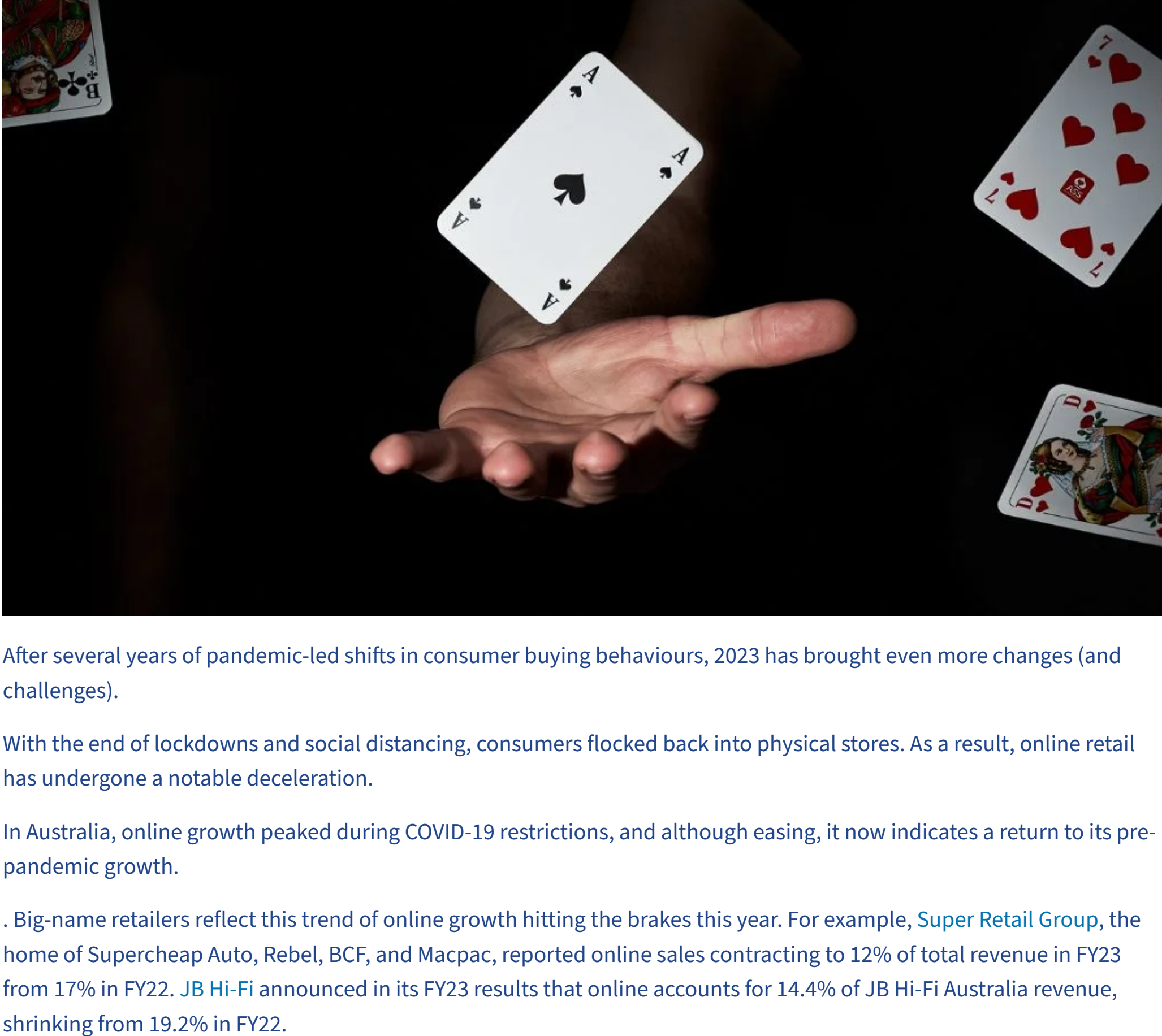# Shipping Strategy: Make Fast, Free Shipping Your Ace Card

August 31, 2023

After several years of pandemic-led shifts in consumer buying behaviours, 2023 has brought even more changes (and challenges).

