

7 Ways to Help Offset the Cost of Free Shipping During the Holidays

Make this your best holiday
sales season yet.



During the holidays, your sales can quickly go from first gear into overdrive. This peak period can be a make-it-or-break-it time for your business to meet its financial goals for the entire year.

While competition for online sales can be fierce, the holiday shopping season can actually help level the playing field for many smaller businesses, as customers look for those specialty gift items that big-box stores don't offer. This is the time for your business to shine, turning up the volume on sales and turning new customers into loyal customers. Don't let shipping stand in your way.

Free shipping has become a powerful incentive for customers to shop online. And today's shoppers expect it. In a recent survey of online shoppers, 75% of respondents said that free shipping was important to them, second only to price discounts.¹ That's why it's so important to put your best shipping offers on the table, offsetting shopping cart abandonment and helping to ensure customer satisfaction.

While your business might not be able to afford to offer free shipping all year long, there are some options that can help you offset the cost during the all-important holiday season.

Let's take a look at seven ways you can offer free shipping, as well as some alternatives, to help make the holiday season extra merry—for both your business and your customers.

¹ "2018 Deloitte holiday retail survey," Deloitte, October 2018.

01

Roll Shipping Costs Into Your Profit Margin

Integrating shipping fees into the price of your product and promoting a limited-time free-shipping offer can be an effective way to drive more traffic to your website and generate sales during the holidays. If you're selling a one-of-a-kind item, this can be especially useful, as customers are often willing to pay more for unique gifts.

The goal is to raise the price of your product by the amount it costs to ship it, not to increase your profit margin. In this scenario, it's important to increase the price just enough to offset the cost of free shipping. Although many customers are willing to pay a little more for your item if it includes free shipping, they will go somewhere else if they feel you are grossly overcharging.



Tip: Know what your shipping costs are upfront. This way, you can make an informed decision on exactly how much you will need to roll into your profit margin in order to offer free shipping without taking a loss. USPS® Priority Mail Flat Rate® shipping is a good option for many businesses, offering one rate to any state—with no weighing or calculating needed—for packages up to 70 pounds. If Flat Rate options don't fit your shipping needs, check out the [**USPS Business Price Calculator**](#) to help you accurately determine what your shipping costs would be for a wide variety of package sizes and delivery options.

02

Take Control of Shipping Surcharges and Holiday Surge Pricing

During peak holiday periods, some shipping carriers may tack on surcharges to help pay for extra workers and increased volume. Left unmonitored, shipping surcharges can add up quickly and take you by surprise.

That's why it pays to shop around. Choosing a shipper who does not apply surcharges during the holiday season can result in significant savings, allowing you to offer free shipping options to your customers.



Tip: USPS® offers a **free surcharge calculator** to help you estimate the surcharges you may be paying with your current carrier.

03

Establish a Minimum Order Threshold

To encourage larger orders, establish a minimum order value for customers to qualify for free shipping during the holidays. For example, you could promote a free-shipping offer for all orders over \$100. You could also add an incentive in which customers can earn free shipping if they add \$X amount more to their order. With some careful calculations and goal setting, the increase in sales could offset the expense of free shipping.



Tip: To help you determine the minimum order value that works for your business, analyze your finances based on:

