



CFOs: THE REAL COSTS OF FREE SHIPPING

In today's marketplace, free shipping has become common for both B2C and B2B purchases. Many customers expect free shipping, especially on orders exceeding a threshold purchase. As a result, offering free shipping has become almost necessary to stay competitive. But smart CFOs understand that "free shipping" isn't free — it's the shipper absorbing the costs.



The Hidden Costs

Efficient shipping is essential to the customer experience — delayed or damaged goods can mean lost business. Free shipping can drive purchase decisions and attract customers, but it doesn't contribute to increased profits. Companies must evaluate whether their margins can absorb these costs and ensure proper adherence to policies. If not, they risk a loss transaction on each of those orders. It is advisable to initiate a profitability review of these policies and be sure to have financial operations personnel administer them.



The Impact of Disruptions

Logistical disruptions can make free shipping even more costly. Over the past few years, factors like record-high freight rates, strikes, port closures, and natural disasters have significantly impacted shipping costs. To manage free freight policies effectively, organizations must regularly assess how fluctuating input costs affect their profitability.



Applying Strategy to Free Freight

To control costs, many companies build shipping expenses into the product price. Even though customers don't see embedded shipping costs directly, the markup must still cover logistics expenses. If these embedded costs are not reviewed, they may result in unrecoverable dollars. Setting a minimum order amount before offering free shipping can boost order sizes and make it more cost-effective to serve customers. But in either approach margins must support fully covering the cost of shipping. The key to profitability is proper evaluation of free freight's impact and continual monitoring and enforcement.



Help From KDL

Once businesses offer free freight, it is difficult to rescind, and companies who haven't reviewed their policies in the last five years risk losing up to 23% of their profitability on inflationary costs alone. KDL's integrated TMS technology helps businesses analyze and adjust their free freight policies, ensuring margins stay intact. With real-time data, businesses can make informed decisions and pivot quickly when needed.

LET'S WORK TOGETHER

Reach out to us at info@kdlog.com or visit kdlog.com for more information.



People Drive Logistics

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