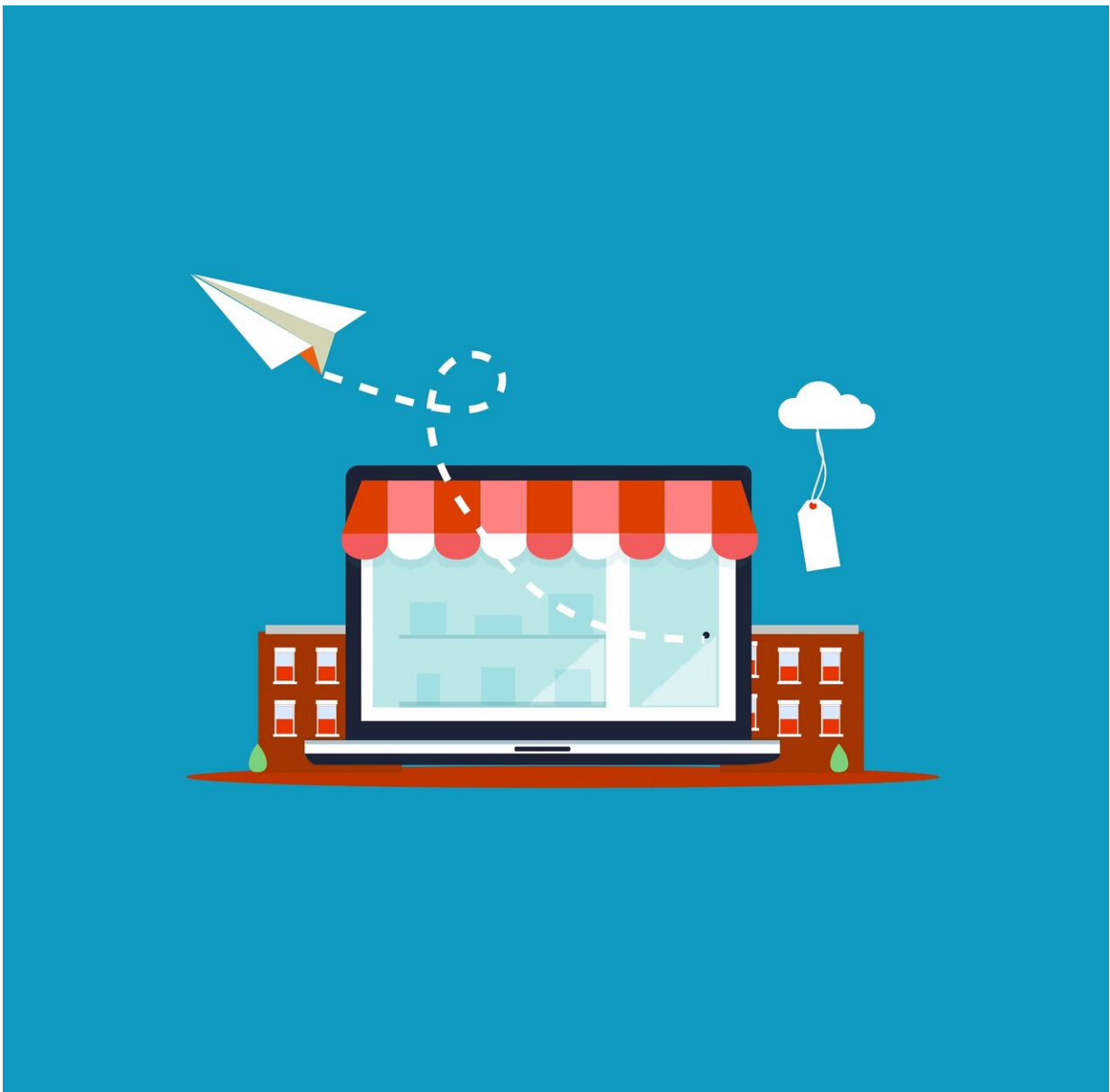


Looking to boost revenue as an online retailer? Charge an upfront membership fee in exchange for unlimited free shipping

April 12 2023, by Marilyn Stone



Credit: CC0 Public Domain

Researchers from NC State University and Texas A&M University published a new *Journal of Marketing* article that examines membership fee shipping programs and the effect on consumers' purchase behaviors and company net revenue.

