

A Forrester Consulting Thought Leadership Paper Commissioned By UPS

# Smarter Strategies For Free Shipping

Understanding The True Costs And Benefits To Retailers

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FORRESTER

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## Executive Summary

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Free shipping is widely used by eCommerce retailers and is generally perceived to be extremely effective as a marketing and promotional tool to increase sales. The majority of consumers consistently cite free shipping as a motivating factor in why they purchase on a given Web site.

**Free shipping is largely viewed by retailers as “table stakes” — that is, it is a cost of doing business online.**

While free shipping is accepted to be a conversion driver, it is not universally offered, and many retailers limit how broadly or frequently they use free shipping as a lever to drive sales. This begs questions regarding the long- and short-term effectiveness and total costs associated with free shipping offers. For over a decade, Forrester Research has studied drivers and inhibitors of eCommerce adoption, including the role of shipping promotions. In this study commissioned by UPS, Forrester synthesized insights and conclusions from that extensive body of consumer and retailer research. We also collected data from 13 Web retailers of varying sizes and business structures via in-depth, one-on-one interviews regarding their experiences with free shipping offers. All retailers specifically interviewed for this report acknowledged the positive impact on sales with free shipping but conceded that there was an adverse impact on margin. In some select cases, there was also a negative impact on the customer experience. Several retailers noted employing other tactics (e.g., flat-rate shipping, higher product costs) as preferred alternatives to free shipping that improved conversion rates while still preserving margin.

UPS also engaged Harris Interactive in July 2008 for a quantitative study of consumer attitudes toward free shipping that was separate from Forrester’s research. Some select, relevant data points from that research are also highlighted in this document. In particular, the Harris study substantiated two key consumer findings: 1) Both the cost of shipping and free shipping services have a strong influence on retailer selection for online purchases, and 2) the importance of free shipping declines dramatically in purchases involving either high-value items (regardless of urgency) or a high-urgency occasion.

## Key Findings

Forrester’s study yielded five key findings:

- **Retailers find value from free shipping but are often reluctant to provide such offers.** While some retailers view free shipping to be a competitive advantage that wows shoppers, the majority of retailers interviewed perceived free shipping offers to be a “necessary evil” of the eCommerce world. Several retailers specifically said they offered free shipping to “stay competitive” and tried to avoid offering it whenever possible because it eroded their already thin margins. These retailers typically only offered free shipping during key shopping periods for their business such as during seasonal holidays or for B2B businesses during trade shows.
- **Free shipping sometimes results in unexpected costs beyond subsidizing the shipment.** While the cost of delivering the package itself was the key component associated with free shipping, retailers also noted other problems: would-be shoppers being conditioned to wait for free shipping offers, increased labor and customer service costs associated with free shipping order “spikes,” and greater IT costs when free shipping offers must incorporate exclusions or product restrictions.

- **Product category was the biggest driver of the “effectiveness” of free shipping.** While all retailers reported gains in sales, some did have more profitable experiences with free shipping than others. Those with the best results were retailers who had generous margins on their products (usually due to the fact that they were selling unique assortments of products) and had products that were easy to fulfill (e.g., small items like flash drives, low-weight items like clothes). A corollary to this finding was also the location of the retailer’s distribution center: Retailers with multiple distribution centers or those that were centrally located were more frequently able to offer free shipping because they were able to take advantage of lower shipping rates overall.
- **Many retailers have found creative workarounds to offering free shipping.** Because most retailers were looking for ways to drive sales without losing margin, some executives noted that they found tactics like premium shipping clubs, flat-rate shipping, and incorporating shipping into the cost of the product particularly effective in offsetting free shipping offers.
- **Where “free shipping” resides on a P&L can significantly impact how frequently retailers offer it.** While the majority of retailers identify any shipping-related costs or expenses within their transportation line items, some retailers allocate them under marketing expenses because free shipping is such an effective driver of incremental sales. Those retailers that consider free shipping a marketing expense also tend to offer free shipping more frequently and generally did not “rate shop” (i.e., downgrade shipping service levels to save money).

