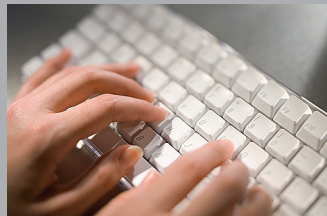




# Strategies to Help Retailers Win the Web's Free-Shipping War

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## Situational overview

Online retailers everywhere took notice in the spring of 2011 when L.L. Bean, the web and catalog retailer of outdoor gear and apparel, announced it would ship all orders for free to U.S. and Canadian shoppers, regardless of the amount ordered. Prior to this, the retailer had been offering free shipping with no minimum purchase only as a limited-time promotion, or as a benefit to customers who signed up for the L.L. Bean co-branded Visa credit card.

When a major retailer makes an aggressive shipping-cost-related move like this, it feels like a game changer. Many small and midsize retailers probably read this particular announcement and wondered: How can I compete without the big retailers' economies of scale? In an online environment where free shipping feels like the marketing "nuclear option," how can I keep up with the L.L. Beans of the world?

The answer: You *can* compete and win the web's free-shipping war. But first you have to learn about the economics of free shipping, shoppers' online behavior and delivery expectations, and the larger array of shipping options available to you as a retailer.

Online shipping is not a zero-sum game for retailers. You can attract and retain customers with creative shipping solutions — and free shipping may or may not play a part. This white paper shows you how.

## Why free shipping is offered

Before you learn how to compete against other retailers who are offering free shipping, you must understand why they're offering it in the first place. At the most fundamental level, it's simply because it tends to work!

So no one should have been caught off guard by the L.L. Bean announcement. "It isn't shocking," said Lauren Freedman, president of The E-Tailing Group. "Retailers know that consumers pull the trigger when there's free shipping."<sup>1</sup>

But in what ways does free shipping "work"?

Free shipping can increase everything from order completion rates to order size, and decrease checkout abandonment. In a recent comScore report, three-fourths of consumers surveyed said they abandon retailers at checkout if shipping isn't free.<sup>2</sup>

Here are four essential ways to understand the growing free-shipping trend:

**1. The importance of free shipping is growing.** comScore reports that free shipping accounted for an incremental 6 points of all transactions in 2009. What's more, fully 75 percent of consumers surveyed said they would shift to another retailer at checkout if shipping was not free.<sup>3</sup>

**2. Shipping costs are the most common reason for shopping cart abandonment.** According to a Forrester Research survey of online shoppers, shipping remains a weak link in the checkout process. Forty-four percent of shoppers reported balking at the price of shipping and ditching a virtual cart.<sup>4</sup>

**3. Customers tend to spend more when they receive free shipping.** A comScore survey of fourth-quarter (holiday) spending in 2010 showed that the average order value on free-shipping purchases was \$110, compared with \$95 for non-free-shipping purchases.<sup>5</sup> If most retailers can expect similar results, the question becomes: Can the business expense of a free-shipping offer be covered by a 10 percent to 15 percent increase in order value?

**4. Free shipping boosts sales when offered as a special.** In an October 2010 survey of online retailers by Stamps.com, a whopping 64 percent stated that "some type of free shipping promotion" — with or without minimum spend — is the most effective promotion they can offer to drive sales during the holiday season. The next-closest response was discounted shipping, which garnered only 26 percent of the vote from respondents.<sup>6</sup> (Note: Respondents were allowed to choose multiple answers.)

From an online retailer's perspective, there is no such thing as "free shipping." But behemoths such as L.L. Bean, as well as Amazon.com (with a \$25 purchase) and Target.com (with a \$50 purchase on qualifying items), have economies of scale that allow them to absorb the added cost.

L.L. Bean can recoup the costs of offering free shipping in a number of ways, says Luke Knowles, co-founder of free-shipping advocacy FreeShipping.org. For starters, L.L. Bean and its ilk are confident that free shipping will result in increased sales (and fewer abandoned carts).

These merchants also expect to decrease marketing costs. Free shipping becomes a focus of many businesses' promotions and spreads quickly by word of mouth.

Smaller online retailers, meanwhile, fear that consumers are conditioned to expect free shipping, and feel pressured to follow suit, despite lacking the means to absorb the expense.

So free shipping is, for many retailers, a double-edged sword, says Corey Tisdale, chief operating officer of diversified web-only retailer ShoppersChoice.com. "We know that people will buy more if we offer free shipping, but we can't afford to eat all of our shipping costs and never pass any of it on to the customer," he says.<sup>7</sup>

So if you're a small or medium-size online retailer reading this, you're probably asking yourself: Is offering free shipping worth the cost? While every organization has to answer that question for itself, there are a few alternative shipping strategies to evaluate — and many small to midsize retailers are using them in a test-and-learn approach.

## 6 strategies to consider today

When it comes to free shipping, the encouraging news is: There are options. In fact, offering free shipping on every order all of the time is the exception rather than the rule on the web. Some retailers experiment with building the cost of shipping into the price of the product, but that rightfully makes merchants nervous about losing customers who price-compare, which is a sizable portion of online shoppers.