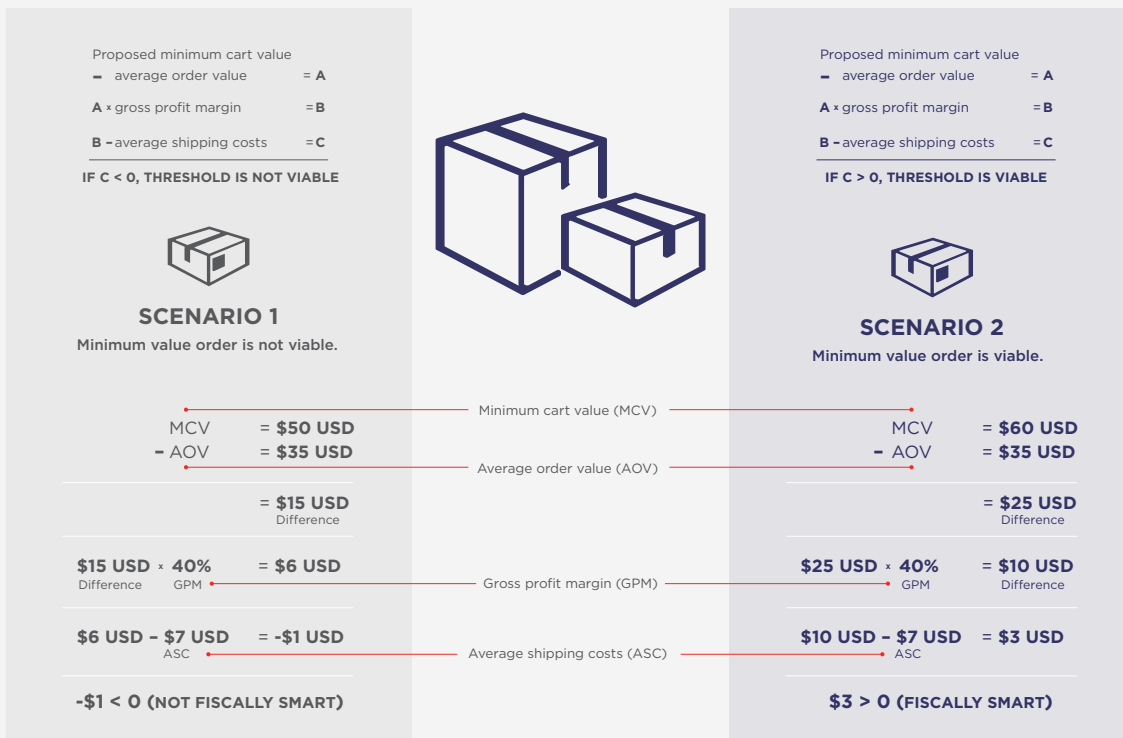
AVERAGE ORDER VALUE	\$
GROSS PROFIT MARGIN	\$
AVERAGE SHIPPING COSTS	\$

Once you have pulled together these numbers, you can apply them to the formula on the following page.¹ This will help you set realistic minimum threshold values that make sense for your business.

¹ Nate Shivar, "Profitable Guide to Free Online Shipping for Ecommerce Stores," ShivarWeb, June 17, 2014.

MINIMUM THRESHOLD VALUE FORMULA

Here are two scenarios that demonstrate how to use the formula:



Ideally, the free-shipping threshold amount should be low enough to be perceived as a promotion and attract new customers, but high enough that you aren't losing money on your transactions. For example, if your average customer is spending \$45 per order, consider setting the free-shipping threshold at \$60 to increase the number of orders you receive above \$45. And remember, it's important to remain realistic when determining how much more customers are willing to spend to get free shipping.

04

Offer Free Shipping on High-Profit-Margin Items

Offering free shipping on select products that already have a high profit margin is a common practice for retailers of all sizes, as it allows you to more easily absorb the shipping cost. If free shipping won't put you in the red for specific items, the extra sales incentive could help you bring in new customers.

This technique works especially well with smaller, high-profit items that are relatively inexpensive to ship. For example, if a piece of jewelry costs \$1,500, absorbing the \$5 shipping fee is a small price to pay for the promotional benefit of free shipping. While a low shipping fee is unlikely to deter someone who is spending \$1,500 on jewelry, offering free shipping can draw more customers to your website.



Tip: Create a spreadsheet and list the profit margin for each of your products. This will help you define which products would allow you to offer free shipping without taking a hit to your profits. For example, if your profit margin on select items is more than 30%, you could offer free shipping for those items only. Be sure to update and review your numbers regularly as prices and products change.

05

Include Paid Advertising in Your Packages

Earn revenue on every package you ship by including paid advertising for a noncompetitive, third-party advertiser. These win-win partnerships can help you offset the cost of free shipping: You simply include their ad in each package you ship and, over time, this revenue can add up to a nice bonus.