## Shopper Attitudes Toward Shipping

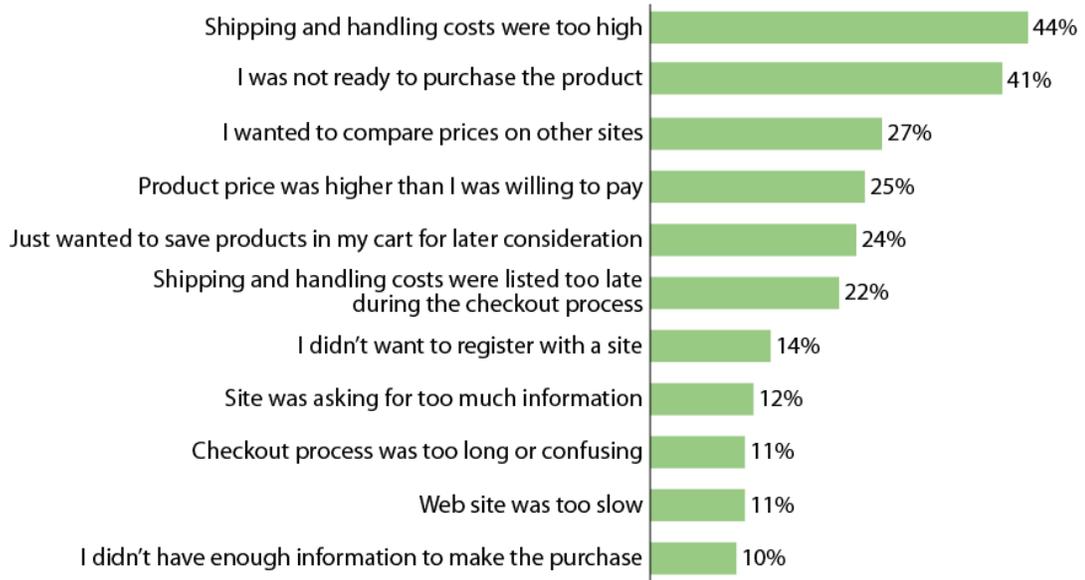
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Consumers generally choose to shop in the Web channel for one of three primary reasons: The Web offers convenience, it offers a broader selection than what is available in physical stores or other channels, and it offers value. However, Forrester data highlights that consumers also find themselves dissuaded from purchasing when shipping costs are too high. In fact, one of the key reasons that consumers abandon shopping carts after expressing interest in purchasing a product is that shipping fees are unexpectedly high (see Figure 1). Forty-four percent of Web shoppers surveyed in a Forrester survey in Q3 2009 said that they didn’t complete online transactions because shipping and handling costs were too high.

**Figure 1**  
Shipping Is A Key Factor Driving Shopping Cart Abandonment

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**“Thinking of the last time you put items in your shopping cart but did not finish the online purchase, which of the following best describes why you did not complete the transaction?”**



Base: 2,921 Web buyers who have abandoned an online shopping cart  
(multiple responses accepted)

Source: North American Technographics® Retail Online Survey, Q3 2009 (US)

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An extension of that finding was that many consumers seek to avoid paying shipping fees wherever possible. Most customers opt for the cheapest shipping option, and many will purchase just enough to meet shipping thresholds when they exist (see Figure 2).

**Figure 2**  
Consumers Want To Avoid Paying Shipping Charges

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Base: 3,588 online consumers

Source: North American Technographics Retail Online Benchmark Recontact Survey, Q2 2010 (US)

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This data is reinforced by UPS's study with Harris Interactive conducted in July 2008. That research also highlighted how important shipping costs were to most consumers' decisions to purchase online. Specifically, the UPS/Harris Interactive study found that:

- Almost half (46%) were very or extremely influenced by the cost of shipping when deciding on a retailer for their *most recent* online purchase.
  - Two in five (38%) were influenced by the offer for free ground shipping, and one in four (27%) were influenced by free return shipping.
  - Heavy shoppers were more likely to be influenced by the cost of shipping, free ground shipping, or free return shipping than light shoppers were.<sup>1</sup>
- Seven in 10 (71%) expect to be very or extremely influenced by the cost of shipping when deciding on a retailer for *future* online purchases.
  - Two-thirds (65%) expect to be influenced by free ground shipping, and more than two-fifths (44%) expect to be influenced by free return shipping.

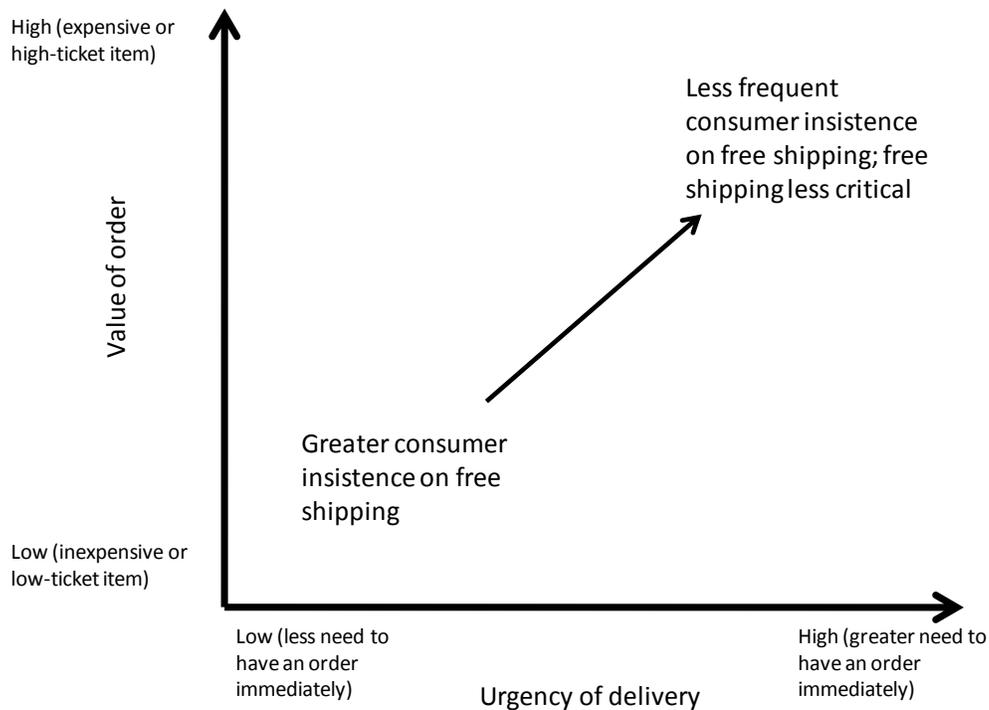
However, for high-value products or high-urgency products, consumers appeared to be less influenced by shipping costs (see Figure 3). The same UPS/Harris Interactive study found that while free ground shipping is still the most prevalent choice for a high-value/low-urgency purchase, offering the option for express delivery at a favorable rate provides consumers a welcome choice and the opportunity to receive purchases sooner.

