



The True Cost of Free Shipping

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More and more sites are offering free shipping every year, weighing its expense and adjusting product prices so they don't take too much of a hit. However, there's more to the story than just balancing out the dollar cost of free shipping with the dollar gain retailers can enjoy by offering it.

According to the just-released holiday 2008 edition of the *Top 40 Online Retail Satisfaction Index*, free shipping is a valuable acquisition and retention tool for first-time visitors but has little impact on already-loyal customers' decision to purchase or recommend a website. Free shipping is still a critical factor in both the channel customers choose (online vs. offline) and the retailer they choose (one company over a competitor).

Free shipping, undoubtedly, is necessary to compete in the critical holiday season. But does it drive short-term sales and long-term loyalty? What is the true cost of free shipping to an online retailer?

Through analysis of more than 9000 visitors to the top 40 e-retail websites during the critical holiday shopping weeks, we found that the answers are more complex than e-retailers may realize. We used the methodology of the University of Michigan's American Customer Satisfaction Index (ACSI) because of the proven link between satisfaction (as measured by the ACSI) and purchase intent, loyalty, and likelihood to recommend.

Key Findings

- 1. Free shipping is becoming more and more common:** 68% of online holiday buyers said they recall seeing free shipping offers, 20% said free shipping wasn't offered, and 12% couldn't remember if free shipping was offered.
- 2. Free shipping can be an effective acquisition tool.** It is slightly more effective when it doesn't involve restrictions, though we've seen free shipping with restrictions impact customer satisfaction less than they once did, as shoppers become more accustomed to limitations on offers.
- 3. Shipping costs are a huge factor in whether people choose to buy online or offline.** Almost one-fifth of all shoppers (18%) said that when they choose to buy something from a retailer's store instead of website, avoiding shipping costs is the main reason. When they choose to shop on a retailer's website instead of in the store, 33% said that the availability of free shipping encouraged them to buy online.
- 4. The availability of free shipping is a key reason shoppers choose one online retailer over another.** Free shipping heavily influenced three out of five online purchasers in their decision to purchase with the e-retailer they chose instead of from a competitor.

Further Analysis

1. Free shipping is becoming more and more common.

68% percent of online holiday purchasers in our survey recalled seeing some type of free shipping offer, while 20% said free shipping wasn't offered, and 12% couldn't remember. This number has been inching upward every year (63% remembered seeing an offer in 2006 and 65% in 2007). Free shipping has obviously become common practice ...but is it effective in driving satisfaction and loyalty?

2. Free shipping can be an effective acquisition tool.

Customers who remember seeing a free shipping offer are more satisfied with the website, which makes them more committed to the brand, more likely to return, and more likely to purchase. This is true whether they took advantage of the offer or not. When compared to buyers who did not see a free shipping offer, those who did are:

- more satisfied
- more committed to the brand
- more likely to return
- more likely to return to that retailer the next time they are in the market for similar merchandise
- more likely to purchase online
- more likely to recommend
- more satisfied with the retailer overall, regardless of channel

Was free shipping offered on the website?	Yes	No
Website Satisfaction	82	80
Brand Commitment	83	79
Likelihood to Return	88	86
Likelihood to Purchase Next Time	86	83
Likelihood to Purchase Online	87	85
Likelihood to Recommend	84	81
Overall Retailer Satisfaction	85	82

If product prices can be adjusted so that free shipping has a smaller overhead impact, it seems clear that free shipping results in positive bottom line impact for the e-retailer. It's true that these are small advantages, but in a down economy, every little bit helps.

We found little difference between satisfaction and purchase intent of shoppers who received free shipping with and without restrictions. Two years ago, free shipping with restrictions resulted in somewhat lower satisfaction and likelihood to purchase, but we've seen those differences disappear over time. Perhaps shoppers are finally savvy enough to work around restrictions and still qualify for free shipping, or perhaps their expectations have been set more appropriately by those that do have caveats. The trouble comes when the restrictions are a surprise, i.e., when a shopper goes to a site expecting free shipping but finds out there is a minimum order of \$100, or that free shipping only applies to certain items and not others. If expectations for restrictions on free shipping are being set properly, then the restrictions themselves may not be impacting purchase behavior as much as in past years of our research.

3. Shipping costs are a huge factor in the decision to buy online or offline.

Almost one-fifth of all shoppers (18%) said that when they choose to buy something they researched online from a retailer's store instead of from the retailer's website, avoiding shipping costs is the main reason. This finding is a bad sign for multichannel retailers who don't offer free shipping, who have increased overhead and added risk that shoppers will purchase from a competitor instead. Attempting to force people to shop in a store just to avoid free shipping charges is not a good move. Retailers should want to make it possible for shoppers to buy from their preferred channel. Shipping costs should not be a major factor in this decision for shoppers, and it is incumbent upon retailers to minimize the perception of shipping costs as a reason to shop offline.

