



Is the price right?

Designing an effective shipping pricing strategy



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How online shoppers respond to shipping costs: a challenge for merchants

A significant percentage of Canada's online shoppers reach the checkout only to be deterred by shipping costs. Research shows that 64 per cent of shoppers abandoned their carts in the past due to "shipping costs [being] too high." Conversely, 70 per cent of shoppers would shop more often with a merchant if they were offered free shipping with a minimum purchase.

The online space represents an enormous opportunity for Canadian merchants. Roughly 8 in 10 Canadians are shopping online, and their online spend is both increasing and benefitting sellers of a wider variety of goods. Opportunity clearly beckons.

However, if they are to succeed, merchants must recognize that shipping can be a major driver of their success or failure; it cannot be an afterthought. That said, many merchants struggle to find the right balance when it comes to shipping costs. Merchants must weigh competing goals: reducing or removing potential barriers to purchase versus managing their expenses and maximizing their margins. Guesswork alone will not achieve this and competition is a constant threat to perfecting such a strategy. Merchants have to ask themselves questions such as "what is the optimal minimum purchase threshold for my business?" and "can I increase the shipping fee by even \$1 or \$2 without significantly increasing cart abandonment?" The answers are important – but arriving at answers requires data, experience and judgment.

Ideally, a shipping strategy will be as customer-centric as the rest of the business. By understanding how online shoppers respond to shipping costs and options, merchants can adopt and adjust their shipping strategy with confidence.

This proprietary research makes it possible to anchor a shipping strategy in how customers will respond to it. It will help merchants to better identify opportunities to optimize shipping policies around fees, minimum purchase thresholds and speed.



64% of shoppers abandoned their carts in the past due to high shipping costs.



"Customers want free and fast shipping. The biggest challenge is remaining competitive, while both meeting the demands of the customers and managing their expectations."

Large Canadian merchant

Specifically, merchants may have opportunities to:

- Offer free shipping by optimizing their minimum purchase threshold to increase conversion rates and/or average basket sizes;
- Adjust shipping fees to incrementally offset shipping costs;
- Use shipping to drive sales by offering different delivery speeds and promotions such as free shipping with no restrictions.

Our key findings at a glance:

<p style="text-align: center;">1</p> <p>Free shipping is a table stake.</p> <p>Conversion rates drop by as much as 50% if free shipping is not offered. Shoppers are cross-shopping shipping policies and are likely to go elsewhere if "free" isn't offered somewhere in your policy.</p>	<p style="text-align: center;">2</p> <p>Free shipping with minimum purchase can increase average basket sizes.</p> <p>40% to 60% of shoppers are willing to top up their cart* to qualify for free shipping. But don't just set it and forget it; adjusting your minimum purchase threshold can drive or improve conversion and help you offset the cost of shipping.</p>
<p style="text-align: center;">3</p> <p>Shoppers' willingness to pay for shipping is primarily influenced by:</p> <ul style="list-style-type: none"> • Value of purchase; • Availability and accessibility of free in-store pickup; • Availability of product and affinity to merchant/brand. 	<p style="text-align: center;">4</p> <p>Shipping can be used as a promotional tool to drive sales.</p> <p>Online shoppers respond to, and sometimes wait for, promotions such as free shipping with no restrictions and faster shipping options. Merchants should consider these promotions as a marketing investment.</p>

Conversion rates drop by as much as 50% if free shipping is not offered.

Notes

- Rather than a standard e-commerce conversion metric, the conversion numbers discussed in this research look at the point a shopper decides to purchase based on the shipping fee, delivery speed and top-up requirements.
- The numbers presented in this research do not reflect individual merchant average basket sizes and margins.

* Shoppers are willing to top up to \$50 or \$75.



Key finding

Free shipping: a no-brainer

The number of merchants who offer free shipping is climbing rapidly in response to shoppers' expectations and the intense competition in e-commerce. Free shipping certainly reduces cart abandonment: when it is not offered, conversion rates can drop by as much as 50 per cent.