Additionally, a hypothesis for this study prior to launch was that customer experience was adversely affected by free shipping when these strategies resulted in a downgrading of shipping service. Forrester’s consumer research shows that some shoppers report issues with longer-than-expected delivery times and frustrations with being unable to track packages during the holiday season when free shipping is most common, possibly due to the use of an economy shipping service with limited tracking capabilities.<sup>2</sup> Furthermore, according to Forrester data, 11% of consumers reported that “slow delivery has caused me to stop shopping at an online retailer.”

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**Figure 3**  
How Value And Urgency Of Orders Impact Customer Interest In Free Shipping

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Source: UPS/Harris Interactive study

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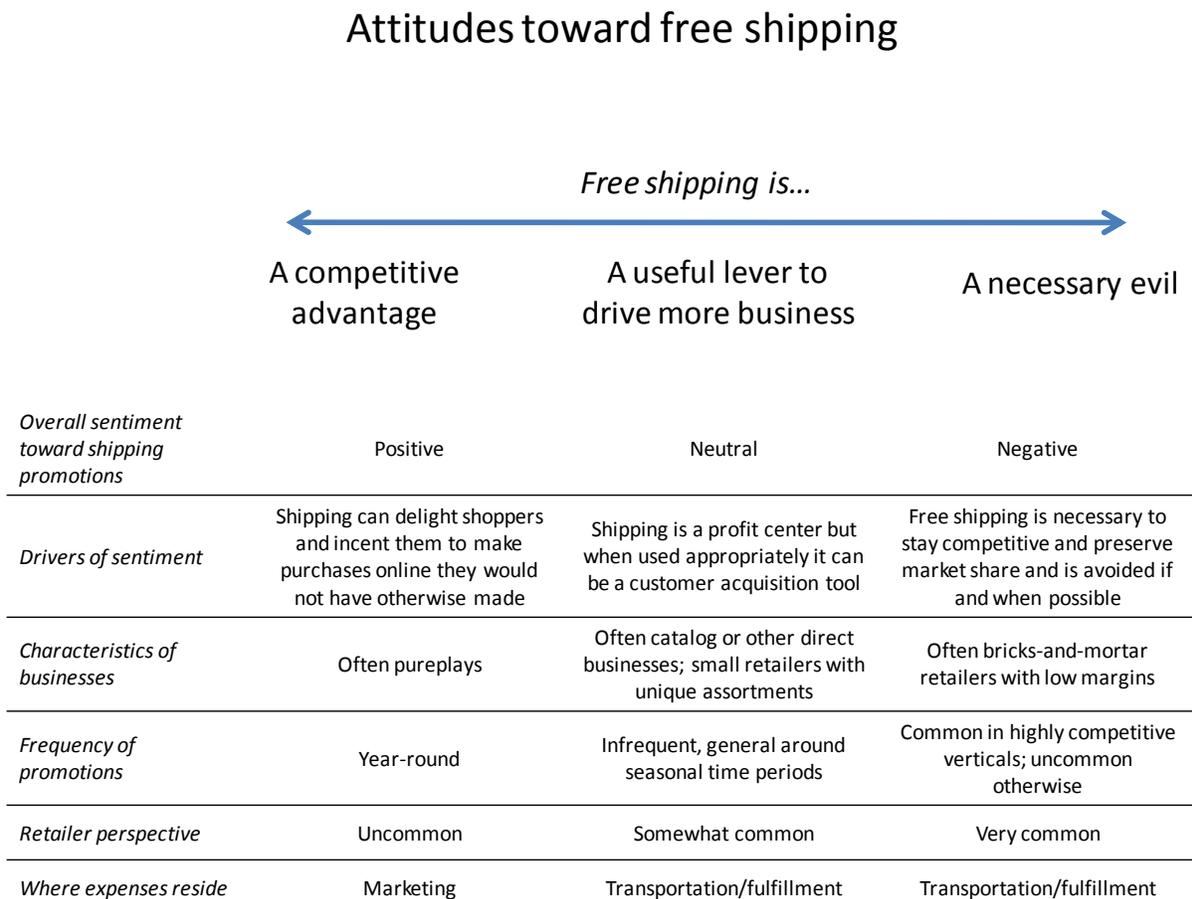
## Retailer Attitudes Toward Shipping

