Instirio

INSTIRIO RESEARCH · OPERATIONS INTELLIGENCE SERIES

The Hidden Cost Index 2026

How the average direct-to-consumer brand loses more than 10% of revenue to operational leaks it never sees — and why 2026 made the problem worse.

10.5%

of revenue lost to hidden operational costs, the headline finding of the 2026 Instirio Hidden Cost Index

A research report
May 2026
instirio.com

CONTENTS

What is in this report

About this report

The Hidden Cost Index is an annual benchmark from Instirio. It estimates how much revenue a typical mid-market direct-to-consumer brand loses to operational leakage, and breaks that figure into six measurable categories. Every input is drawn from published 2026 industry research; the model that combines them is Instirio's own. This is the 2026 edition.

SCOPE	DETAIL
Subject	Mid-market DTC brands, $1M–$25M annual revenue
Geography	Primarily United States ecommerce
Period	2026, with 2025 comparatives
Exhibits	Seven numbered exhibits

EXECUTIVE SUMMARY

The leak is bigger than the profit

A typical mid-market direct-to-consumer brand loses an estimated 10.5% of revenue to hidden operational costs in 2026. That figure is larger than the entire net margin of most DTC brands. This report sizes the problem, breaks it into six measurable categories, and shows operators where to look.

Most DTC brands keep a close eye on their big costs. Product, ad spend, payroll and software all get budgeted and reviewed every month. This report is about a different set of costs. They sit buried inside other line items on the P&L, nobody is specifically assigned to watch them, and they grow a little larger every month because of it.

To put a number on those costs, Instirio built the **Hidden Cost Index**: a model that estimates how much revenue a typical mid-market DTC brand, somewhere in the $1M to $25M range, loses across six kinds of operational leakage. The figures behind it come from published 2026 industry research. The way they are combined into a single Index is our own.

The 2026 Index stands at **10.5% of revenue**, within a typical band of 8–12%. That number is worth sitting with, because of one comparison. The median DTC net margin in 2026 runs somewhere between 3% and 10%. The hidden cost leak is larger than the entire net profit of a typical DTC brand. For a brand doing $5M in revenue, the Index represents roughly $525,000 a year — money the business earned and then lost before it reached profit, with no one ever deciding to spend it.

2026 has not made this any easier. Carrier increases announced as "5.9%" are landing closer to 8–12% once the surcharge changes are added up. Returns climbed past 20% of orders. Fuel costs jumped 65% in a single quarter. The brands that hold their margin this year will be the ones that get a clear view of where the money is already going.

> ***The hidden cost leak is larger than the entire net profit of a typical DTC brand.***

The recommendation that follows from this analysis is straightforward. Operational visibility — measuring returns, carrier, fulfillment and payment data continuously rather than once a year — is no longer optional housekeeping. At a 10.5% leak rate against single-digit margins, it is the difference between a profitable year and a flat one.

KEY FINDINGS

The numbers that matter

Six figures sum up where mid-market DTC brands stand on hidden costs in 2026. Each one comes from published industry research. Together they make the case for measuring operational leakage rather than guessing at it.

10.5%

of revenue is lost to hidden operational costs — the 2026 Hidden Cost Index, within a typical band of 8–12%.

> net margin

The hidden leak of 10.5% is bigger than the entire net profit of a typical DTC brand, where margins sit at just 3–10%.

$525K

lost every year by a $5M-revenue brand at the Index rate — money earned, then leaked before it reached profit.

8–12%

the real 2026 carrier cost increase once the new surcharge rules are counted, against a 5.9% headline rate.

20.8%

average ecommerce return rate in 2026, and yet most brands understate the true cost of returns by 30–50%.

~4%

of attempted revenue is rejected by false payment declines, and 39% of those shoppers never come back.

What ties them together: the money is real and it is being spent, but standard reporting does not show it, so no one is on the hook for bringing it down. The five sections that follow size each leak and show where to look for it.

