



Free Delivery



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THERE'S NO SUCH THING AS

**FREE...**

**OR IS THERE?**

**This mid-year survey of e-commerce free shipping strategies analyzes their impact on the parcel industry** **By Ron Wiener**

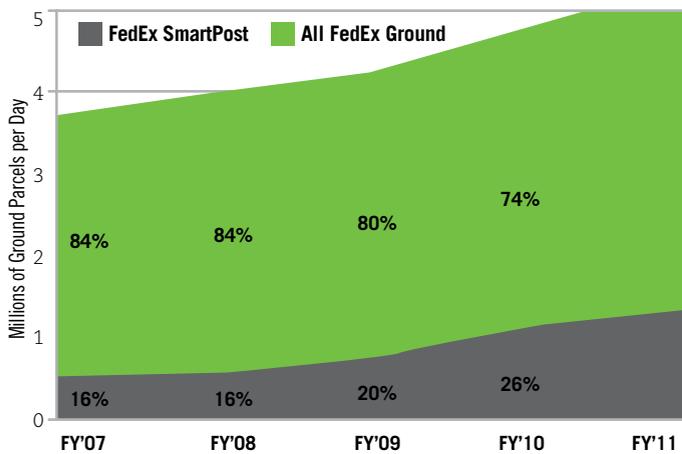
Free shipping continues to be the #1 sales promotion device employed by the top 100 e-tailers, and the trend continues to expand steadily. In this mid-year re-survey of the field we've discovered that an astonishing 62% of online retailers now offer some form of free shipping.

#### **Tectonic Shifts in the Parcel Industry**

As the free shipping trend continues, the parcel carriers are experiencing at least two enormously consequential changes to their businesses. The percentage mix of residential-addressed versus commercial-addressed parcels is rapidly approaching the 50% mark. FedEx announced in its 4<sup>th</sup> Quarter FY2011 results that the SmartPost postal consolidator division has been experiencing 24% growth in daily volume, delivering an astounding 1.43 million parcels per day. Major e-tailers are clearly flocking to postal consolidators in order to remain competitive with free shipping offers.

With nearly a third of FedEx's parcels now being delivered to the household by a USPS carrier — and increasing steadily — the importance of preserving the USPS's financial solvency has taken on a whole new meaning for the private carriers who both compete and partner with the Postal Service in the parcel business. The 13 postal consolidators, including FedEx SmartPost, UPS SurePost, DHL Global Mail, Newgistics, Streamlite and Blue Package Delivery, are wholly dependent upon USPS's continued viability to process millions of their daily parcel deliveries. Inherently the USPS enjoys the lowest operating cost for final-mile delivery to residential addresses, and the major carriers, as well as the major e-tailers who have the qualifying volumes required to use a consolidator, have been figuring it out. *See Figure 1.*

## E-commerce Driven Growth in B2C Parcels Leads to Increasing Share of Postal Consolidations



**Figure 1:** So much of the growth in parcels over the past 5 years has been coming from residential e-commerce that FedEx currently drops 31% of its ground parcels into the USPS network for final-mile delivery (as of Q4/FY'11).

### The Existential Threat to Smaller Online Merchants

We see from the carrier data that major e-tailers (generally those with 300+ shipments per day) have been gradually figuring out that they can reduce their shipping costs dramatically by switching their residential (“B2C”) deliveries to any number of postal consolidators. This is a terrific development for consumers who like to shop the major brands, for sure.

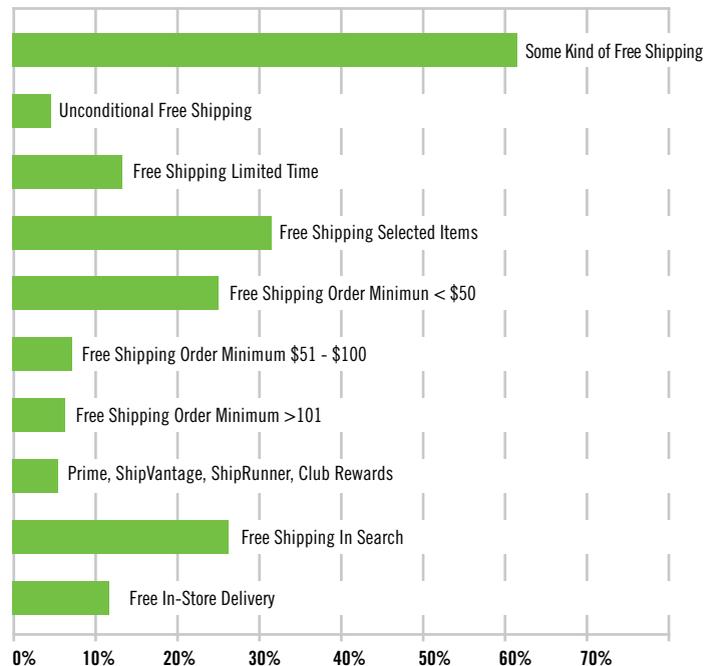
But a healthy retail ecosystem must also continue to allow smaller merchants to thrive, and this is becoming more and more difficult against the backdrop of free shipping offers and rapidly increasing shipping costs. While consumers may love their free shipping deals from Amazon, they (and Amazon itself) may not love the withering numbers of viable small third-party merchants that sell through the Amazon Marketplace, eBay and many other outlets on the Internet, as they struggle to compete against their larger brethren. Let us not forget the economic doom that a new Barnes & Noble store brought upon the neighborhood bookstore.