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The retailers surveyed had varying attitudes toward free shipping. Three predominant points of view prevailed. All fell along a continuum: Some retailers viewed free shipping as a competitive advantage and were most likely to embrace it, while others viewed it as a scourge and were less likely to embrace it as a promotional offering (see Figure 4). Some retailers fell in between those two extremes and found shipping to be a useful lever to drive their business on an “as needed” basis. Those companies that viewed shipping as a competitive advantage

were most likely to embrace free shipping and said in interviews that shipping was a fundamental value to shoppers. As a result, their calculation of the value of free shipping included the lifetime value of shoppers who would otherwise not shop with them. These retailers were more likely to account for free shipping as a marketing expense versus as an operational/transportation cost. This contrasted with retailers who viewed free shipping as a necessary evil. These retailers primarily offered free shipping to remain competitive, and their calculations of the ROI around free shipping were more conservative; the ROI for these companies generally only accounted for incremental sales from a given offer (versus incorporating lifetime value). These retailers were more likely to account for free shipping as a transportation expense (versus as a promotional expense). Because of this more modest view of the value of free shipping, these retailers were less likely to offer it frequently.

**Figure 4**  
Retailer Attitudes Toward Free Shipping



Source: A commissioned study conducted by Forrester Consulting on behalf of UPS, Q4 2010

The retailers interviewed also shared several common findings regarding free shipping offers. Among the key findings that retailers shared were that free shipping offers:

- **Are expensive.** Retailers interviewed said that shipping costs ranged from 5% to 20% of their total revenue, so any free shipping offer forces companies to absorb this expense. This was particularly painful for companies that have historically viewed shipping as a profit center or have thin margins to start with. Furthermore, a small number of retailers cited factors such as increased labor costs and/or customer service issues associated with spikes in volume (due to free shipping offers). Additionally, some retailers remarked that the effective creation of exceptions and exclusions for free shipping, which are essential to making it successful, often required some extra IT resources.
- **Are effective.** While there is often a high cost associated with offering free shipping to Web shoppers, the benefits are also strong because consumers are so eager to avoid shipping charges wherever possible. In general, most consumers take advantage of free shipping when it is offered, which results in retailers citing, on average, a lift in sales of about 10% to 20% as a result of the free shipping offer. Some retailers cited the ability to reduce the margin erosion of their shipping promotions by forcing shoppers to submit coupon codes, which led to “breakage” (consumers who qualify for free shipping and continue through checkout without using the promotional code).
- **Are identified separately on most P&Ls.** Nearly all the retailers interviewed said that free shipping expenses were a separate line item on P&L statements, usually demarcated as offsetting revenues. A small number of retailers said that they label free shipping expenses as a marketing cost, though this does not appear to be a broadly adopted perspective.<sup>3</sup>
- **Involve senior-level decision-makers.** Because offering free shipping is costly, the decision to execute it often falls in the hands of the senior-most marketing executive at a company — and, in some select cases, the CEO. Most of the retailers interviewed for this study did not offer free shipping year round, so any decisions to offer it were not taken lightly. All companies were forced to justify the value of their promotions to their finance team.
- **Are often defensive strategies.** While some select retailers with unique business models remarked that they use free shipping as a competitive advantage, most companies felt that free shipping was necessary to preserve market share and not lose a sale to a competitor. Retailers were unable to quantify this value to their business, but Forrester data shows that more than 10% of shoppers at a Web retailer in a competitive category will switch stores to receive lower shipping costs.<sup>4</sup> Retailers, though, reported even higher figures — on average, they believed that in competitive categories, 30% of their customers were “at risk” of switching to competitors if the retailers did not match their industry’s standard for shipping fees.
- **Often employ rate shopping.** One strategy to offset the loss of margin from free shipping offers is for retailers to “rate shop” or downgrade the shipping service of their package shipments (i.e., select whichever carrier and delivery format or service level is least expensive). Retailers frequently remarked that this was effective in reducing their shipping costs up to 30%. Several retailers, however, also remarked that they did not rate shop because they had concerns around the customer experience that would result from downgrading service, potentially losing tracking visibility or losing packages altogether.

For some retailers, rate shopping is embedded in their warehouse management systems, while other retailers (primarily small companies) rate shop manually (by looking in a catalog or online and then calling the appropriate carrier for package pickup) if they have a low volume of transactions. Of the retailers that were interviewed, only a few said that they actively rate shopped when they offered free shipping. Some retailers said that they had rate shopped in the past but had experienced challenges when they downgraded services — for example, packages would get lost with no tracking information (forcing retailers to service those shoppers and send them substitute product), and the various carriers that offered the lower-cost service options provided poor experiences (e.g., retailers had difficulty scheduling pickups of packages). For these reasons, the retailers abandoned rate shopping altogether in spite of its cost advantages. In contrast, the retailers that continue to rate shop said that such issues (e.g., packages getting lost, poor service) happened infrequently to them; for these retailers, the benefits of rate shopping outweigh the challenges. Because of these mixed results, rate shopping was not perceived to be a categorical or even successful solution to reducing costs to offset the costs from free shipping promotions.