Instead, many retailers find ways to put caveats on free shipping offers, such as free standard shipping only for lightweight (but high-margin) products, or for orders that reach a minimum purchase threshold.

Retailers should also take solace in the fact that free shipping isn't a mandate. A survey by North American Technographics showed that 57 percent of web buyers deem standard shipping costs of up to 10 percent of the transaction value as reasonable,<sup>8</sup> while Forrester Research found that 85 percent of consumers set less than 10 percent of the transaction value as an acceptable shipping cost cutoff.<sup>9</sup>

Clearly, it's a game of psychology. You have to test in order to discover where the triggers and barriers exist for your customer base and competitive situation. With that in mind, here are some tactics you can try as alternatives to offering free shipping on all orders all the time.

### It's a fact

Displaying shipping costs early in the online shopping process decreases shopping cart abandonment.

Sometimes it's just a matter of being explicit early. A key opportunity for improvement in shopping cart abandonment is to address the 22% of cart abandoners who felt that shipping prices were calculated too late in the checkout process.

**1. Flat rate.** Macy's ships all online orders of \$99 or more for free. Most orders that fall below that threshold are shipped for an \$8 flat fee. Overstock.com gives first-time customers free shipping and ships for a flat rate (currently \$2.95) on all subsequent orders, no matter how large. Companies that offer flat-rate shipping typically send those orders via ground delivery to keep costs under control.

**2. Shipping club.** Many retailers offer customers the option of paying a one-time fee in order to receive free shipping or speedier service. Amazon.com was among the first to use this strategy. Customers who pay \$79 annually for the Amazon.com Prime program receive unlimited free two-day shipping, upgrades to overnight shipping for \$3.99 per order, and other benefits.

**3. Optional upgrades.** Whether they offer ground shipping for free, for a flat rate or at cost, many online retailers are giving customers the option to upgrade to faster delivery service for a fee, usually between \$3 and \$6 unless it's an oversize shipment. Kevin Chung, e-commerce marketing advisor for

FedEx, said he likes the upgrade option because it provides an opportunity for businesses to make it clear what to expect in terms of delivery time under a standard rate, while enabling customers to opt for speedier shipping at their own cost. "Giving decision-making power to your customers is a good idea," Chung adds.

**4. Free shipping for minimum purchase.** Many retailers, large and small, provide free shipping with a minimum purchase. Amazon.com, again, was an early adopter of this strategy, with its free shipping on orders of \$25 or more.

**5. Free shipping on eligible products.** This option is often offered with products that have higher profit margins, or on product lines that a retailer wants to promote. In a recent test, an e-commerce retailer reported the results of piloting a free-ground-shipping offer on a high-margin product: "My asset turns were great and I was able to clear inventory five-plus times," he said. "Call volume increased, sales increased, all signs were positive."

**6. Free shipping for a limited time.** Nearly 9 out of 10 online retailers offered some form of free shipping during the holiday season last year, according to a survey by The E-Tailing Group.<sup>10</sup> Free shipping also works well to help move products that are out of season, especially if you emphasize that the same product will not ship for free if ordered later.

Approximately 1,750 e-retailers banded together on a Friday in December last year to promote a free shipping day with delivery guaranteed before Christmas Eve. Coremetrics, a web analytics unit of IBM, reported that single-day sales totaled \$942 million, an increase of nearly 20 percent from the corresponding day in 2009.<sup>11</sup>

## Testing and finding the thresholds

Ultimately, crunching numbers and testing a mixture of the strategies above during a period of weeks or months will serve retailers best. For example, in determining where to set the minimum order to qualify for free shipping, David Redlich, co-founder and director of sales at ReStockIt.com, an online seller of office and restaurant supplies, said, "The sweet spot comes from being analytical, knowing your competition and your average order value, and seeing if you can get customers to a higher order threshold."<sup>12</sup>

ReStockIt, which has realized conversion rate hikes of 20 percent to 30 percent through free-shipping offers, has found free shipping works best when offered as standard fare on more than 100,000 of its higher-margin products. But it's also proven effective as part of special limited-time promotions for lower-margin products. Cases of large-size Gatorade energy drinks, for example, may run with long-term free shipping, while cases of smaller Gatorade bottles may come with free shipping only occasionally.

Aleva Health is an online retailer of foot-care, arthritis-relief and other health-related products. President Derek Gaskins says, "Offering free shipping can have a huge impact on conversions." Aleva Health operates six niche health-product sites, and Gaskin says he has tried several minimum purchase thresholds for letting customers qualify for free shipping. "Our sweet spot is \$75," he says.