Of course, while the old adage says the good things in life are free, shipping is not: someone always pays. Either the shopper pays in higher prices that cover the cost, or the retailer pays in the form of reduced margins, or both parties share the cost.

Expectations of free shipping are rising.

66%

of online shoppers will sacrifice fast shipping for free shipping

52%

will buy from competitors who offer free shipping

33%

will delay their purchase in anticipation of a free shipping offer



"You have to go in with some sort of free [shipping] offer with customers – it's the only way they're going to convert."

Large North American merchant

And the market is responding to shoppers' expectations of free shipping.

Among Canada Post's top 100 e-commerce merchant customers:

56%

offer free shipping

48% 8%

require a minimum purchase

offer free shipping with no restrictions

24%

offer flat-rate shipping

20%

calculate shipping at checkout

56% of Canada Post's top 100 e-commerce merchant customers offer free shipping.

The number of merchants offering free shipping is on the rise.

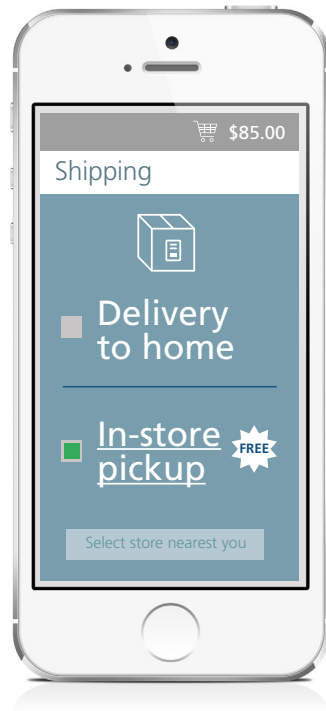
42%

2014

56%

2015

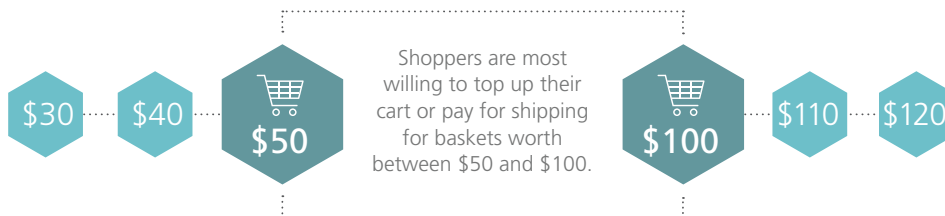
But it is possible to offer free shipping without giving it away. Many merchants are leveraging minimum purchase thresholds to mitigate the cost of offering free shipping. In fact, this approach is now the most common standard shipping offer across e-commerce categories.



Key influencers on shoppers' willingness to pay for shipping

Beyond the cost of shipping, three key attributes impact shoppers' willingness to pay for shipping or top up their cart to qualify for free shipping. Consider whether these attributes apply to your business:

1. **The value of the purchase.** Shoppers are most willing to top up their cart or pay for shipping for baskets worth between \$50 and \$100. Shoppers are more willing to top up a cart when shopping in the following retail categories: consumer electronics and home décor/housewares/small appliances.



2. **The availability and accessibility of free in-store pickup.** Up to 25% of shoppers would select in-store pickup if the option is free and the pickup location is convenient. Offering free in-store pickup can help save the sale and drive traffic to the store.
3. **The availability of a product and affinity to the brand or merchant.** Shoppers respond to exclusivity and availability. The combination of the product or brand being exclusive and the shopper expressing a strong affinity to one or the other can drive a lift of up to 9% in conversion, regardless of the shipping policy.

Common shipping scenarios: what happens to conversion?

“What if I do...?” is a common question for merchants planning a shipping strategy. How will shoppers respond to this or that approach?

The data presented below offers a starting point. While it reflects some assumptions, it is research-based. It builds on the responses of thousands of Canadian online shoppers. To find your business’s sweet spot, we recommend you apply this research thoughtfully, adjusting it to your particular circumstances, and monitor your results closely.