With the end of lockdowns and social distancing, consumers flocked back into physical stores. As a result, online retail has undergone a notable deceleration.

In Australia, online growth peaked during COVID-19 restrictions, and although easing, it now indicates a return to its pre-pandemic growth.

Big-name retailers reflect this trend of online growth faltering the brakes this year. For example, Super Retail Group, the home of Supercheap Auto, Rebel, BCF, and Macpac, reported online sales contracting to 12% of total revenue in FY23 from 17% in FY22. JB Hi-Fi announced in its FY23 results that online accounts for 14.4% of JB Hi-Fi Australia revenue, shrinking from 19.2% in FY22.

At the same time, inflation and cost-of-living pressures are driving more strategic consumer buying behaviours. For example, leading up to the end of the 2023 financial year, Australia Post reports that EOFY sales saw a 7.3% increase, and ClickFrenzy drove a 3.5% lift over sales compared to the week prior. Despite these sales-driven increases, shoppers' average basket sizes dropped by 6% in 2023 to just $105. Shoppers are now watching to wait for sales events and are thinking about what they actually need in their online carts before reaching the checkout.

A recent BigCommerce study reveals that for 91% of shoppers, expensive shipping is now the number one reason preventing them from making a repeat purchase with an online retailer. 75% of shoppers also say that fast shipping encourages them to make repeat purchases.

Online retailers are facing challenges from multiple directions and rapidly changing consumer behaviours. So, it's more critical than ever to examine the lasting impression that the last mile of the customer journey can have.

In this article, we'll look at how your fulfilment strategy and fast, free shipping can become your ace card – particularly when you're unsure of the next hand you'll be dealt.

Meeting Your Customers' Expectations of Shipping Costs
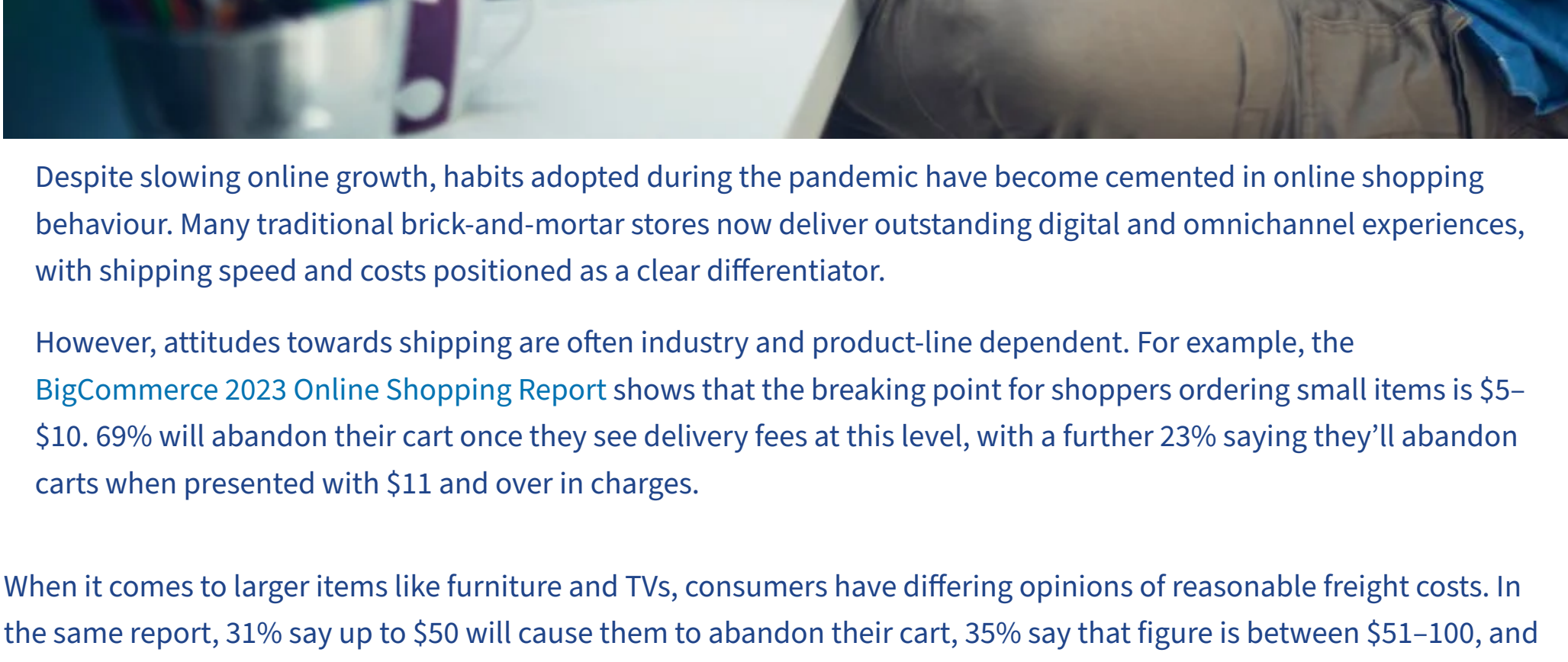
Despite slowing online growth, habits adopted during the pandemic have become cemented in online shopping behaviour. Many traditional brick-and-mortar stores now deliver outstanding digital and omnichannel experiences.

