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Free Shipping: Facts, Trade-offs and Alternatives

By Lena West
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Regardless of what shipping strategy you've adopted for the holiday shopping season, shipping remains a complicated and controversial topic year-round for e-commerce businesses because offering free shipping means both reaping benefits and managing drawbacks. Here we provide an overview of the debate over shipping discounts as well as some tips for alternatives to free shipping.

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If you look at the statistics, it would seem that the free shipping debate has all but been decided for online retailers. In a 2008 survey conducted by PayPal and comScore, 43 percent of shoppers said they abandon their shopping carts because of unexpectedly high shipping charges. Forrester Research reports that 61 percent of online shoppers prefer to shop with a retailer that offers free shipping than one that doesn't.

Clearly, free shipping can clinch the deal for some consumers on some products. However, many retailers feel that blanket free shipping offers are corrosive to their profit margins. Indeed, many would have a hard time staying profitable if they offered free shipping across the board.

"Price conscious consumers are getting quite savvy about shipping costs. They definitely look at shipping costs when doing price comparisons," said Stephen Cobb of Monetate, a Web site that provides online retailers with a post-click marketing platform.

And, it's not just shipping fees — its collateral charges for handling and insurance.

Nate Gilmore, a vice president at Shipwire, an ecommerce order fulfillment service, said, "The thing that really irks me is when I'm shopping online and I see exorbitant handling costs. If I'm buying a small product that costs $20 and the shipping and handling costs are $20, I know there's no way shipping costs that much. Which means the handling costs are high, and that's when I tend to abandon [the shopping cart]."

Ruta Fox, CEO of Divine Diamonds knows about shipping challenges all too well. In fact, she developed her own solution. "I created a product price point that allows me to offer free shipping and insurance. This approach has worked out well. "

Practical Considerations of Free Shipping

Online retailers would do well to seriously consider the business impact of offering free shipping. For example, balancing market share and meeting profitability goals need to be carefully thought through before making any changes to shipping policies.

"No one can argue that offering free shipping is a powerful marketing tactic to increase conversion rates, but it should not be seen as a prerequisite to doing business online &3151 that's pure fallacy," said Donna Barrett, the Technology PR Manager at UPS, a leading shipping provider to large and small businesses.

The ability to absorb shipping costs and maintain competitive product prices while still making money are real concerns when thinking about offering free shipping. The good news is sales revenues may increase resulting from a free shipping offer.

But, remember, just because you increase sales doesn't mean profits will increase. In the near term, retailers are better off with modest revenues and low operating margins than high revenues and high operating margins.

Taking the long-term view, it might be worth it to forego some near term profits for the sake of establishing market share; particularly if you'll be able to offer stellar customer service that will translate into customer loyalty — loyalty that will endure even if you begin charging for shipping at some point in the future.

Free Shipping Alternatives

One of the more palatable options to a free shipping offer is "intelligent" shipping that personalizes the shipping offer based on what is known about each consumer, such as location, order size, loyalty, etc.

One of the best examples of someone challenging free shipping group-think is when retailers offer ultra low-cost shipping — say for $1.00. Interestingly enough, when low-cost shipping is implemented, there is no decline in purchases.

Many retailers will incrementally increase shipping costs, say from $1 to $1.99 and then from $1.99 to $2.99 until they reach a point of diminishing returns. This usually happens when shipping reaches the range of $4-$5.

The lesson here is, customers are looking for a fair deal on shipping — and that doesn't always mean free. In trying to manage consumers' reluctance to pay shipping costs, many retailers are simply over-reacting by offering free shipping and thereby leaving money on the table. By using the incremental pricing structure above, many retailers can add anywhere from $3 to $4 in bottom line profit to each order while maintaining business growth.

Other alternatives to across-the-board free shipping are:

- Discounts that are proportional to the order amount. Tip: If your average order is $90, try offering free shipping on orders over $100 to increase your average order size.

- Working with manufacturers to offer co-op ad dollars for certain brands or products. Tip: This type of offer can increase sales for overstock items.

- Free in-store pickup when a site visitor is near a brick-and-mortar location.

- Free shipping based on delivery location. Luke Knowles, Founder of FreeShipping.org, an Internet-based free shipping resource for consumers, estimates that more than half of all free shipping offers are only for deliveries within the continental United States. Tip: Don't forget about Alaska and Hawaii to create a competitive advantage over your competitors.

- Free shipping based on loyalty and membership. Some online retailers offer free shipping to customers who have joined a special 'free shipping' club that usually carries an annual membership fee. Tip: Free shipping clubs build both loyalty and market share.

- Flat-rate shipping. Flat-rate shipping is not exactly free shipping, but shipping prices are as low as the retailer is willing to go.

Keeping all the above free shipping promotion approaches in mind, it should be noted that building conditions around free or low-cost shipping may scare away some customers who will not qualify for your current shipping promotion.

This is why the key to getting the free shipping equation right lays in choosing a promotion type that will both benefit you and get a positive response from your customers.

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