Each scenario section asks a common question:

1 What is the ideal flat rate for shipping?

2 What happens if you introduce free shipping with a minimum purchase?

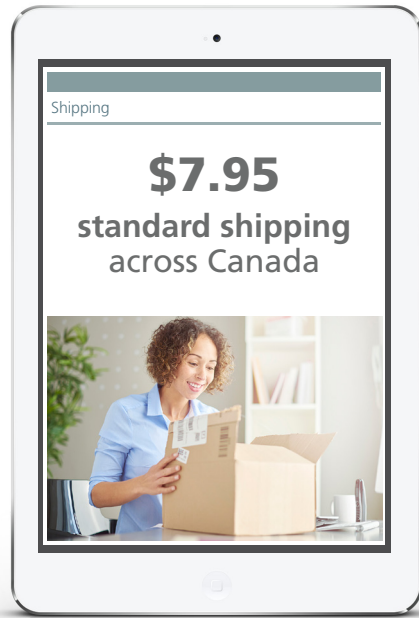
3 What happens if you adjust your existing minimum purchase threshold?

4 What happens if you promote free shipping with no restrictions during a key shopping period?

Each question is answered from the perspective of two merchant types:

- First, for merchants with an **exclusive product mix** and the shopper has a strong affinity to the merchant or brand.
- Second, for merchants whose product mix is **widely available** and the shopper has a low affinity to the merchant or brand.

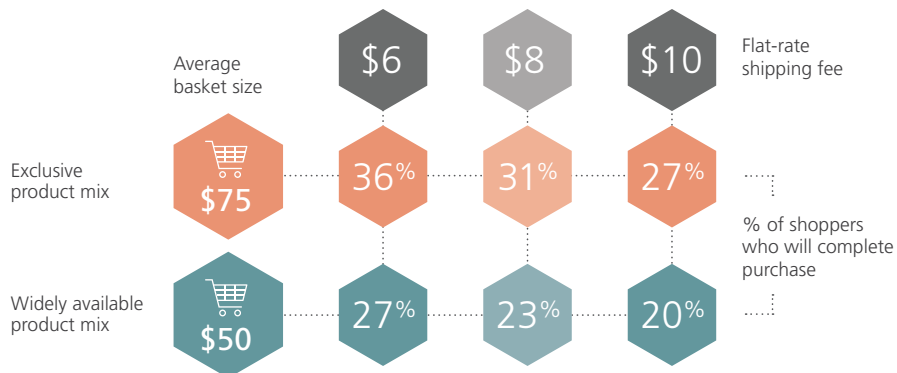
These two merchant types represent the greatest difference in shoppers’ expectations and willingness to pay for shipping. Again, the examples are across categories, rather than anchored within a specific e-commerce category.



Common shipping scenarios:

1. Find the ideal flat rate

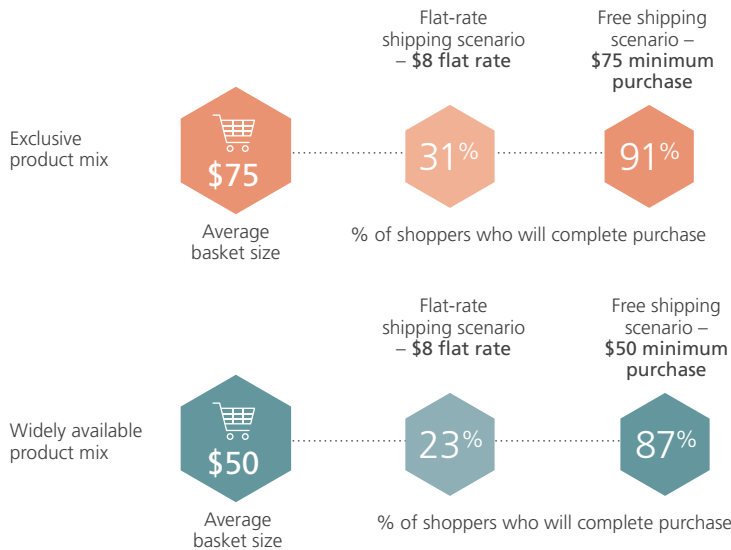
If you're one of 24% of merchants who offer flat-rate shipping, are you leaving money on the table? \$8 is the average flat-rate shipping fee across the market. What happens when you shift your current flat-rate shipping fee up or down \$2?