Retailers that offer flat-rate shipping can experiment with that. Bedbathstore, a web-only home furnishings retailer, tested reducing the flat rates it charges for shipping, to maintain sales among economically pinched customers without absorbing the cost of dramatically dropping its free shipping minimum. It found that by dropping that rate \$1 across shipping categories, starting with the basic fee of \$5.99 reduced to \$4.99, it realized a 7 percent increase in conversion rates across all paid-shipping orders.<sup>13</sup>

You can mix and match strategies even further by reducing your flat rate for a defined promotional period.

The key to using these strategies is: test, learn and evolve. At Bedbathstore, Chief Operating Officer Mike Reichman uses a spreadsheet tool developed in-house to periodically crunch the numbers associated with free shipping offers. The spreadsheet tracks the performance of certain

key metrics — including total revenue, operating margin, number of orders, number of customers who viewed a free-shipping offer, average shipping cost per order, average value of shipped orders, and the average conversion rate for a free-shipping promotion — against variables associated with particular promotions, such as the threshold amount a customer must spend to get free shipping.

## Be creative — 5 bonus tactics to try

Research shows that the second-biggest frustration for online shoppers after "shipping cost too much" is "shipping took longer than expected." This is frequently the result of retailers not setting the right expectations on their websites and not providing their customers with a broader menu of delivery options.

So if you can't get the upper hand on your competition with shipping cost, beat them on speed. Or flexibility. The more options you give your customers, the better. "Creativity counts," says Chung.

Ready to get even more creative? Here are five shipping tactics you can test-drive to see if you can increase online sales and order size, and decrease shopping cart abandonment:

- 1. Make Saturday delivery a point of differentiation.** Saturday is the day residential customers are most likely to be home to receive a package. FedEx Home Delivery® offers Saturday delivery standard, at no extra cost. FedEx SmartPost®, which utilizes the U.S. Postal Service for final delivery, also delivers on Saturday. Finally, FedEx Express® also offers Saturday delivery for a fee — see [fedex.com](https://www.fedex.com) for details.
- 2. Wow customers with time-definite, day-definite or appointment delivery.** Are you serving your customers who need their goods in a rush, or at a specified time? FedEx Home Delivery is a day-definite service, and even offers the option of appointment delivery at a specified time and place. Customers with urgent shipping needs will love FedEx Express services, which provide time-definite delivery. Both FedEx Home Delivery and FedEx Express are backed by a money-back guarantee.<sup>14</sup>
- 3. Promise faster order delivery.** FedEx Home Delivery, mentioned above, is faster to more residential locations than UPS Ground. Because FedEx Home Delivery offers Saturday delivery standard, it can be two days faster than UPS Ground, which would deliver the same shipment on Monday. You can use this simple fact to your marketing advantage.
- 4. Give your customers the option to hold at another location.** Another idea for putting more power and convenience in the hands of your customers: Give them the option to reroute delivery to their nearest FedEx Office at no extra cost with Hold at FedEx Location service. This eliminates the uncertainty of whether packages were left when recipients weren't home or dealing with returns from missed deliveries.

**5. Make it clear that returns will be easy.** Zappos, the online retailer that is now owned by Amazon.com, built its stellar reputation on customer service and an easy returns policy. If you can get your customers to sing your praises about products they ended up sending back, you know you're doing something right.

## Summary

Many consumers view shipping fees as a necessary evil of online shopping. Unfortunately, it's one that often deters them from completing an order. "If you can get rid of that evil, you make it easier for them to purchase," says Tisdale.<sup>15</sup>

Free shipping is a proven tool for increasing online sales, but businesses can't allow it to cut too deeply into their bottom line. It ultimately comes down to doing the math to determine what makes sense.

When free shipping doesn't make financial sense, it's important for e-tailers to look at other means of turning shipping into a competitive tool. By providing as many options as possible, you can put the customer in control of his or her own shipping decisions — a sense of empowerment that's fundamental to building long-term brand loyalty.

## Step up from e-commerce to we-commerce

Ready to learn more about your shipping options? The FedEx Online Retail Solutions website, at [fedex.com/wecommerce3](http://fedex.com/wecommerce3), gives you access to a wealth of online retail industry knowledge and best practices. Compare delivery and returns solutions, create your optimized service bundle, and more. For reprints or additional information, contact Kevin Chung, marketing advisor, at [kevin.chung@fedex.com](mailto:kevin.chung@fedex.com). Your online business and FedEx. Together, we simply click.

## End notes

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12. "Go Figure: Online Shoppers Dearly Love Free Shipping, But E-Retailers Must Coldly Calculate Its Value" by Paul Demery, *Internet Retailer*, October 1, 2010.
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14. For details on the FedEx Money-Back Guarantee, see *Our Services* at [fedex.com](http://fedex.com). The FedEx Ground money-back guarantee applies to deliveries within the U.S. and to brokerage-inclusive shipments to Canada. Restrictions apply. For details, see the *FedEx Ground Tariff*.
15. "Go Figure: Online Shoppers Dearly Love Free Shipping, But E-Retailers Must Coldly Calculate Its Value" by Paul Demery, *Internet Retailer*, October 1, 2010.