

## Future of Free Freight

### Question

# What is the future of free freight for the retail companies in America

### Answer

Free shipping continues to be an important factor for consumers when making online purchases, with over two-thirds of consumers saying they wouldn't consider buying from a retailer that didn't offer free shipping. However, the costs associated with providing free shipping are putting pressure on retailers, and there are signs that free shipping may be becoming less available.

Many retailers are having to grapple with whether to raise the minimum order value required to qualify for free shipping or find other ways to offset the increasing costs of shipping. Factors like rising carrier fees, inflation, and the need to provide fast and efficient delivery are making it more challenging for retailers to maintain free shipping policies.

That said, free shipping remains a competitive advantage and a key part of the customer experience for many retailers. Brands are exploring ways to reduce shipping costs through strategies like opening their own fulfillment centers, optimizing packaging, and negotiating with carriers. Some are also using loyalty programs and other incentives to offset the costs of free shipping.

Overall, it seems while free shipping is still the norm in the retail industry, its future may be less certain as retailers balance customer expectations with the financial realities of providing it.

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## Question

# How do retail companies calculate the cost of offering free shipping

## Answer

Retailers need to carefully consider their free shipping strategy to ensure it does not negatively impact their bottom line. The key is to find the right balance between customer expectations and profitability.

Here are the main steps retailers can take to calculate the cost of offering free shipping:

1. Calculate the Average Order Value (AOV) without shipping costs. This gives you the typical order amount from customers.
2. Determine the Average Shipping Cost per order. This includes the direct costs of packing materials and carrier rates.
3. Calculate the Gross Profit Margin. This is the total sales minus the cost of producing the products, divided by total sales.
4. Set a Proposed Amount Minimum for free shipping that balances customer expectations and profitability. Use the formula:  $((\text{Desired Revenue Amount} + \text{Average Shipping Cost}) / \text{Average Gross Profit Margin}) + \text{Average Order Value}$ .
5. Consider building the shipping cost into the product prices instead of offering it as a separate fee. This can increase the AOV and net margin per order.<sup>2</sup>
6. Negotiate discounted shipping rates with carriers by shipping in larger volumes. The more you ship, the better the discount.
7. Optimize packaging to reduce dimensional weight and lower shipping costs.<sup>4</sup>
8. Offer free shipping promotions or set a minimum order threshold to incentivize customers to spend more.

The key is to carefully analyze the metrics and find the right balance between customer expectations and profitability when offering free shipping.

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