If you lower the flat-rate shipping fee, it's likely that your conversion will go up and vice versa. Consider the impact to conversion as you determine by how much you want to change your flat-rate shipping fee. Consider whether the change in conversion and the resulting impact on total fees collected offsets your shipping costs.

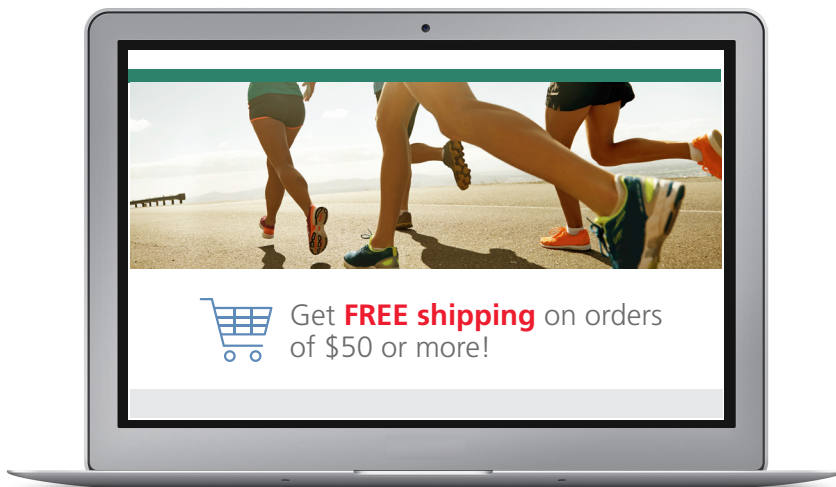
2. Introduce a minimum purchase threshold

If you currently have a flat-rate shipping fee, have you wondered what will happen to conversion if you introduce free shipping with a minimum purchase threshold? Is it enough to offset the cost of shipping?



It's common for merchants to set their minimum purchase threshold at or around their average basket size with the likely outcome of increased revenues, helping to offset the cost of shipping. Where shoppers previously had to pay a flat rate for shipping, the majority now qualify for free shipping, which should result in a significant increase in conversion. When setting a minimum purchase threshold, it's recommended that you consider your margins to ensure the cost of shipping is offset.

The next scenario showcases what happens if you set the minimum purchase threshold higher than your average basket size.





3. Adjust an existing minimum purchase threshold

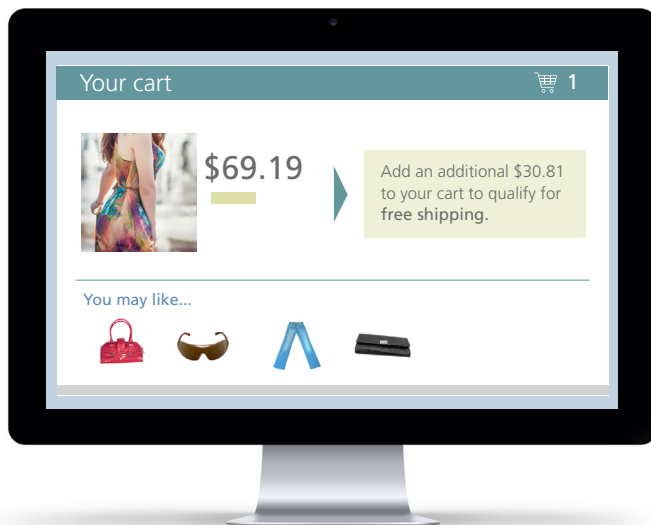
You've already implemented a minimum purchase threshold, but can you grow your average basket size by incrementally increasing that threshold?