However, attitudes towards shipping are often industry and product-line dependent. For example, the BigCommerce 2023 Online Shopping Report shows that the breaking point for shoppers ordering small items is $5–$10. 69% will abandon their cart once they see delivery fees at this level, with a further 23% saying they'll abandon carts when presented with $11 and over in charges.

When it comes to larger items like furniture and TVs, consumers have differing opinions of reasonable freight costs. In the same report, 31% say up to $50 will cause them to abandon their cart, 35% say that figure is between $51–100, and 34% say it's over $100.

How can you be sure about your customers' expectations of fulfilment costs? The only way is to ask them.

Customer surveys are a perfect way to gain first-hand feedback. Tools like SurveyMonkey or Google Forms can help you collect information from your shoppers to help determine the right strategy for your business.

Consider Building a Strategy Around Free-Shipping Thresholds

As cost-of-living pressures continue to squeeze consumers' wallets, many retailers have seen decreases in average order values (AOV). The BigCommerce 2023 Digital Payments Report shows that low-value transactions are becoming more common in 2023. While online purchases between $100–$500 and over $500 have both fallen 4% from 2021–2023, orders under $100 have increased by 8%. Notably, orders between $20–$50 have surged 7% in the same period.

AOV has contracted noticeably in 2023, with Australia Post reporting average basket sizes dropping by 6% YoY to just $105. However, free shipping thresholds can help you put your AOV back in line.

Shoppers in 2023 are actively looking for opportunities to save. By offering free delivery to your customers after they reach a specific cart size, you can encourage them to bump up their spending to save on shipping.

Before setting up free shipping thresholds, it's critical to understand your breakeven point – where your revenue and costs become equal. Above this point, it becomes logical to offer free shipping. Remember that the breakeven point has also shifted for many retailers recently due to rising supply chain, manufacturing, and product costs.

To estimate your free shipping threshold, determine the following information:

- Your Average Order Value (AOV) without any shipping costs associated, e.g. $96.
- Your average shipping cost (the cost to your business), e.g. $7.50.
- Your gross profit margin, e.g. 40%
- Your proposed free shipping cart size / minimum order value, e.g. $100.

Now you can put your minimum order value to the test.

- Calculate the difference between your **proposed min cart size** and your **average order value**, e.g. $100 – $96 = $10
- Multiply the difference by your **gross profit margin**, e.g. $10 x 0.40 = $4.00.
- Lastly, subtract your **average shipping cost**, e.g. $7.50 - $4 = $3.50

In this instance, your business will has to pay a reasonable $3.50 to ship each order above the free shipping threshold of $90. If you lower the threshold, you will increase your shipping costs for each order, and vice versa.