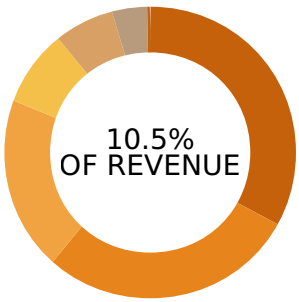
01 SECTION ONE

The Hidden Cost Index

The Hidden Cost Index estimates how much of a brand's revenue goes to operational leakage. By leakage we mean costs that are either an outright billing error, recoverable, or invisible because of the way they get recorded. Ordinary, well-run costs are left out. Paying for a shipping label is a normal cost. Paying for that same label on a carrier that was more expensive than the alternative for that route is a leak. The Index only counts the second kind.

It has six categories. For each one, we started with published 2026 figures, narrowed them to the portion that is actually recoverable or mis-recorded, and converted that to a percentage of revenue. Exhibit 1 shows how the six categories combine into the headline figure.

EXHIBIT 1 **The 2026 Hidden Cost Index, by leak category**

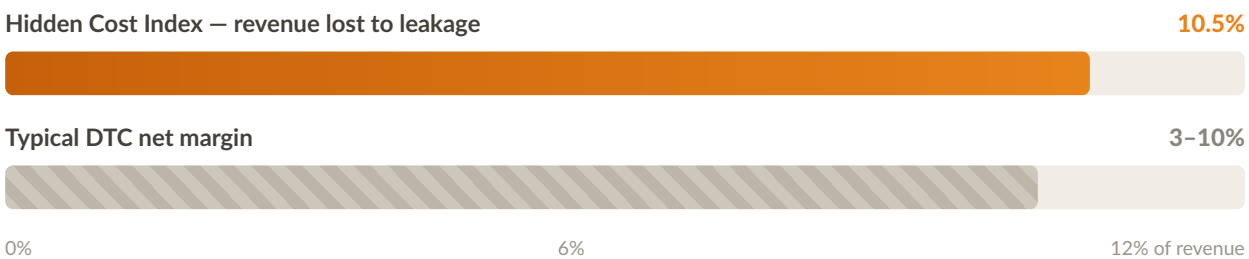


Returns under-accounting	3.5%
Payment failures & false declines	3.0%
Unprofitable SKUs & cost-to-serve	2.0%
3PL billing errors & accessorials	0.9%
Carrier routing & zone drift	0.7%
Stuck orders, SLA & chargebacks	0.4%

Source: Instirio Hidden Cost Index analysis, 2026. Central estimates, as a percentage of revenue.

The Index is best read against the profitability of the brands it describes. A typical DTC net margin in 2026 sits between 3% and 10%. Exhibit 2 places the two side by side.

EXHIBIT 2 **The hidden leak versus typical DTC net margin**



Source: Instirio Hidden Cost Index analysis; DTC net-margin benchmarks, 2026.

Exhibit 3 sets out the full model, with a low, central and high range for each category to reflect the uncertainty in the underlying figures.

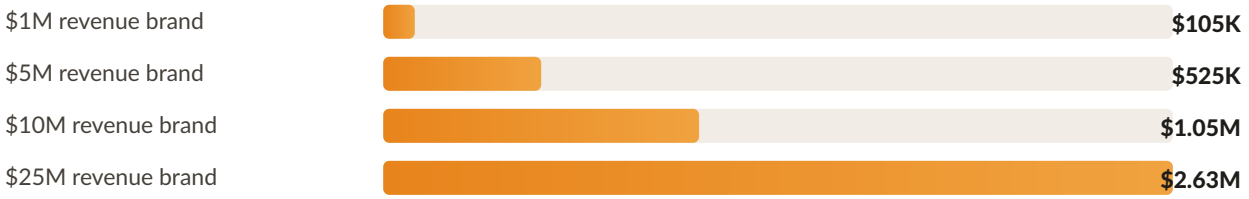
EXHIBIT 3 **Hidden Cost Index detail — low, central and high estimates**

LEAK CATEGORY	LOW	CENTRAL	HIGH
Returns under-accounting	2.5%	3.5%	5.0%
Payment failures & false declines	2.0%	3.0%	4.0%
Unprofitable SKUs & cost-to-serve blind spots	1.0%	2.0%	3.0%
3PL billing errors & accessorial overcharges	0.5%	0.9%	1.5%
Carrier routing & zone drift	0.4%	0.7%	1.2%
Stuck orders, SLA penalties & chargebacks	0.2%	0.4%	0.8%
Hidden Cost Index	**6.6%**	**10.5%**	**15.5%**

Source: Instirio Hidden Cost Index analysis, 2026. Figures are additive; see Section 05 for methodology.

