approximately \$13.01<sup>1</sup> per hour. However, a more accurate metric is the "loaded" number of \$23.25<sup>1</sup> per hour which includes health benefits, hiring and recruitment, training, unemployment tax, workman's compensation, equipment, uniforms and other supplies. (<sup>1</sup>Payscale.com.)



## 4. Warehouse labor

Next up are warehouse labor costs. There are two parts to this consideration. When the returned damaged shipment comes in, an employee has to unbox it and determine if it can be fixed and resent to the consumer or put back into stock. The second part, is that the fulfillment process has to be repeated. The national average for warehouse labor expense is \$13.45<sup>1</sup> per hour. The "loaded" hourly rate, which includes benefits, is \$24.04<sup>1</sup>. (<sup>1</sup>Payscale.com.)



## 5. Packaging supplies

Sending a replacement shipment to the consumer also means you will be paying twice for supplies. This typically will include a corrugated box or mailer, cushioning and/or void fill, tape, labels, etc.

The type of shipping materials you use will also have bearing on what condition the product is returned to you. If the product was inadequately packed to begin with, the consumer is not likely to spend any of their own money to further protect it. That means there's a good possibility that more damage will occur on the return trip.

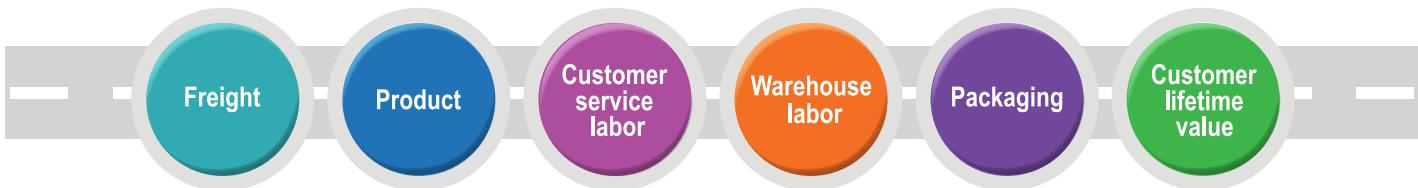


## 6. Customer lifetime value impact

This is the most expensive part of the equation—the loss of customer lifetime value.



In a recent study conducted by Packaging InSight, an overwhelming 73% of participants indicated that they would be unlikely to purchase from the company again after receiving a damaged item. This compelling



statistic highlights the importance of product protection. In fact, product protection was ranked as the “most important” characteristic of the packaging materials used to ship items to their final destination (as compared to sustainability and ease of product removal) by 80% of participants.

## Additional considerations

In addition to the six key areas above, additional considerations include customer acquisition costs and the impact of both social media and environmental attributes.

Online marketing, specifically paying per click, is expensive when you take into consideration that conversion rates to acquire new customers are typically below 4%. These investments are not fully realized when customer lifetime value is reduced. It's important to broaden your thinking to include this marketing expenditure when a customer is lost.

Ecommerce companies and manufacturers also can't overlook the impact of social media on brand image and sales. According to the influencer marketing website Curalate, 92% of people are more likely to be influenced by their own social network than traditional marketing and advertising. As we have all witnessed, when someone has a negative customer experience, they tend to put it on social media. This means that in addition to the original customer not wanting to buy from the retailer again, their friends are now also significantly less likely to purchase from that company again.

Another social media aspect is the growing inclusion of unboxing videos. Consumers contemplating a purchase are able to see in advance how the product arrives and how well it is protected—layer by layer.

The environmental impact also cannot be ignored. Consumers increasingly want to do business with companies that have a positive environmental track record. If returned goods due to damages are forcing you to use 100% more shipping supplies and paying for three shipping trips instead of one, you aren't only increasing your costs, but your carbon footprint, as well.

## Conclusion

For an eye-opening experience, take some time to run through all six steps of the analysis above on your own damaged product returns. You are likely to be stunned as to how high the impact of each return is to your profitability.

Selecting the right type of protective packaging solution for your specific product needs is critical to ensuring that you minimize—or even eliminate—damaged returns. Inviting a qualified protective packaging professional to provide a no-obligation audit is the first step to minimizing your returns and improving your company's profitability.

## Contact Pregis:

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