It's advisable to test out your free shipping threshold before committing to a long-term strategy – and review your calculations as costs increase or decrease and average order values change.

Rewarding Your Customers with Free Shipping
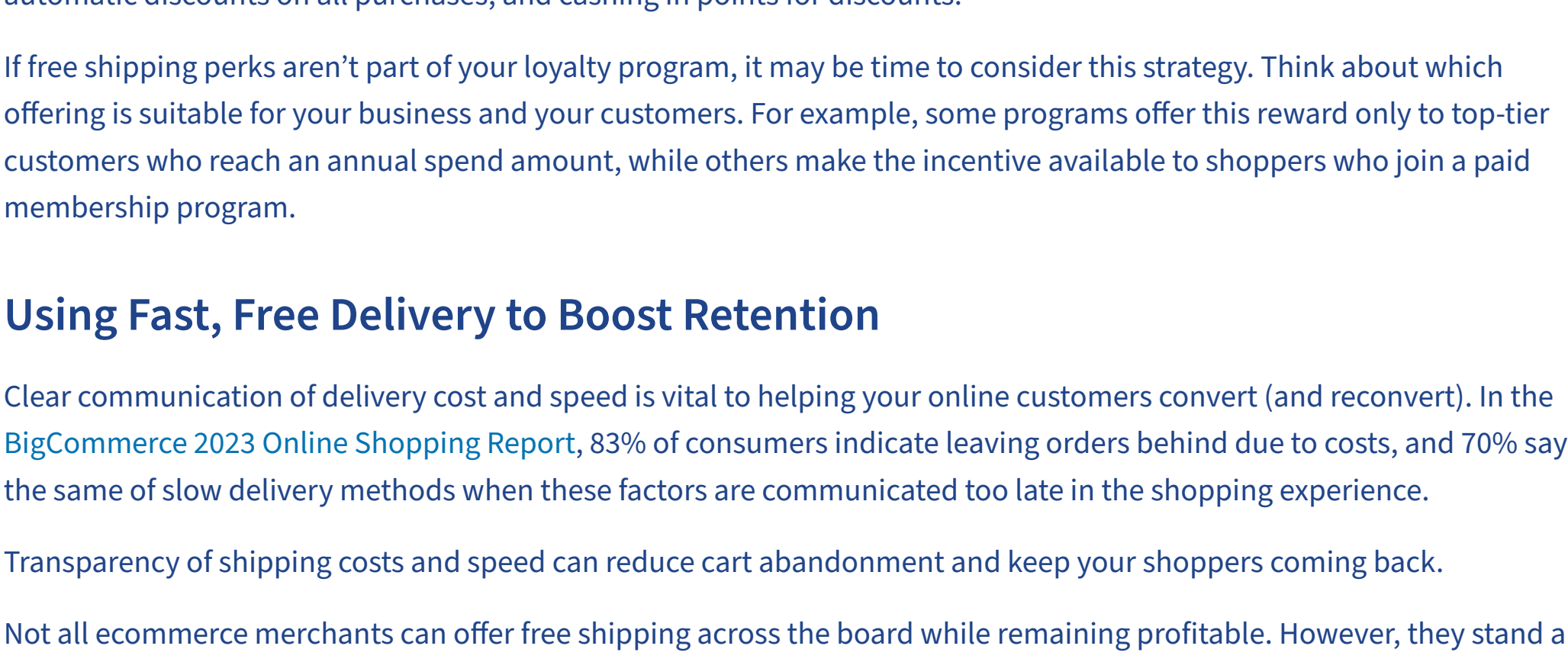
Loyalty and membership programs are proven to increase customer lifetime value and boost revenue. Australian omnichannel retailer Michael Hill recently revealed in its FY23 results that its loyalty members show 34% more transactions per customer, 70% higher average transaction value, and attribute around 82% of total sales.

