



# Marketing Plan for UPS

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# Executive Summary

Free shipping has been frequently used by ecommerce retailers and has been perceived to be among the most effective tools in marketing and conduct of promotional activities. Most customers have been cited claiming that free shipping serves as a motivation and actually explains the reason why they would prefer making purchases from a particular website and not some other website (Cohen 1995). It is widely accepted that free shipping is a conversion driver and can go a long way in turning in levels of sales; however, it is not offered in a universal manner. In fact, most retailers only use it as a periodic tool of driving sales (Bank Marketing Association (U.S.) 1989). For a long time, research has been conducted on factors leading to the inhibition as well as promotion of adoption of ecommerce, including the role played by shipping promotions. Data from more than 13 web retailers of various supply sizes have been collected through in-depth personal interviews. All retailers involved in this research have confirmed positive effects, which are associated with free shipping, especially in unlocking volumes of sales, but at the same time they have pointed out that there is a negative impact due to the margin (Cohen 1995). There have been a few cases of negative impact on introduction of free shipping. Compared to other tactics such as flat rate shipping and higher products costs, more sales have been reported than when there was free shipping in a margin case of some customers (Westwood 2011).

# Executive Summary

The UPS has also included engagement of Harris Interactive for a quantitative survey of attitudes of customers to free shipping, which was somehow different from the primary research. Findings from the Harris research have showed the following findings: 1) Retailer selection on online businesses has

a great dependence on both the aspect of free shipping, as well as cost shipping; 2) The level of importance that is associated with free shipping keeps on declining in purchases, which are high value items or urgent in their use and occasion (Bank Marketing Association (U.S.)\_1989).

Findings derived from the primary research include the following:

- Retailers are aware of and experience value in free shipping, but they are reluctant to render these services. The cost of delivering packages is a key component that is associated with free shipping;
- The category of the product was the main driver of how effective free shipping was. While most retailers were reporting major gains in sales, some were apparently experiencing more profits as compared to others. Those who had the best results were retailers who had very big margins on their products and whose products could be easily fulfilled. Location of the distribution center was also a big factor in contributing to effectiveness of the method;
- Many retailers have found many techniques relating to offering free shipping. Since most retailers were looking for methods that would allow free shipping without necessarily losing the margin, tactics like shipping clubs, flat-rate shipping, and inclusion of the cost of shipping into the cost of the goods were very common;
- Where free shipping rests upon P&L, it could influence in a big way the way as well as frequency with which retailers offer this particular service. While most retailers categorize any shipping costs to expenses that lie within the line of items, some allocate the same under marketing expenses since it is clearly shown that free shipping is an effective tool of increasing sales.

# Marketing Strategy

Consumers mainly choose to shop in the web for one of the many reasons that have been put across. The web is believed to offer high level of convenience, it increases the level of variety when compared to physical stores, and it shows value for consumers. The main research has also found out that a big number of clients are de-motivated, especially when shipping fees are too high (United Parcel Service 1972). More than forty-four percent of shoppers who used the online platform said that they could not complete the online transaction because costs associated with shipping and handling were too high.

An extension of findings also showed that many consumers look to avoid having to pay shipping fees whenever it is possible. Most clients prefer the shipping option, which is the cheapest, and will just buy what is enough to meet shipping thresholds associated with such purchases.

Similar information has been demonstrated by the UPS's study conducted by Harris Interactive. Findings reflect importance that is laid on consumer's decisions, which are influenced by shipping alternatives in terms of costs:

- More than 46% were heavily influenced by costs of shipping, especially when deciding on a retailer for any recent purchases;
- Two in five were influenced by free ground shipping and free shipping for return trips influenced one in four. Shoppers who did heavy shopping were likely to be heavily influenced by costs of shipping, free ground shipping, or return fees, which were associated with light shoppers.