Translated into dollars, the Index scales with revenue. Exhibit 4 shows the annual hidden cost across four revenue bands at the 10.5% central rate.

EXHIBIT 4 **Annual hidden cost by revenue band, at the 10.5% Index rate**



Source: Instirio Hidden Cost Index analysis, 2026. Bars scaled to the $25M brand.

None of this shows up as a crisis. There is no bad quarter to point to and no single event to blame. It is the normal running state of a business that cannot see its own operational data clearly, and it costs about the same in a strong month as a weak one.

02 SECTION TWO

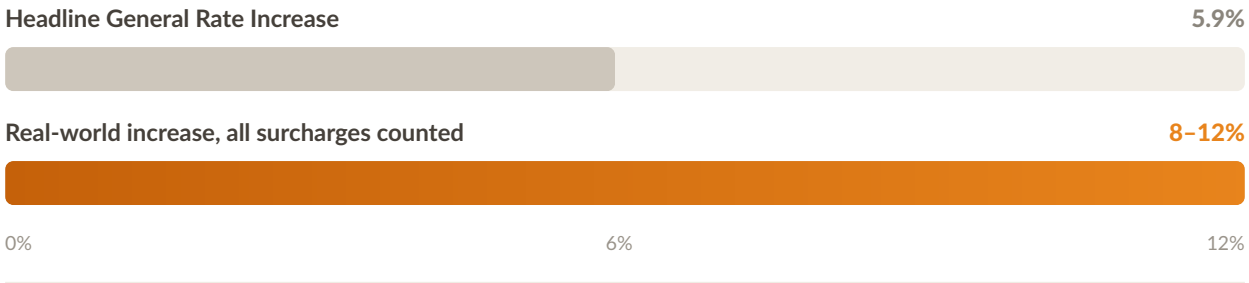
Why 2026 widened the gap

Three things happened in 2026 that all push in the same direction. Each one widens the gap between what a brand believes it spends and what it really spends.

Carrier increases that don't read as increases

UPS and FedEx both set a 5.9% General Rate Increase for 2026, and the headline rate was only part of the story. Both carriers also rewrote the dimensional and cubic-volume rules behind their Additional Handling and Large Package surcharges, and pushed the residential surcharge up by around 8.4%. Add it all together and a typical ecommerce shipper is looking at an 8% to 12% increase. Most operators budgeted for the headline number. They are paying the surcharge number. Exhibit 5 shows the gap.

EXHIBIT 5 **2026 carrier cost increase — headline rate versus real-world cost**



Source: 2026 FedEx & UPS General Rate Increase analyses; Instirio synthesis.

A fuel cost wave still working through the system

WTI crude went from about $60 in January 2026 to over $99 by April, a 65% jump in three months. Carrier fuel surcharges track that price on a delay, so an increase that is already locked in is still working its way onto Q3 and Q4 invoices.

Margin compression leaves no cushion

Customer acquisition keeps getting more expensive, with CPMs up double digits year over year. A brand running a 3–10% net margin has no room to quietly absorb a 10% leak somewhere else in the business. A few years ago, fast growth could paper over loose operations. That stopped being true.

> *Hidden costs are bigger this year, and riskier, because the business has far less room to absorb them.*

03 SECTION THREE

The six operational leaks

Each category in the Index is a distinct, measurable leak. They are ordered here by size, from the largest share of the Index to the smallest.

1 Returns under-accounting

3.5%
of revenue

33% of the Index

Returns are the biggest hidden cost in ecommerce, and the one brands measure worst. The average ecommerce return rate hit roughly 20.8% in 2026, and US retail returns came to $849.9 billion in 2025, about 15.8% of all sales.

Most brands think of a return as the refund. The refund is the small part. Around it sits a stack of costs the P&L never ties back to returns: the inbound shipping label, the labor to receive and inspect the item, restocking it or throwing it away, the markdown when it resells, and the support time. Industry analysis puts that processing tail at 20% to 65% of the item's value on top of the refund, which is why a $75 return often costs a brand more than $100. Because most accounting books refunds straight against revenue instead of as contra-revenue, the reported cost of returns ends up 30% to 50% too low. The money is going out the door; it just never gets named, so nobody owns the job of reducing it.