By including free shipping in your rewards and loyalty programs, you can cater to consumer preferences while keeping control of profit margins. The BigCommerce 2023 Online Shopping Report shows that 80% of shoppers want free shipping as a loyalty program reward. Notably, there's a considerable drop between free shipping and the next-most favoured rewards.

Almost tied in second, third, and fourth places (between 56%-57% each) are the ability to redeem points for products, automatic discounts on all purchases, and cashing in points for discounts.

If free shipping perks aren't part of your loyalty program, it may be time to consider this strategy. Think about which offering is suitable for your business and your customers. For example, some programs offer this reward only to top-tier customers who reach an annual spend amount, while others make the incentive available to shoppers who join a paid membership program.

Using Fast, Free Delivery to Boost Retention

Clear communication of delivery cost and speed is vital to helping your online customers convert (and reconvert). In the BigCommerce 2023 Online Shopping Report, 83% of consumers indicate leaving orders behind due to costs, and 70% say the same of slow delivery methods when these factors are communicated too late in the shopping experience.

Transparency of shipping costs and speed can reduce cart abandonment and keep your shoppers coming back.

Not all ecommerce merchants can offer free shipping across the board while remaining profitable. However, they stand a good chance of reeling customers back in when using fast, free delivery as an ace card in their customer retention strategy.

The preise Inside the Mind of the Online Shopper study shows that 68% are more likely to shop regularly with brands that offer shopper incentives such as free gifts and free shipping.

By running a limited offer built around free delivery incentives, you can gain first-hand information on the effectiveness of this approach for your brand and your customers. Also, consider whether one-off incentives work better for your business, such as sending customers free shipping offers as a birthday or anniversary perk. When you show shoppers a little extra love, you may capture their hearts (and wallets) for the long-term.
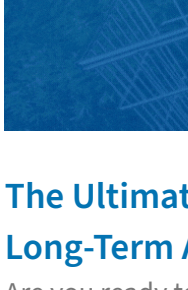
Efficiently Managing the End-to-End Experience
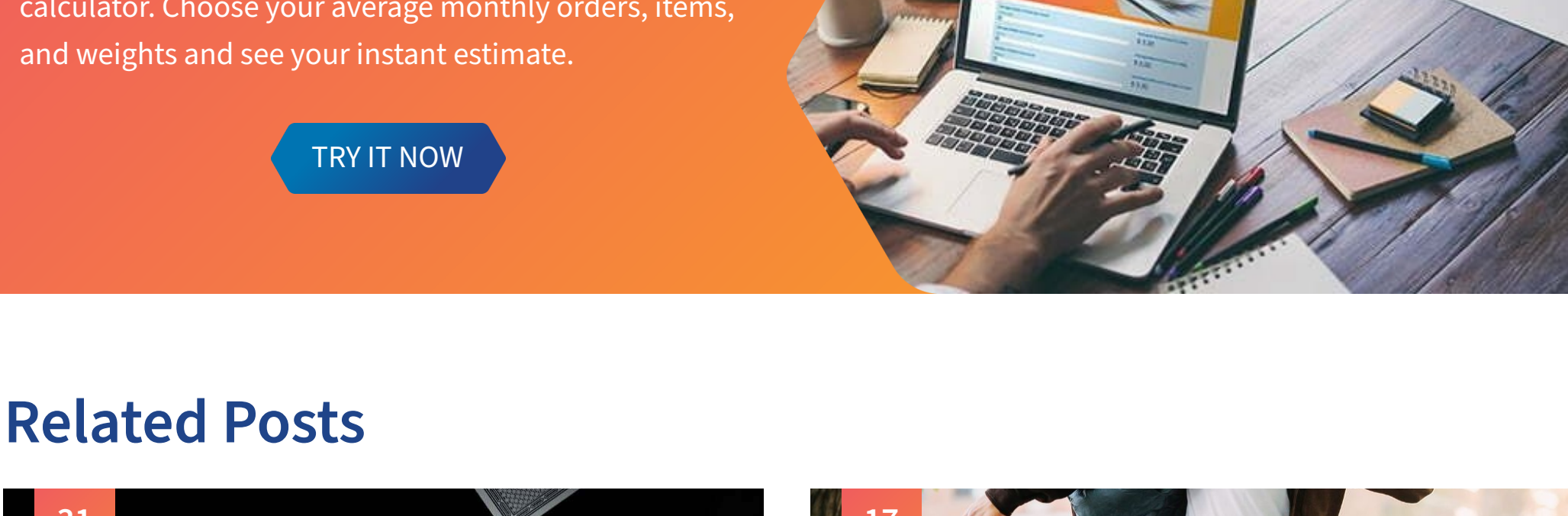
The Australia Post Quarterly Ecommerce Update reveals that 69% of shoppers think free delivery will become a more important part of their online shopping habits, with 27% also saying they will use online retail subscriptions more because it saves on delivery.