## Costs Of Shipping Promotions

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Retailers experienced widely varying shipping expenses ranging from 5% to 20% (of net Web revenues) among the companies interviewed. Several factors were correlated with the proclivity of companies to offer free shipping given these costs:

- **Product margin.** A few of the retailers interviewed were in highly competitive industries or had “everyday low price” business models, or they sold fundamentally expensive products (e.g., highly perishable items). These companies therefore had lower product margins and simply could not afford, in most circumstances, to offer free shipping.
- **Product weight.** Similar to margin, some retailers had products that generally had bigger volume (cube size) or greater weight. Because shipping costs are driven by weight, product cube, and distance shipped, the size of items shipped has a substantial impact on the cost. Retailers with heavier or denser items (e.g., home furnishings, liquids) remarked that they were reluctant to offer free shipping for this reason; if they did offer free shipping, they made explicit exceptions around the heaviest or largest products wherever possible (or assessed additional shipping surcharges).
- **Fulfillment center location(s).** Because distance shipped is a key input into shipping costs, where a company’s distribution center is located, whether a company is able to employ drop-ship vendors, and where packages are going have significant impacts on overall shipping costs. Retailers with fulfillment centers based on the East Coast remarked on the high expenses associated with shipping across the country and were less likely to offer such promotions compared to companies with numerous distribution hubs or a centrally located hub. On this point, the most common exceptions to free shipping apply to those living outside the contiguous US states and international customers.

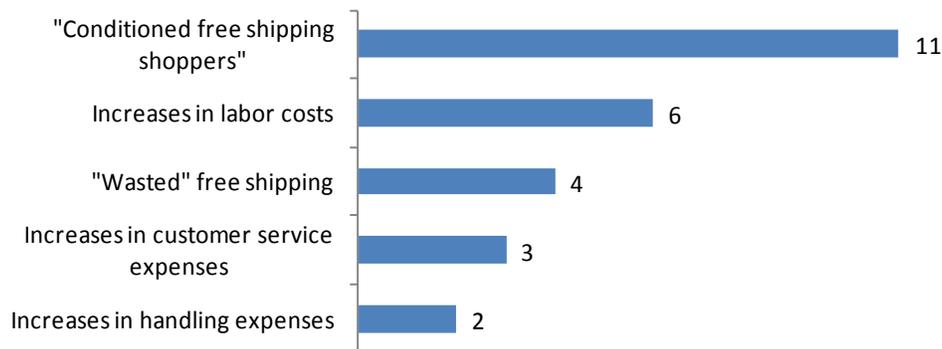
When the decision to offer free shipping was made, retailers typically observed several unanticipated costs beyond the expense of the shipment (see Figure 5):

- **“Conditioned free shipping shoppers.”** Nearly all retailers interviewed said that some customers only ordered when there was a free shipping offer. The “cost” associated with these customers is difficult to assess because in some cases they may have purchased with a competitor, but in other cases they may not have purchased at all. But on average, retailers with consistent and/or frequent free shipping programs believe that about 30% of consumers fall into this bucket where their shoppers only shop with them when there is an offer.
- **Increases in labor costs.** This increase was due to the need for more hourly workers required to pick and pack an influx of orders, as well as increased expenses due to changing the code on the site to accommodate a specific shipping offer. The increase in hourly worker wages was directly tied to an increase in total orders resulting from shipping promotions.
- **“Wasted” free shipping.** Several retailers acknowledged that, in general, with respect to free shipping, some consumers would have paid full price, and by extending free shipping broadly, retailers are giving away margin where they could have avoided doing so. This did not apply to retailers that forced shoppers to enter “promotional codes” at checkout to redeem free shipping offers.
- **Increases in customer service contacts.** Because retailers often rate shopped and would downgrade service levels on their shipments, consumers sometimes lost visibility in their package tracking ability, and in such cases retailers reported a greater number of incidents where packages were never received. However, the number of retailers reporting downgrading and these subsequent problems was small.

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**Figure 5**  
Categories Of Unanticipated Issues Among Retailers Surveyed

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Base: 13 online retailers

Source: A commissioned study conducted by Forrester Consulting on behalf of UPS, Q4 2010

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## Overall Benefits From Shipping Promotions

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Overall benefits that retailers received from shipping promotions often outweighed the costs. Retailers mentioned the most frequent benefits to be:

- **Increases in sales.** Some of the lift in revenue during free shipping promotional periods was due to greater units per transaction, and at other times it was related to new customers. In general, most retailers offered free shipping with some threshold offer that was designed to drive more units per transaction. On average, retailers said that at least 10% of their revenue was incremental during the time of a free shipping offer.
- **Customer retention.** While some retailers only offered free shipping to new customers, most offered free shipping sitewide and observed that a significant number of repeat shoppers take advantage of these shipping promotions.