2 Payment failures & false declines

3.0%
of revenue

29% of the Index

This one is easy to miss, because a failed payment never becomes an order, so there is nothing in the reports to count. A customer tried to buy something and the brand's own systems turned them away.

The numbers here are well documented. About 5% of legitimate orders get incorrectly flagged and declined as suspected fraud. The average ecommerce business declines roughly 6% of orders, and about 65% of those declines are false positives, so close to 4% of attempted revenue is being rejected by mistake. Across the research, merchants lose as much as 5.5% of annual revenue this way. The damage does not stop at the lost sale either: 39% of shoppers who get falsely declined never come back. The brand loses the order, then loses the customer.

3 Unprofitable SKUs & cost-to-serve blind spots

2.0%
of revenue

19% of the Index

If a brand does not work out the true cost to serve each SKU and each order, it cannot really say which products make money. A blended margin number hides it. A perfectly healthy company-wide average can be sitting on a sizeable share of orders that lose money once you load in the shipping, returns and handling specific to that one product. The leak is the ad and inventory budget spent pushing items that lose money on every unit sold. It keeps happening because the number that would expose it, contribution per order rather than gross margin, is one most brands never put together.

Those first three categories — returns, payment failures and unprofitable SKUs — are the largest in the Index. Read together, they tell an operator where to start. Exhibit 6 sets out how much of the total leak the top three represent.

EXHIBIT 6

The three largest leaks account for most of the gap

Top three leaks
Returns, payment failures & unprofitable SKUs — 8.5% of revenue, 81% of the Index

Other three
2.0% of revenue

Source: Instirio Hidden Cost Index analysis, 2026. Segments sized by share of the 10.5% Index.

Returns, payment failures and unprofitable SKUs together account for 8.5 points of the 10.5-point Index, roughly 81% of the total leak. A brand with limited time should start there. The remaining three categories — 3PL billing, carrier routing and stuck orders — are real and worth fixing, but they are refinements next to the first three.

IN FOCUS — HOW BLENDED MARGIN HIDES A LOSS

A SKU that looks like a winner

Take a $40 product sold at a 55% gross margin: $22 of gross profit per unit, and on paper a clear winner. Now load in what it actually costs to serve. The item is bulky, so shipping runs $9. Its return rate is 25%, and each return carries roughly $14 of loaded cost — about $3.50 spread across every unit sold. Payment processing takes $1.30, and a fair share of support time adds $2.

Gross profit	− Shipping	− Returns	− Payments	− Support	True contribution
$22.00	**$9.00**	**$3.50**	**$1.30**	**$2.00**	**$6.20**

True contribution falls to $6.20 — a real margin of about 15%, less than a third of the headline number, and negative on the most expensive shipping zones. The catalog-wide average still reads 55%, so nothing in standard reporting ever flags it. This is the cost-to-serve blind spot, made concrete.

4 3PL billing errors & accessorial overcharges

0.9%
of revenue

9% of the Index

A 3PL quote and a 3PL invoice are rarely the same number. A provider that advertises $3.50 an order often bills $7 to $12 all-in once you add accessorials, dimensional weight, storage and the vague catch-all line items. For a brand shipping 1,000 orders a month, that gap between the quoted rate and the real one usually works out to $42,000 to $54,000 a year.

Not all of that is error. A steady, recoverable slice of it is. Dimensional-weight overcharges, billed when a light product goes out in an oversized box, are the most common fulfillment billing mistake there is, and they can add 15% to 40% to the shipping cost on the items they hit. When accessorial fees climb past 20% of base shipping spend, the rate in the contract is no longer the rate being paid. This leak is the part of fulfillment spend that is wrong and checkable, and one of the easiest on this list to win back.

5 Carrier routing & zone drift

0.7%
of revenue

7% of the Index

All-in fulfillment in good shape runs 8% to 12% of revenue. Once it climbs past 15%, something structural has gone wrong. A common cause is routing drift. Orders go out on a carrier that costs more than an available alternative for that zone and weight, because the routing rules were set up once and never looked at again. Carrier rate cards change every quarter. Routing logic tends to stay frozen. The leak is the set of orders that could have shipped cheaper with no hit to delivery speed. It is a few cents to a few dollars per order, and it disappears into the averages, which is how it runs unnoticed for years.