The research tested for a hypothesis, which had been postulated before the research was done that was aimed at showing that the customer experience was adversely affected when strategies resulted in downgrading of shipping

services. The main research has showed that some researchers have complaints of shipments taking longer than expected, especially during holiday seasons when free shipping is commonly offered, which is mostly attributed to the lack of economy shipping services with very limited capabilities of tracking. More than 11 % of online shoppers reported that they have stopped their online purchases due to breakdown in the method of delivery of retailers (United Parcel Service 1972). Some retailers studied have varying attitudes to the concept of free shipping. Three key issues, which were evident in the report, were that some retailers viewed free shipping as an added advantage that gave them an edge over their clients; others viewed it as a scourge and were less likely to embrace it as a way of promotion. Others had a feeling that free shipping was particularly useful in the leveraging of a business (United States 2007). Putting this into consideration, they therefore included the lifetime value of customers who would not shop with them. They were therefore putting the cost of free shipping in the marketing budget rather than the cost of transportation. This was in contrast with retailers who viewed free shipping as an unnecessary evil. Retailers who offered free shipping did this with the intention of increasing their competitive advantage over their competitors who probably were not offering the same services. This would mean an increased market share as well as an increase in loyalty of existing customers and luring of new customers. Such retailers were likely to account for free shipping as a transportation aspect and expense. Due to this view of valuing free shipping, they were likely to be discouraged from offering such services at a very increased rate (United Parcel Service 1991).

Retailers who were interviewed shared some very similar sentiments of the common findings concerning shipping offers. Some of the key findings include:

- They are expensive. Retailers who were interviewed confessed that more than 15 % of their total revenues were likely to go into free shipping that forced

companies to feel all expenses. This was particularly painful to those companies that had always considered shipping as profit center or those that had margin to start with. In addition to this problem, retailers also pointed out that increased labor as well as customer services resulted in problems, especially with spikes in volumes (United Parcel Service 1972). In addition to this, they also complained of creation of exceptions as well as exclusions, which happened to be essential to making them successful and needing some IT resources, which were particularly hard to come by;

- They are very effective. In spite of high costs, which a retailer might have to feel, benefits of free shipping are strong to the extent that customers are always on their toes to get free shipping and consequently avoid charges, which are associated with shipping;
- They are identified separately on most P&Ls. Most retailers stated that free shipping expenditure was a separate line of item on P&L statements, which was usually defined as offsetting revenues. A small number of retailers however said that they labeled free shipping expenses as the cost of marketing although it did not necessarily appear to be a very broadly accepted perspective;
- They involve decision making of the senior level. Since offering free shipping is quite expensive, a decision whether to have it executed or not mainly falls on marketing executives of companies and the CEOs in some cases.

Costs of shipping promotions are as follows:

- Product margin. A few retailers interviewed were in highly competitive industries or either sold products that were fundamentally expensive. These companies therefore had lower product margins and could not afford to offer free shipping in most cases;

- Product weight. Similar to margins, some products had either bigger volumes or greater weight. Since costs of shipping are driven by weight and distance, as well as size of items shipped, it had a substantial impact on the cost. Retailers who had denser items pointed out that they were reluctant to offer free shipping for this reason and whenever they made such exceptions, they made exceptions against the heaviest goods as much as possible;
- Conditioned free shipping shoppers. Almost all retailers who were interviewed answered that some customers only made orders when free shipping was offered. The cost associated with such customers is quite difficult to assess since a competitor has purchased them, while in some cases they may not have made any purchases at all.

## Overall Benefits from Shipping Promotions

Overall benefits, which retailers received from shipping promotions, mainly outweighed costs. Retailers pointed out that the most frequent benefits were as following:

- Increases in sales. Increased units per transaction were common in free shipping promotional periods while during other times it related new customers. Generally, most retailers offered free shipping with some threshold, which was designed to drive the number of units per transaction. On average, a reported increase of more than 10 % of revenue was recorded during the free-shipping season;
- Customer retention. A great number of customers took advantage of shipping promotions, which retailers offered on their sites.

# Action Programs

A framework for effective shipping promotion.

Due to the benefits, which are associated with shipping, the biggest difference is in terms of whether or not companies involved are able to benefit from offers, which are associated with fundamentals of products. These are the margin as well as the ease of shipping a given item. The recommended framework is as follows: 1) determine attractiveness of having free shipping as well as its affordability on a given site; 2) adjust marketing plans in order to address issues pertinent to a certain company.

## Key recommendations

Several factors affect effectiveness and profitability of promotions associated with free shipping and profitable margins.

- Companies should offer shipping promotions whenever they are in a position to afford enough cushions to absorb shipping expenses. The nature of products in terms of size, margin, as well as price will determine whether customers would be willing to pay extra for shipping of products;
- Flexibility concerns promotions where shipping expenses are likely to vary. A retailer is able to offer free shipping in situations, which could be more cost effective;
- Companies should consider value of shoppers. Consumer value, particularly servings of value that is more generous to more loyal shoppers could also lead to cost effectiveness.

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