“It’s important to find that sweet spot between a threshold that’s too high, where some people psychologically will not purchase, and one that’s too low, which reduces the average basket size. There’s an obvious cost associated with offering free shipping and thus finding that sweet spot is important for a sustainable business model. It’s a matter of testing and trying things out.”

Enrico Del Grande,
Head of e-Commerce,
Fruits & Passion and
THEFACESHOP

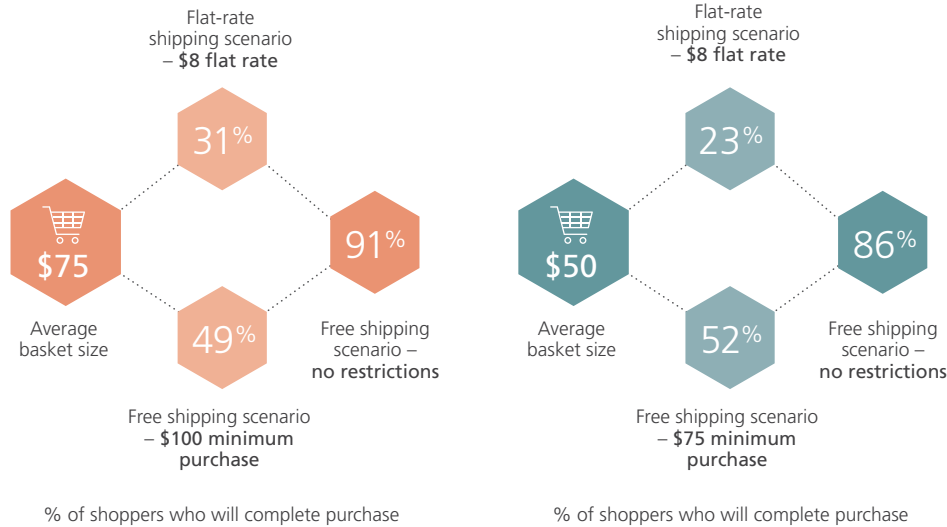
Increasing your threshold will likely decrease your overall conversion yet grow your average basket size. For example, if you are a merchant with an exclusive product mix, moving your minimum purchase threshold from \$75 to \$100 will drop your conversion from 91% to 49%, but that breaks down to 25% of shoppers who will extend their basket an extra \$25 to get free shipping. You must ask yourself, “is the increase in average basket size enough to offset the decrease in conversion?”





4. Use free shipping, no restrictions strategically

For many merchants, it's not realistic to offer free shipping with no restrictions year-round, yet many implement this strategy during key selling periods. What happens if you introduce free shipping with no restrictions during a peak shopping period such as the holiday season?



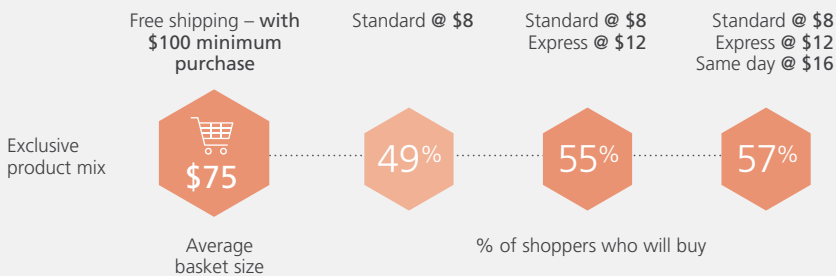
"Customers tell us they want free shipping, but we find they are also willing to pay for it – as long as there is perceived value."

Chris Parsons,
Omni-channel Strategist,
Big Al's Aquarium
Supercentres

Implementing free shipping with no restrictions is a perfect opportunity to expose your brand to a new segment of shoppers during peak selling periods such as the holiday season or back to school, when they are engaged and ready to buy. Don't forget to promote this strategy to draw new eyes to your site and create additional selling opportunities. Be aware, however, that this would be a marketing investment and not an immediate money-maker. While this short-term promotion means you'll likely experience eroding margins and a decline in your average basket size, consider the benefit of infusing your business with an increased selling opportunity during crucial selling periods.