Tip: Choose a company that will pair you with advertisers who complement your offerings and enhance value for your customers. Make sure that this company allows you to maintain control over and preapprove everything you ship, including the ad itself. This will help ensure you are only including ads that are a good match for your business goals and values.

06

Ask Your Manufacturers About Drop Shipping Directly to Your Customers

Drop shipping is another cost-effective option that may allow you to offer free shipping. If your manufacturer is willing to partner with you, it can be as simple as sending them an email whenever you get an order, instructing them to ship the item on your behalf. In return, you can offer to include a complimentary ad or promotion for your manufacturer in each shipment.

You may also want to consider outsourcing fulfillment. In some cases, outsourcing the process of packing and shipping goods can dramatically lower your shipping costs, especially for packages over 10 pounds. Fulfillment companies are often able to negotiate better terms with shipping carriers because of the volume of packages they send, and you can pass those savings on to your customers.



Tip: One of the most common pitfalls is choosing a fulfillment company based solely on price. While price is important, finding a company that is a good fit for your business is also crucial. To get started, consider specialization: Many fulfillment companies specialize in certain industries or types of business. Shop around to find one that already works with businesses similar to yours. Call and talk with a service manager or arrange a face-to-face meeting. Don't be afraid to ask questions and ask for references, and be upfront about your needs so there are no surprises down the road.

07

Offer Free Shipping in Exchange for Contact Information and Product Reviews on Social Media

Getting customers to sign up for an e-newsletter is a surefire way to help you increase lead opportunities. By emailing them new product information, special offers and discounts, and exciting announcements, you can build on your initial engagement. Free shipping can also be a powerful incentive to turn your customers into brand evangelists and advocates on social media.



Tip: Once a customer “likes” or follows your company page and shares your product within their own network, send them a special code that allows them to access free shipping on their next order. This can give you broad, credible exposure to prospects you may not have reached otherwise.

OR

When Free Shipping Just Isn't an Option

Offer a faster delivery option in addition to standard delivery.

Offering expedited shipping can offset customer dissatisfaction over having to pay for delivery.



Tip: Promote a one-day turnaround time so that orders are ready to ship quickly, or offer free-shipping upgrades from ground to express. Offering customers free shipping on their next purchase is another effective way to encourage repeat business. Studies show that return customers are likely to spend more.

Offer flat-fee shipping.

Flat-fee shipping means that your customers pay one shipping rate, regardless of the actual shipping cost. For example, you could charge a minimum of \$10 per order instead of per item. This could act as an incentive for them to buy more items to include in a single shipment.



Tip: USPS® offers free Priority Mail Express® and Priority Mail Flat Rate® boxes and envelopes. Take advantage of this perk to help control shipping costs and reduce the cost of packaging materials.



Know What Works

Analyze your e-commerce shipping data and evaluate your results.

Whichever shipping policies you decide to implement, it's important to follow up and gather data so you can get a clear picture of what works and what doesn't. Make sure you test out your promotions one at a time so you can isolate the variables. To help you figure out which policy is best for your business, collect and analyze the following data:

- The percentage of users leaving your checkout page without completing payment.
- Increases in revenue against the cost of shipping fees.
- Repeat-usage levels: Increases indicate that your changes had a positive effect on collecting repeat customers.
- Customer reviews, to gauge which promotions led to the highest satisfaction.



Tip: Right after the purchase, present customers with a survey following checkout or via email to get feedback about their purchase experience. It's important to do this in a timely manner, while it's fresh in their minds. Be sure to ask about their shipping preferences and how alternate policies might impact their purchasing behavior.

Conclusion

A smart shipping strategy can help make this your most successful holiday season yet. Remember to test different tactics as far ahead of time as possible so that you find the most profitable option for your business.

Whether you decide to set a minimum threshold, include paid advertising in your packages or ask your manufacturers to ship directly, there are numerous ways your business can offset the cost of free or expedited shipping—and in turn, help you remain competitive.

Delivering the best possible experience for your customers, at the best possible price, can significantly boost your bottom line—not only during the holidays, but year-round.