It takes significant effort and maintenance to ensure that the last mile of the customer journey always delivers on expectations. However, there are more efficient ways to manage the end-to-end experience.
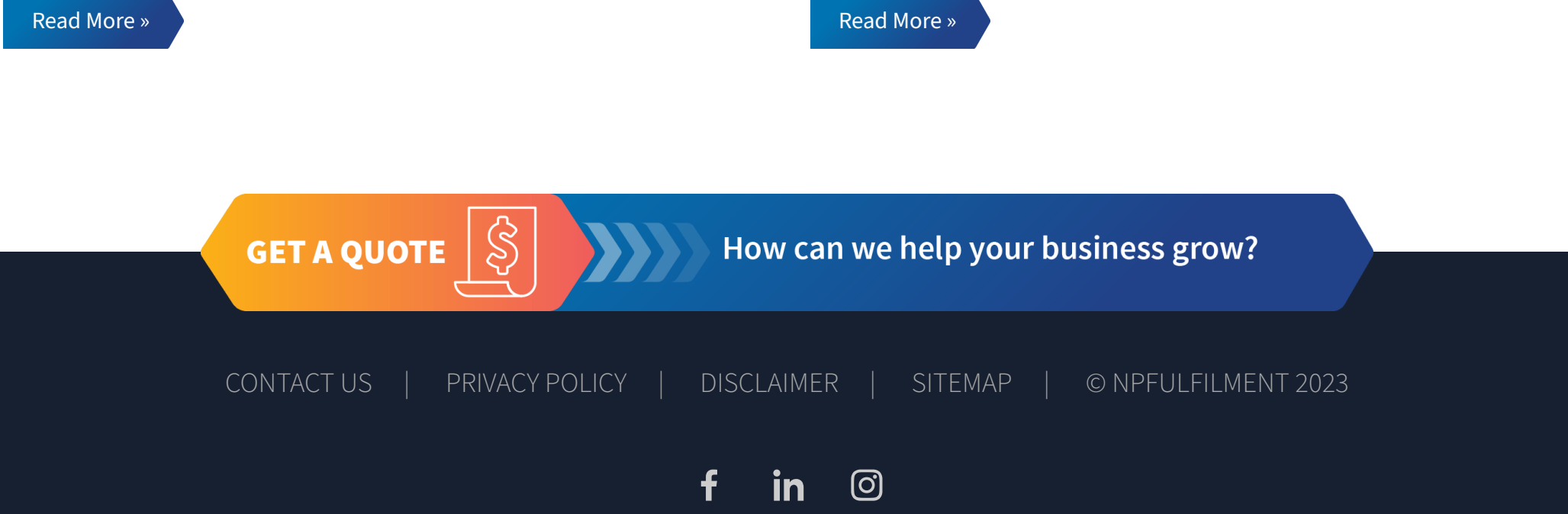
By partnering with a 3PL (third-party logistics) provider, you can leave a positive impression of your brand with every order.

