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## Who pays when item is shipped for free?

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Free Shipping! It's all the rage online this year as retailers make the best they can of the Christmas shopping season in a recovering economy.

Wal-Mart Stores Inc. of Bentonville is offering it on nearly 60,000 items with no minimum purchase through Dec. 20.

Rival discounter Target Corp. offered 900,000 items that could be shipped free if the customer spent \$50 or more through Saturday.

Gap Inc. also set the bar at \$50 for free standard shipping, unless you want it more quickly. The retailer's business includes Old Navy, Banana Republic, Piperlime and Athleta. If you're patient (seven to nine business days), it's free.

"It's expected," said Bob Phibbs, president and chief executive officer of The Retail Doctor, a consulting firm in Coxsack, N.Y. "You're teaching customers that this is a condiment. The danger is, the cost could be substantial for many companies."

Big retailers such as Wal-Mart and Target, he said, are likely to pressure their suppliers to lower their prices to cover the cost of delivery, with some success.

"And if it's a small independent retailer, it's going to come out of their jeans," he said.

It's a given that companies don't do things for free. That's not the way to stay in business.

"Somebody pays for it," said James Tenser, who runs consulting firm VSN Strategies in Tucson, Ariz., and has tracked online shopping since 1995.

At Wal-Mart, he said, "they have a relentless pursuit of driving cost out of the process." And delivery services, including UPS, FedEx and even the U.S. Postal Service, have figured out ways to reduce costs, he said.

"This is where vigorous competition probably serves the consumers well, and it's one of the reasons these low or no-cost offers can be made," Tenser said.

As for "free," he said, "That's all in the marketing semantics." The business model doesn't require that every item is profitable, he said.

Online shopping site Zappos was among the first to offer free delivery, but it was done as a surprise for select customers, said Carol Spieckerman, retail consultant with newmarketbuilders in Bentonville.

“Then, of course, customers very quickly started expecting it,” she said. “The game changer, though, is when retailers like Wal-Mart are doing it ... shipping is no longer going to be a game or a profit center for retailers.”

She sees a transition to shoppers viewing online shopping much the same as in-store.

“Online and brick-and-mortar, the holy grail is for those to become sort of a seamless, blurred channel,” she said.

Lee Peterson, executive vice president for creative services for WD partners in Dublin, Ohio, said shipping costs have always been an “inhibitor” from the shopper’s point of view.

Consumers are smart enough to know that if they are buying, in-store, a product manufactured in China, the cost of shipping the product is built into the price, he said. Remove shipping charges to customers, he said, and online purchases are likely to rise even faster.

Peterson said retailers can make their margins in categories other than the items they ship for “free.” It’s not significantly different than a buyone, get-one-free promotion, he said.

“More than anything, the customer never likes to be told, ‘I’m going to charge you for these things that you’ve always gotten for free,’” he said. Retailers can build the cost into price as they currently do with MasterCard or Visa fees, he said.

And if sales increase because of “free” shipping, he said, that drives down costs, saves the company money and increases profits.

“But eventually, from my experience as a merchant, the manufacturer is going to end up with all those costs,” Peterson said. Those manufacturers will respond by refining their process to become more efficient, and “the cost of shipping goes away,” he said.

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