### Overall Impact Of Shipping Promotions

In aggregate, retailers provided a wide range of costs and benefits resulting from free shipping offers (see Figure 6). Retailers should consider a framework similar to the one presented in Figures 7 and 8 to evaluate the complete impact of free shipping promotions on their business.

In evaluating the total costs and benefits of free shipping offers, Forrester recommends taking into account two component costs:

- **Shipping fees for all the outbound packages.** This is the fully loaded cost of sending packages that result from offering free shipping, including any benefits from rate shopping.
- **Other costs.** This includes any additional costs resulting from the shipping promotion (e.g., additional inbound service calls, lost packages).

For benefits, Forrester suggests considering several factors:

- **Increased revenue that retailers received by selling more.** The key reason that retailers offer free shipping is to capture incremental sales from the greater number of customers choosing to buy during the offer.
- **An increase in the lifetime value of new customers.** When free shipping is offered sitewide, some percentage of shoppers who redeem the free shipping offer will likely be new; a proportion of those shoppers can be expected to return and shop again.
- **The lifetime value of those customers who only shop when there is a free shipping offer.** Not all companies consider this factor, but Forrester does consider it a component of a successful free shipping campaign.

**Figure 6**  
Costs And Benefits Of Free Shipping For Web Retailers

Factor	Range of metrics observed
Average shipping cost	5% to 20% of net income
Range of shipping redemption	For sitewide promotions with thresholds, retailers reported redemption of 70% and up; for forced promotional codes, redemption was 50%.
Increases in IT expenses	Most onerous for small Web businesses, in which two to three days of a developer's time would be dedicated to executing new code
Increase in customer service issues	A modest increase of 1% in customer service contacts due to complications surrounding free shipping; half of those contacts result in some margin attrition (e.g., lost packages).
Customers waiting for free shipping	Forrester assumption of 30% of shoppers
Average increase in revenue	Web retailers reported 10-20% overall lift in revenue from free shipping offers.
Savings from rate shopping	Up to 30% of the shipping costs for up to half of packages that would qualify
Increase in customer retention and lifetime value	Half of free shipping shoppers are repeat buyers, of which 10% are assumed to be incremental sales
Savings from breakage	Modest benefit of 5-10% savings from consumers who qualify but don't use a promotion if given the option

Base: 13 Online Retailers

Source: A commissioned study conducted by Forrester Consulting on behalf of UPS, Q4 2010

## A Framework For Effective Shipping Promotion Strategies

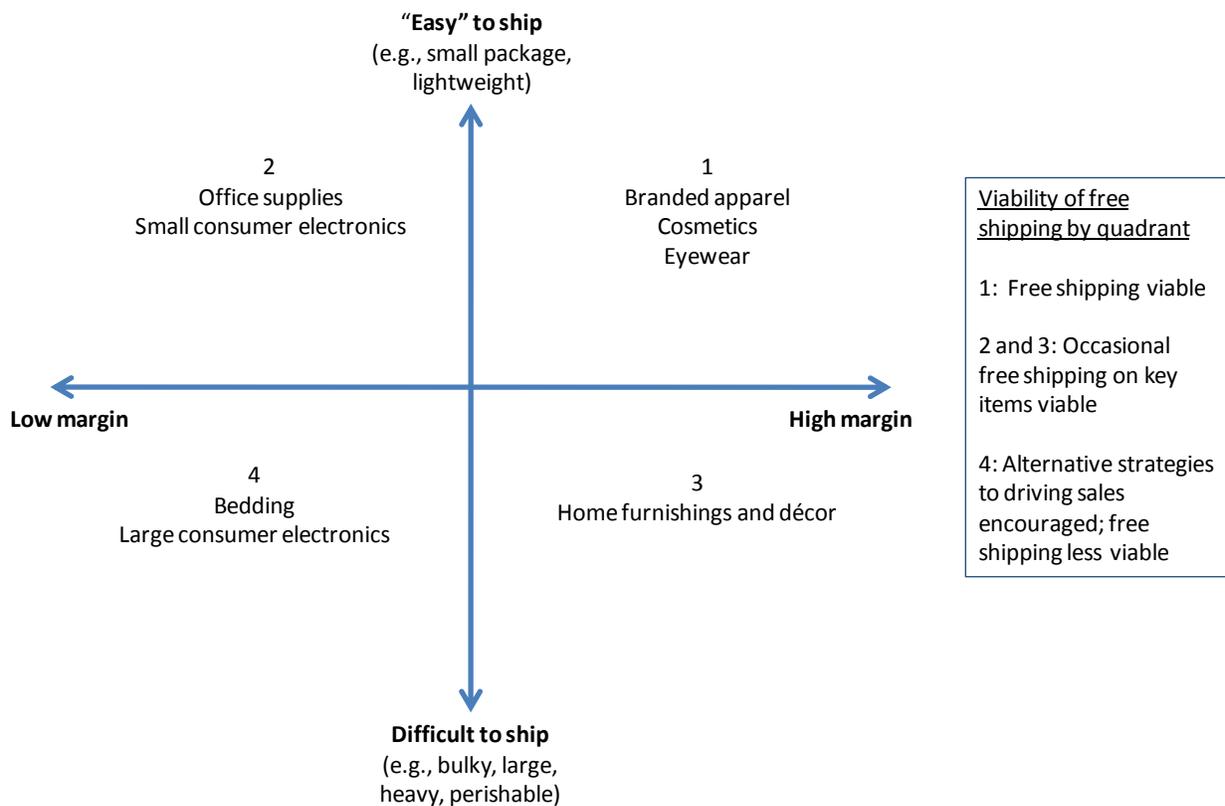
Because benefits from free shipping were similar, the biggest difference in whether or not companies are able to effectively benefit from such an offer is associated with the product's fundamentals — namely the margin and the ease of shipping a given item. In some cases, retailers with high customer service levels, those that exist in competitive environments, or those that have disproportionately high-spending customers can experience amplified benefits from offering free shipping.

