

# Why is calculating Shipping Cost important?



## Table of Contents

- **Introduction**
- **Why calculate shipping cost**
- **Shipping cost deciding parameters**
- **Steps to calculate shipping cost**

## Introduction

Shipping is one of the crucial elements of order management. Probably the important aspect during online shopping that grabs a customer's attention is "free shipping." However, shipping is not free of cost for retailers. We need to take into account the shipping costs based on certain factors and

parameters. This, in turn, makes it possible to sell products to the customers in the most affordable way possible. Today, in this blog, we will learn all the parameters necessary for calculating your shipping cost and the steps that determine your shipping cost apart from the basic parameters.

## Why calculate shipping costs

In the retail business, there are lots of hidden costs associated with the items that we don't generally take into account. Shipping costs is one of them. While individually, shipping costs may feel negligible but wholesome, it's a hefty amount to pay.

By calculating it, we can deduce the absolute profit margin between the sales price and the purchase price of the product. If we don't take shipping costs and product handling charges into account, maybe on paper we are profiting, but in reality, we are facing our doom.

## Shipping Cost Deciding Parameters



The shipping cost can be calculated based on the physical parameters as well as business parameters. In this section, we are going to understand the physical parameters of the product that is also the deciding parameter that contributes to the shipping costs. These parameters are:

- Size/Dimensions
- Weight
- Destination Details
- Different Carriers
- Packaging/Packaging Material

### **Size/dimension:**

The physical dimension of your product matters. You pay for the amount of space you occupy during shipping. On top of it, if the item is brittle in nature, the cost of handling the product also gets reflected in the final shipping cost too.

### **Weight:**

The second important physical parameter is the weight of the product to be shipped. Based on its weight, a heavy item is likely going to cost you some more bucks to get it shipped.

### **Destination Address:**

The product end destination matters for calculating the shipping cost. Places that are not readily accessible by the shipping carrier are deemed to cost more. This is because the destined delivery address doesn't fall in the set route/path of your carrier's usual route.

### **Distinct Carriers:**

There is an oligopoly in the shipping business. As such, there are many different options in choosing the appropriate carrier who charges reasonably. You can try carriers like UPS, USPS, FedEx, etc. which ships in US/Canada.

### **Type of Packing Material:**

Packing of delicate material needs foam and bubble wrap along with the normal cardboard box packages. Those things don't come cheap. The choice of packing material has a decent impact on the shipping cost of the product.

## Steps to calculate Shipping Cost:

### **Your delivery time**

The delivery method that you choose for your customers also impacts your final shipping cost. Some customers are willing to wait patiently for their product to arrive. Others might need the product earlier.

Depending on the scenario, you can either offer a standard or a two way delivery.

## **Estimating your Costs**

We already know how much shipping costs can impact our sales profit. It is, therefore, important to have a rough estimate of the shipping costs beforehand. This estimated cost also helps us in choosing the right shipping partner and comparing rates for best values.

## **Infusion of shipping cost into product cost**

Customers don't appreciate it when you charge them extra for the shipping cost. However, if you are selling a high value product, you might as well infuse the shipping fee in the product cost. A person who is willing to pay a handsome amount for the product will not mind or notice the slightest of the price difference.

However, this is not the case with low value products. You can't infuse the cost of 1\$ product with 1\$ more and sell it at 2\$. No one is going to purchase that product.

Think about it: If you always get your favorite bottle of hair oil for \$5 and you see it's offered for \$10, you are more likely to look elsewhere before even noticing that shipping is free.

## Indirect handling costs

A common misconception that retailers have is that shipping costs only comprise the cost of shipment of products from your warehouse to the customer location. However, it's more than just that!



Your product handling cost must also be a part of your shipping cost. In addition to labor staff, indirect costs include infrastructure, forklifts, conveyors, warehouse management, taxes, utilities, office supplies, insurance, licensing.

The way you calculate the indirect handling cost is by using the mean value. For example, your total monthly operational fees come to \$5,000, and you ship 1,000 orders per month, your per-order handling cost comes to \$5.

## Conclusion

Shipping your product is a critical part of your overall ecommerce business. Calculating it precisely gives you more room for better shipping strategies to maximize your actual profit. I hope you find this article useful as to how to better calculate your shipping cost and maximize your profit. If you have any questions regarding shipping costs, please feel free to write down in the comments section down below.