The study is authored by Fangfei Guo and Yan Liu.

What is the top reason 50% of customers abandon items in online shopping carts? Why do e-commerce brands incur an annual [revenue](#) loss of about \$18 billion?

The answer: shipping fees.

For this reason, online retailers have shown a growing interest in membership-based free shipping (MFS) to help them recover high shipping costs and satisfy consumers' expectations of free shipping. In this model, consumers pay an upfront membership fee in exchange for unlimited free shipping. Nearly 40% of the world's top retailers have adopted MFS or advertised it as a premium service in their paid membership programs.

This new study investigates the effectiveness of MFS. Collaborating with a top online retailer, the researchers utilized real-world data to study how MFS impacts consumers' [purchase](#) behaviors, including:

- how much they buy (total spending, purchase frequency, average order size),

- what they buy (purchase variety and impulse purchases), and
- net customer revenue.

Switching barrier

Guo states that "We find that average MFS members may not initially increase their purchases, but do so over time." Initially, consumers are more likely to exploit unlimited free shipping benefits at the beginning of enrollment when they break down large orders into smaller ones without increasing their total spending. As a result, retailers may not immediately gain incremental revenue due to the reduced profit margin caused by increased shipping costs.

She adds, "However, over time the free shipping benefit builds a switching barrier that motivates consumers to increase spending and purchase more frequently with larger order sizes." Also, MFS changes consumers' purchase variety and the component of shopping baskets—in other words, members purchase from broader product categories and make more impulse purchases.

Moreover, this study finds a monthly increase in net customer revenue by 12.75% (an increase of \$19.93 per month). This suggests that the membership fee could compensate for the increased shipping costs and be a major net revenue source.

The profitability of MFS may vary across customer segments. Light buyers, who were the most willing to pay shipping fees or purchase from the broadest product categories before enrollment, contribute the highest percentage change of revenue contribution after enrollment. This is because these consumers tend to consolidate their spending after enrollment with a much higher purchase frequency and do not exploit the free shipping benefit with a reduced order size.

In contrast, heavy buyers, normally regarded as the best-value segment, have no significant increase in revenue contribution after enrollment because they are most likely to exploit free shipping by splitting large orders into smaller ones or purchasing from categories with a lower price level. The MFS program even loses money from heavy buyers who were unwilling to pay the shipping fee or purchase from limited product categories before enrollment.

"MFS is an effective marketing instrument to increase customer retention. It is particularly helpful at increasing the retention of consumers who like to purchase from diverse product categories," says Liu.

Lessons for retailers

We offer the following suggestions for retailers:

- We suggest online retailers adopt MFS as their shipping policy. MFS can enhance retailers' revenue because the membership fees can recoup the shipping costs. Moreover, MFS leads to increased spending and revenue contribution over time.
- When promoting the MFS program, managers should target light buyers.
- Managers should avoid promoting MFS to heavy buyers. The MFS program can even lose money from heavy buyers.
- MFS helps retailers retain customers and consolidate [customer](#) spending.

More information: Fangfei Guo et al, EXPRESS: The Effectiveness of Membership-based Free Shipping: An Empirical Investigation on Consumers' Purchase Behaviors and Revenue Contribution, *Journal of Marketing* (2023). [DOI: 10.1177/00222429231158116](https://doi.org/10.1177/00222429231158116)

Provided by American Marketing Association

Citation: Looking to boost revenue as an online retailer? Charge an upfront membership fee in exchange for unlimited free shipping (2023, April 12) retrieved 17 July 2024 from <https://phys.org/news/2023-04-boost-revenue-online-retailer-upfront.html>

<p>This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.</p>
--