Forrester recommends a two-part framework: 1) Determine the fundamental attractiveness and affordability of free shipping for a given Web business, and 2) adjust a shipping program to address market conditions pertinent to a given company (e.g., if all competitors are offering free shipping).

Figure 7 lays out four types of retailers differentiated by the overall margins of the products sold and the ease of shipping those items. Quadrant 1 includes high-margin companies with packages that are easily shipped (e.g., foldable clothing that can be flat packed or compressed into a small pack). Because of consumer expectations regarding free shipping, Forrester suggests that free shipping makes the most sense for this group of retailers. Quadrant 2 includes low-margin items that are easily shipped; this includes small products that can also be

packed in small containers (e.g., digital cameras). Quadrant 3 has high-margin products that are more difficult to ship. For Quadrants 2 and 3, Forrester does not recommend categorical free shipping; rather, select free shipping programs that exclude expensive shipments appear to be the most effective for retailers. Quadrant 4 has low-margin products that are also difficult to ship (e.g., televisions, grocery products). Loyalty programs are generally viewed to be more effective than free shipping programs, which are likely to be extremely expensive for these types of retailers.

**Figure 7**  
Approaches For Retailers Selling Different Product Categories



Source: A commissioned study conducted by Forrester Consulting on behalf of UPS, Q4 2010

Figure 8 extends the reasoning in Figure 7 further in the event that a retailer has additional complexities to consider in its business. In particular, Forrester evaluated three scenarios: a retailer that also needed to consider high customer service expectations (e.g., a high-end department store), a retailer faced with a competitive environment of perpetual free shipping by other sites, and a retailer with extremely high-value customers that it wants to retain.

A retailer in Quadrant 1 (from Figure 7) would be best served by amplifying its shipping promotions if faced with any of the scenarios above. These retailers have the greatest margin to offer shipping promotions that matter to shoppers, and shipping is likely to be a viable tactic to maintain market share and retain shoppers.

A retailer in Quadrant 2 would be well served by amplifying shipping promotions only if the competition forces it, or if there are extremely high-value shoppers that are at risk of defecting to other stores.

Retailers in Quadrant 3 are faced with challenges around shipping fees because their products are expensive or difficult to ship. For this reason, substituting alternative shipping strategies such as VIP shipping programs for only high-value shoppers or embedding shipping costs into the product price can be effective.

Retailers in Quadrant 4 are the most challenged because of the fundamentals of their business. In-store pickup programs or shipping promotions on hand-selected, margin-rich categories can help to ease the burden of competitive market conditions or high customer expectations.

**Figure 8**  
Extension Of Shipping Framework

For retailers in Quadrant X . . .	. . . that also have the following considerations, free shipping programs recommended in Figure 6 should be . . .		
	High customer service offerings	Competitive market conditions	High-value shoppers
1	Amplified	Amplified	Amplified
2	Maintained or substituted with alternative promotional shipping offers	Amplified	Amplified
3	Maintained or substituted with alternative promotional shipping offers	Maintained or substituted with alternative promotional shipping offers	Maintained or substituted with alternative promotional shipping offers
4	Substituted with alternative promotional shipping offers	Substituted with alternative promotional shipping offers	Substituted with alternative promotional shipping offers

Source: A commissioned study conducted by Forrester Consulting on behalf of UPS, Q4 2010

## Other Strategies Retailers Use To Maintain Sales And Margins

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Several of the retailers remarked on other strategies that they employed to maintain margins while also driving sales. Among the most common tactics were how exceptions around shipping promotions were messaged. In particular, retailers have found the following to be effective:

- **Threshold-based shipping promotions.** Few retailers offered free shipping without a threshold, and nearly all reported that setting a minimum, often above the average transaction of a site, generally drove more units per transaction.
- **Email-only shipping promotions.** Some retailers do not market any shipping promotions on their site; rather, they communicate shipping offers to their best customers via email.
- **Shipping promotions only on key items.** By offering free shipping only on key items that meet a certain margin threshold, retailers can mitigate some of the expenses associated with free shipping. This type of promotion is complicated to code and communicate but can be an effective way to incent some incremental purchases.
- **Flat-rate shipping.** Retailers report that this can be an extremely effective strategy, but it penalizes customers who may only want to purchase a small item or quantity.
- **Eliminating shipping fees when customers pick up in stores.** Retailers are increasingly likely to drive their shoppers to stores and to encourage them to accept delivery in that channel by eliminating their shipping fees.
- **Incorporating shipping into the item price.** Some retailers reported that incorporating the shipping cost into the item price was effective and “fair” to customers because they wouldn’t be surprised later on. This can be a challenge for multichannel retailers with those same items available in stores because the in-store items may therefore appear to be cheaper. However, for “long-tail” items (products that are not commonly sold) or an extended assortment of items, this is a viable strategy.
- **A VIP shipping program.** By offering best customers the opportunity to buy into a shipping program, retailers increase the likelihood of driving customer loyalty and increasing lifetime value.
- **A fee-based shipping loyalty program.** Increasingly, retailers have started to employ shipping programs with flat annual fees that provide shoppers the privilege of shopping without shipping charges at a given site or site(s).
- **Evaluating supply chain and distribution network.** Some retailers have opened new distribution centers or moved their distribution centers to be more centrally located or closer to their customers, thereby decreasing the average cost and delivery time in transit of outbound shipments.

## Key Recommendations

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Because of the numerous nuances in various Web businesses, there is not a “one solution fits all” approach to free shipping. Several factors affect the effectiveness and profitability of shipping promotions, and to best execute effective and profitable programs, retailers should:

- **Offer shipping promotions wherever products afford enough cushion to absorb shipping expenses.** The nature of the product being shipped — in particular, its size, price, margin, and value to the customer — can affect whether or not customers are willing to pay extra for shipping the product and whether or not a retailer can afford to offer such a promotion.
- **Be flexible with promotions where shipping expenses could vary.** The components of shipping costs — namely, the weight and distance an item is being shipped — can vary tremendously. By choosing to offer free shipping in those situations that can be more cost effective, a retailer can drive incremental sales while not eating too much margin.
- **Consider distribution center location.** The location(s) of a retailer’s distribution center(s) (DC) in comparison to where packages get shipped is critical. If a retailer has centrally located DCs, it may be better equipped to offer free shipping versus those that are less conveniently situated.
- **Consider shopper value.** The consumer value — in particular, the serving of more generous offers to higher-value or more loyal shoppers — can also achieve the end objective of greater sales in a cost-effective manner.
- **Consider promotional alternatives whenever possible.** The ability to engage alternatives to free shipping that are equally effective but also higher margin is critical for companies that are keen to avoid blanket free-shipping programs.
- **Recognize that in some cases, retailers just need to remain competitive.** The need to remain competitive and retain market share is often a significant driver of offering free shipping; in such cases, it’s simply the cost of selling online.
- **Rethink the allocation of shipping expenses.** The allocation of free shipping expenses to marketing versus transportation/fulfillment is a central question that all retailers should evaluate. Companies with aggressive free- shipping programs are often able to “afford” these programs because shipping rests within a marketing budget versus as an operational expense.

## Appendix A: Methodology

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UPS engaged Forrester Research to explore the true costs and benefits associated with free shipping for Web retailers and to identify smarter strategies for the practice. Forrester Research interviewed 13 Web retailers of varying sizes and business models in one-hour interviews with executives who managed marketing and shipping promotions or fulfillment/logistics. Respondents were offered a copy of this report in exchange for their participation in the interview process. The study began in September 2010 and concluded in October 2010.

Forrester also leveraged its North American Consumer Technographics® data where relevant, particularly with respect to details on consumer attitudes toward shipping fees when buying online. Additionally, Forrester took into account relevant data from UPS's study with Harris Interactive in July 2008 on this topic.

## Appendix B: Endnotes

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<sup>1</sup> The UPS/Harris Interactive study defines “heavy” shoppers as those who made more than three personal purchases online within the last 30 days between May 30, 2008 and June 9, 2008 and “light” shoppers as those who made fewer than three personal online purchases in the same time period.

<sup>2</sup> When online consumers were asked about problems while shopping online during the holiday season of 2009, 7% said that delivery times were longer than they expected, and 5% said that they were unable to track packages. Source: Forrester Research, Inc., North American Technographics® Post-Holiday Retail Online Survey, Q1 2010 (US).

<sup>3</sup> Few retailers allocate free shipping expenses to a marketing line item, but that is an approach that was popularized by pure-play retailers that use free shipping as a central spoke in their customer acquisition and retention strategy.

<sup>4</sup> Twenty-six percent of online consumers say they switched retailers while purchasing online. Fifty-three percent of those consumers said they switched because they found lower shipping prices with other retailers. Source: Forrester Research North American Technographics® Retail Online Survey, Q3 2010 (US).