Not only do all merchandisers live off slimmer margins because they can't buy inventory in the same volumes as big box and major online sellers, they incur shipping costs approaching 4x, 5x or greater compared to the Amazons or Walmarts of the world. To add insult to injury, the new mantra chanted by the big players is “Free Shipping, and Fast!” With their fulfillment warehouses scattered throughout the world major retailers can ship by ground (“cheapest way”) and get the goods out to their customers in one to five days, whereas small merchants with a single fulfillment location — which in many cases is a garage or spare bedroom — have to make some of their customers wait potentially as long as two weeks or more for their parcels to arrive. Using a premium service like UPS Ground, FedEx Ground or Priority Mail may not be affordable, yet small retailers’ daily package volumes typically will not meet the minimum requirements for doing business with a postal consolidator.

The increasing gap between what major retailers and smaller online merchants pay for shipping, and the average speed with which they can deliver orders to their customers is spelling doom for many who can no longer endure such stiff competition. FedEx and UPS have continued to offer deep discounts to their largest customers every year (75% to 80% or more is not unheard of), making it up by consistently raising retail rates to smaller shippers by an average of 6%-7% per year. The unintended consequence of this duopoly flexing its formidable pricing powers, always in lock-step, has led to an increasingly untenable business climate for smaller merchants. Economics 101 tells us that this kind of situation is a set up for reducing consumer choice and creating an unhealthy retail ecosystem in the long run and perhaps should be of concern to federal anti-trust regulators. It certainly is something that Wall Street analysts have been paying a lot of attention to lately.

## INSIGHTS ON FREE SHIPPING TRENDS FROM H2'11

*On this refresh of our regular merchant survey we found a number of interesting sub-trends worth noting. The chart below breaks out several different forms of free shipping offers that are currently being employed by the top 100 e-tailers. We expect the entire chart to continue to move to the right as we make our way through the hyper-competitive 4th Quarter.*



**Figure 2:** First Half 2011 - Breakdown of Free Shipping Offers by the Top 100 E-tailers source: eShippingNews.org

- ▶ Search engines and online marketplaces like eBay and Amazon are getting ever-better at returning shopping search results including shipping prices. In addition, deal-hunting sites are starting to offer “free shipping” as a search criteria. A prime example is [www.freeshipping.org](http://www.freeshipping.org), which lets consumers search their database of over 4,000 merchants that have an active free shipping offer. Not to mention what Google, Yahoo, Bing, NexTag, PriceGrabber, Newegg and other engines will surface on the search term.
- ▶ Five additional merchants in the Top-100 have hopped onto the free shipping bandwagon: L.L. Bean (returning to their roots with 100% Free Shipping), Musician’s Friend, Blue Nile, 1800contacts.com and ShoeBuy. Many, like ShoeBuy, also offer free shipping on merchandise returns.
- ▶ Eleven merchants that did not offer free shipping on their home page did have free shipping offers when “free shipping” was searched for on their website’s search function. Of the 62 merchants offering some kind of free shipping, only 16 of them yielded search results when “free shipping” was searched for on their website’s search function.

- ▶ Four competitors to Amazon’s Prime membership program are now offered within the ranks of the E-commerce Top-100: Club Rewards, offered at \$19.95/year; Williams Sonoma Reserve, offered at \$30/year; and ShipVantage and ShipRunner offered at \$79/year. Each is trying to mimic Amazon’s famously successful Prime program, now in its sixth year.
- ▶ Barnes & Noble offers free express shipping on millions of items, with their Barnes & Noble Membership of \$25/year. They also have same day delivery in Manhattan.

Given the space limitations in this article I’ve included a link here to the full report (<http://eshippingnews.org/eshipping-survey-results>) for those readers who might be interested in deeper survey details or subscribing to our regular free survey reports. Also please feel free to email me at [ron@equaship.com](mailto:ron@equaship.com) if you have any questions about the survey results.

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