Shipping speeds: faster options drive sales

4-13% of shoppers are willing to pay for faster shipping options ranging from same day to 2 day; are you serving them?



Adding options for express and same-day shipping improves conversion by catering to shoppers' willingness to pay a premium for speed. As well, some shoppers who qualified for free standard shipping may choose to pay for faster shipping options, reducing the impact on your bottom line from subsidizing free shipping.

Conclusion

These findings can help merchants to optimize revenue, boost conversion rates, improve the end-to-end shopping experience and even enhance their brand. Below is a step-by-step approach to applying the findings.

- ✓ **Assess your current state.** Look earlier than your checkout page. Shipping policies are so important that many shoppers will appraise your shipping policy as they shop, with 64% saying they have abandoned their shopping journey over shipping costs in the past. Understanding your level of drop-off at areas like your shipping information page is important. Does it indicate that your shipping rate is too high?
- ✓ **Appraise your margins.** Do they offset your current shipping costs? If not, you may want to increase your shipping fees, introduce a minimum purchase threshold for free shipping, or change your minimum threshold for free shipping.
- ✓ **Implement, test and evaluate.** This study has given you insights into shopper behaviour and preferences. While the numbers shown are across categories, they will give you a sense of the degree to which changes in shipping policy or pricing trigger responses among shoppers. Once you decide and implement your policy, you can test, evaluate and then optimize it, based on the conversion rates and other results you see over time.

Tip: A/B testing is a common and useful tool to evaluate the effectiveness of any changes to your strategy.
- ✓ **Offer choice.** Shoppers want options. Catering to the varying needs of your shopper base through a mix of shipping fees and speeds can provide significant impact to your conversion, especially during peak selling periods. The added bonus? The number of shoppers who are willing to pay a premium for the convenience of such options can help offset your own shipping costs.

Talk to us about this research to learn more about how it applies to your business.

Get in touch

canadapost.ca/GetInTouch



About Canada Post

As the leading parcel delivery company in the country, Canada Post delivers nearly two of every three parcels consumers order online. Canada Post works hand-in-glove with merchants, large and small, offering solutions that provide a superb end-to-end customer experience and greater convenience for their online shoppers.

Research methodology

To understand which combination of shipping options Canadians prefer, Canada Post commissioned research to present online shoppers with realistic shipping scenarios, asking them to select the shipping option they found most appealing.

Our analysis resembled a real online shopping experience as much as possible: each shipping option on the menu had a specific context, including the category and specific attributes of the product being purchased. Shoppers were asked to evaluate a category only if they had made an online purchase in that category before. The categories were:

- Apparel, footwear and accessories;
- Consumer electronics (excluding oversized and large items);
- Health and beauty;
- Housewares and small electronics;
- Toys and sporting goods (excluding oversized and large items);
- General merchandise (all respondents were deemed to qualify);
- Oversized/Heavy items (that do not fit in a standard vehicle and/or weigh more than 70 lbs).

The hypothesis in exploring the above categories was that there might be a notable difference in shopper responses. However, there was no significant difference. Shoppers expressed similar preferences and behaviours across the categories. For this reason, the data shown here looks across all categories.

Online shoppers were shown three shipping options, which included the shipping rate, delivery timing and the minimum purchase requirement. In some cases, the shopper saw a fourth option: free pickup from a local store. The findings will help merchants to better understand the impact of attributes that determine online shoppers' willingness to pay for shipping. These attributes include:

- The value of the product;
- The type of product;
- The availability of that particular product;
- Brand affinity;
- Delivery alternatives or speed of delivery.

The research was a custom quantitative study using a conjoint methodology. It was conducted from August 24, 2015 to September 1, 2015 on Ipsos Reid's online iSay panel. Respondents were Canadians 18 years old or over who had made an online purchase in the last year that required delivery. The total sample was n = 4,037.



Online shoppers were shown three shipping options, which included the shipping rate, delivery timing and the minimum purchase requirement.

