

## Free Shipping: Holiday Hit or Headache

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Much has been made in recent weeks of free shipping promotions for the 2008 holiday season. Skyrocketing fuel costs made shipping far more expensive this summer than last year. An uncertain economy is slowing consumer sales in general, putting pressure on retailers' profit margins and making value a priority for shoppers.

These factors may significantly shift the ecommerce landscape this holiday season. Last year, shop.org reported 71 percent of ecommerce sites offered free shipping with conditions like minimum orders, while 37% offered free shipping without conditions. For 2008, retailers are expected to pull back somewhat, although the competitive landscape will put pressure on all sites to keep up.

What should savvy ecommerce merchants do, and what is the rest of the industry doing? Ai researched opinions and statistics from recent weeks to create the following summary and recommendation of both this season's free shipping trends and alternative strategies for maximizing holiday sales.

### Expected trends

An insightful article in Advertising Age last month discussed this issue at length. Their expectations for the holiday season: greater "strings attached" shipping promos, limited access to members or credit-card holders, and the option of free pickup at local stores instead of at-home delivery. Marshal Cohen of NPD Market Research suggested companies find a balance between discount programs and free-shipping, i.e. dialing back a 25% on-site discount to 20% in order to offset shipping costs. The article suggests that consumer expectation of free shipping would prove detrimental to sites who avoid the offer.

Meanwhile, a USA Today survey in September found many retailers are maintaining or lowering shipping rates for buyers while working on operational improvements like delivery alignments to offset the costs. And the New York Times reports an uptick in brands using bargain themes to attract value-oriented consumers.

### Counterarguments

Some sites argue strongly against free shipping, noting that the fee is in exchange for shoppers' convenience and time. In an August blog post, David Bolotsky of UncommonGoods valued his customers'

time at \$25 for an hour-long trip to a store, against which “a \$5-10 shipping cost is a modest price to pay.” He noted that compensatory pricing models (like the ones in the AdAge article) are a zero-sum game that ultimately helps neither seller nor buyer. Meanwhile, an Internet Retailer survey of large web merchants found that 35% had raised some or all of their shipping fees in 2008 to cover costs. And on his blog, Larry Freed, CEO of ForeSee Results, agreed with the prediction of tougher free-shipping barriers, but is concerned that such moves may just encourage consumers to comparison shop or simply get offline.

### **The Consumers’ Mindset**

The Conference Board and TNS reported that 90% of consumers see free shipping as an enticement into online shopping, a higher percentage than online-only discounts (73%) or products (50%). Last-minute shopping is also a draw; according to shop.org’s Holiday Survival Kit, 35% of shoppers used the Internet for last-minute holiday purchases in 2007. And 35 million people waited until the last 10 days before Christmas before beginning to shop, while nearly half of all holiday purchases came in that timeframe.

### **What to Do**

With all this knowledge and forecasting in hand, what is the typical retailer to do? Merchants are presented with numerous puzzles to solve this season: increased shipping costs, decreased consumer confidence, and a nimble market that will tend toward the expected (free shipping, heavily promoted via email). Creativity and initiative will be rewarded this holiday season.

Ai recommends small- and mid-size ecommerce businesses implement some or all of the following as they lock in their holiday plans:

1. **Preserve free-shipping programs.** If a site usually offers complimentary shipping on \$100-plus purchases, the holiday season is not the time to ratchet the minimums higher, particularly when aggressive competitors will be doing the opposite. Regular customers will welcome the standard discounting plans, although they may be disappointed they can’t find an unexpectedly good deal during the holidays.
2. At the same time, **don’t expect widespread no-hurdle shipping promotions.** Transportation costs remain high for both parcels and consumer vehicles despite a recent downward trend in oil prices. As a result, Ai expects minimal blowout free-shipping-on-all-purchases programs this season. Merchants can work on other promotional activity instead.
3. **Encourage shipping upgrades.** Retailers often find profit margins in expedited shipping, which consumers demanding express service are willing to pay. This season, an easy win may be



found in lowering the price spread or providing small discounts for customers choosing two-day or overnight shipping. The net result can be a break-even on costs for the seller, while buyers come away from the sale with an increased level of satisfaction, helping long-term growth as well as holiday sales.

4. **Match price drops as they happen.** The Internet is the great equalizer when it comes to price, and during the holidays, people will be furiously looking for the best offer on a product. Price-shopping is codependent on shipping charges, so be sure you present a united message and showcase shipping discounts where applicable. This will encourage adds to cart, upsells and cross-sells.
5. **Use product bundling and cross-selling programs to encourage larger, more cost-effective orders.** This, of course, is something many merchants do all the time. During a tough holiday season, a well-executed plan can be win-win for customer and retailer alike. Don't rely on the usual shampoo-and-conditioner product complements; instead, help customers minimize their shopping routines with mom-and-dad pairings and stocking stuffer add-ons. These will bump shoppers' orders up to free-shipping minimums while preserving profit margins for the seller.
6. **Push loyalty programs.** There's no better way to defray costs than by locking in future purchases. Take time to double-check membership programs, making sure they're easy to use and opt into. Then layer the messaging into product pages and shopping carts to ensure people are aware of the benefits of the site.
7. **Focus on retention marketing.** Again, this is standard practice for many merchants, but it is increasingly important in the current environment. If a merchant can generate repeat sales from holiday shoppers, particularly with loyalty program rewards, those free-shipping and holiday marketing costs will have a drastically lower cost-per-sale base. Be sure to send out post-sale feedback requests and invitations come January to keep communication lines open.
8. **Remember the January clearance sale.** Many shoppers have become accustomed to seeking out great discounts in post-holiday clearance sales. They use this time to pick up heavily discounted items for home or personal use, and to spend gift cards at a maximum rate of return. Use email marketing and on-site messaging to create profitable sales opportunities with consumers ready to finish their seasonal spending.

This promises to be an interesting holiday season for all retail merchants. With the right plan in place, it doesn't have to be a difficult one. Good luck!

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## About the Author

David Wertheimer has a diverse background with expertise in online communication, ecommerce and user experience. As Ai’s Director of Strategy, he leads the company’s strategic initiatives and provides focus and vision to client projects. In his years online, he has been a designer, marketer, information architect, author, and educator for a wide array of companies. David has an MBA from the New York University Stern School of Business and a bachelor’s degree from Franklin & Marshall College.

## About Ai

Alexander Interactive is a leader in ecommerce strategy, design and development. Passionate about design and engineers at heart, Alexander Interactive focuses on creating rich Web experiences tailored to the needs of its clients’ businesses. Ai builds award-winning sites and fulfillment systems for clients including Citi, Pepperidge Farm, Campbell Soup, FragranceNet.com, Steiner Sports, Action Envelope and Caché. For more information, visit [www.alexanderinteractive.com](http://www.alexanderinteractive.com). Contact: [pr@alexanderinteractive.com](mailto:pr@alexanderinteractive.com)