Why purchased in a store instead of on the website	% of responses
Ability to receive the product immediately	31%
Needed to see or feel the item before purchasing it	19%
Avoid paying shipping costs	18%
Cheaper prices offline	13%
Ability to talk to a salesperson	9%

When they choose to shop on a retailer's website instead of in the store, 33% said that the availability of free shipping encouraged them to decide to buy online.

Why purchased on the website instead of in a store	% of responses
Ability to have product delivered directly to me/recipient	50%
Easier/more convenient to buy online than offline	45%
Ability to compare prices more easily online	41%
Cheaper prices online than offline	36%
Free shipping offer	33%
Availability of customer or expert product reviews	17%
Ability to redeem a gift card online	16%
Product not available in the store or catalog	12%

This data shows us that when it comes to right-channeling, or directing shoppers to one channel or another, shipping costs (or perceptions of shipping costs) are still a major factor.

4. Availability of free shipping is a key reason shoppers choose one online retailer over another.

Free shipping heavily influenced three out of five online purchasers in their decision to purchase with the e-retailer they chose instead of from a competitor. This group is notably more likely to purchase online in the future than online purchasers who were not very influenced by free shipping.

Conclusion

Shipping costs still really matter to shoppers. Free shipping continues to garner incremental gains in satisfaction and customer loyalty. High shipping costs (or perceptions of high shipping costs) drive people to buy in stores and low shipping costs drive people to buy online. Not only do shipping costs influence what channel shoppers choose, they influence the retailer they choose. Only when e-retailers understand the behavior of their own customers can they really understand the true cost of free shipping — or the true cost of not offering free shipping.

About the Author

Larry Freed is an expert on website effectiveness and online customer satisfaction. He is also President and CEO of ForeSee Results, a market leader in customer satisfaction measurement on the web, which utilizes the methodology of the American Customer Satisfaction Index.

About the Top 40 Online Retail Satisfaction Index: Methodology

The 2008 edition of the *Top 40 Online Retail Satisfaction Index* is the fourth annual evaluation of holiday shopper satisfaction with top 40 retail websites by sales volume, as reported by Internet Retailer. ForeSee Results also measures satisfaction with the Top 100 online retailers every spring, resulting in eight consecutive reports on customer satisfaction with the top e-retailers over the last four years.

The *Top 40 Online Retail Satisfaction Index* uses the methodology of the American Customer Satisfaction Index to analyze data collected from visitors to the Top 40 retail websites, as defined by sales volume from the *Internet Retailer Top 500 Guide*. Data was collected through FGI Research's Smart-Panel™, a nationwide panel of approximately 1.6 million consumer households who have agreed to participate in opt-in surveys.

More than 9,000 survey responses were collected from December 1, 2008 through December 18, 2008 from shoppers who had visited the Top 40 retail websites at any point within the prior 14 days.

Some respondents went on to complete an online purchase; others didn't, so the respondent group is defined as "website browsers." Browsers include existing customers, first-time visitors, infrequent visitors, competitors' customers who may be cross-shopping, and others spending time researching purchases on a retail website, perhaps with the intent to purchase through offline channels. They may shop on a variety of websites and other channels before making a purchase. Knowing why a browser does or doesn't purchase during the visit is one of the keys to understanding multichannel impact, as well as the degree to which even these top e-retailers are fulfilling their potential.

The *Top 40 Online Retail Satisfaction Index* is based upon the methodology of the University of Michigan's American Customer Satisfaction Index (ACSI), the only cross-industry methodology scientifically proving that organizations that more effectively satisfy customers realize higher financial returns. For the past seven years, ForeSee Results has used this scientific approach to measure online customer satisfaction with nearly 100 leading e-retail sites in both the U.S. and the U.K. Additionally, the firm produces the U.K.-based *Top 30 U.K. Online Retail Satisfaction Index* every Christmas and a Top 100 Online Retail Satisfaction Index every spring, which provides an interesting point of comparison to customer satisfaction with U.K. online retail.

About ForeSee Results

As the leader in online customer satisfaction measurement, ForeSee Results captures and analyzes online voice of customer data to help organizations increase sales, loyalty, recommendations and website value. Using the methodology of the University of Michigan's American Customer Satisfaction Index (ACSI), ForeSee Results identifies the improvements to websites and other online initiatives with the greatest ROI. With over 30 million survey responses collected to date and benchmarks across dozens of industries, ForeSee Results offers unparalleled expertise in customer satisfaction measurement and management particularly in the retail category, with over 85 retail measures in ForeSee benchmarks.

ForeSee Results, a privately held company, is headquartered in Ann Arbor, Michigan, has offices in London and Toronto, and can be found online at www.ForeSeeResults.com.

About FGI Research

FGI Research is a leading provider of market research and information solutions that improve the speed, accuracy and impact of business decisions. By combining proven research methods, trusted online sample, and advanced analytics and communications, FGI delivers to end users and marketing research firms immediate and actionable information to decision makers throughout their respective enterprises. FGI offers a premier suite of online research solutions under the SmartPanel™ family of specialty and proprietary custom research panels. For additional information, visit www.fgiresearch.com.