NPFulfilment is one 3PL technology partner that can help your online store gain a significant competitive advantage with fast and accurate delivery, real-time visibility and control of your inventory, and complete returns management.
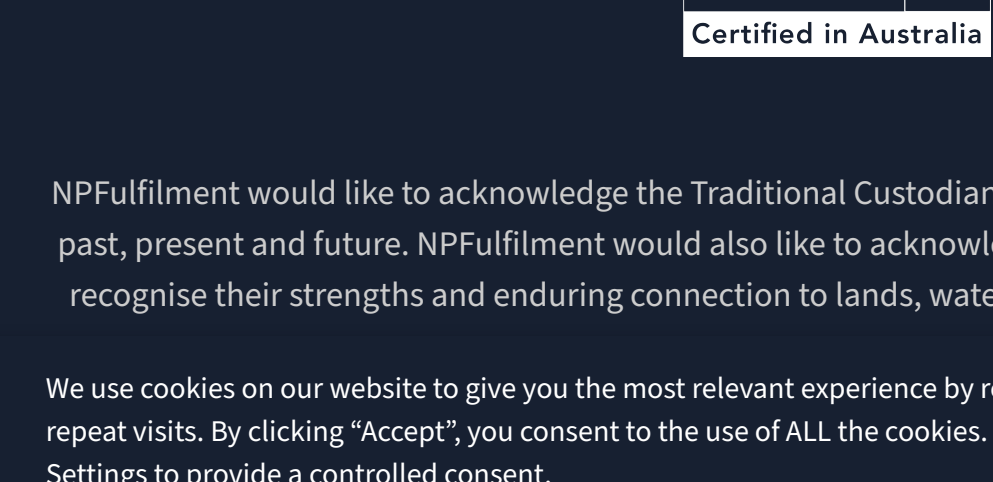
Find out how you can affordably accelerate your ecommerce growth with your instant 3PL pricing estimate, or get in touch with a fulfilment expert at NPFulfilment.

Luke James
COO, NPFulfilment

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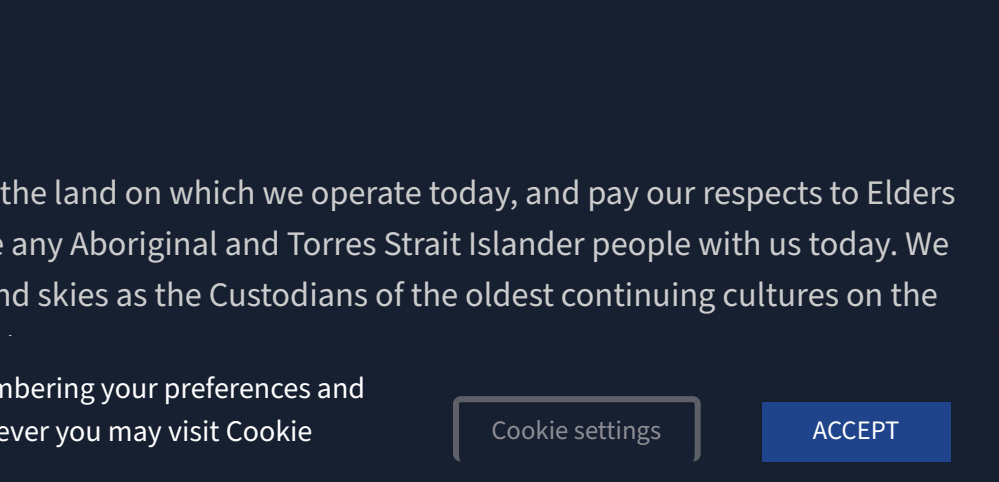
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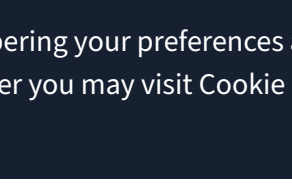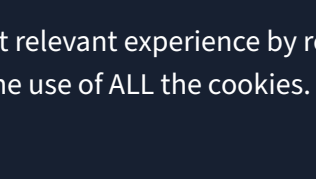
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