6 Stuck orders, SLA penalties & chargebacks

0.4%
of revenue

4% of the Index

This is the smallest category on the list, but it is not nothing. An order that stalls in fulfillment can set off a marketplace SLA penalty, a chargeback, a support ticket, and a customer who does not order again. Any one of those is minor on its own. Stacked up across a year they add up to a real number, and not one of them shows up under a clear heading on the P&L.

04

SECTION FOUR

What operators should do

All six leaks have one thing in common. The money is real and it is leaving the business, but it is hard to see because of how it gets measured, or because it never gets measured at all. The answer is not another round of cuts. It is getting a clear view of what is already happening. Four moves do most of the work.

1. **Book returns as contra-revenue.** This one accounting change makes the real return rate and its cost visible, and you cannot reduce a cost you cannot see.
2. **Audit carrier and 3PL invoices every quarter.** Rebuild one month line by line, check the accessorial ratio, and spot-check a sample of orders for dimensional weight.
3. **Measure cost to serve per SKU and per order.** A blended average hides the products that lose money. Only the detail shows them.
4. **Monitor it continuously.** Order, refund, carrier and supplier data shift every day, so an annual audit is out of date within weeks of finishing it.

> *In 2026, operational visibility stops being a project a brand does once and becomes infrastructure it runs all the time.*

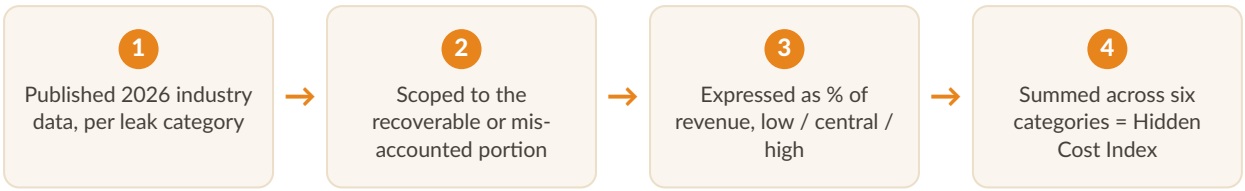
The brands that defend their margin this year will not be the ones that cut hardest. They will be the ones that can see, week by week, where the money is going — and act on it before a quarter of small leaks compounds into a number that matters.

05 SECTION FIVE

Methodology & sources

The Hidden Cost Index is a model, not a measurement. It is meant as a directional benchmark. It is accurate enough to size the problem and decide what to tackle first, and it is not a precise forecast for any one brand.

EXHIBIT 7 **How the Hidden Cost Index is built**



Source: Instirio Hidden Cost Index methodology, 2026.

For each of the six categories, we started with published 2026 industry figures and narrowed them to the part of the cost that is recoverable or mis-recorded, leaving out normal, well-run spend. We expressed that part as a percentage of revenue and gave it a low, central and high range to show the uncertainty. The six categories are written so they do not overlap. Dimensional-weight overcharges, for instance, are counted once, inside 3PL billing errors. Because the categories do not overlap, the figures can be added together, and the Index is that sum.

The model describes a typical mid-market DTC brand, somewhere in the $1M to $25M revenue range. Any single brand's real number will depend on its shipping mix, return rate, 3PL contract, payment setup and SKU economics. The point of the Index is not to pin down one brand. It is to show that the total leak is big enough, bigger than most brands' entire net margin, that every brand should be measuring it for itself.

Primary source categories

- 2026 carrier rate analyses — FedEx & UPS General Rate Increases and surcharge changes (lateshipment.com, Sifted, 3PL Center).
- GoBolt 2025 State of Logistics Report — all-in fulfillment cost benchmarks, 263 brands surveyed.
- Industry returns data — US retail returns totals and ecommerce return-rate statistics, 2025–2026.
- False-decline and payment-failure research — merchant decline rates and revenue-loss studies (PYMNTS, NoFraud, Riskified).
- DTC profitability and margin benchmarks 2026 — net-margin and CPM data.
- 3PL pricing and fulfillment-cost studies — advertised-versus-all-in rate analyses and dimensional-weight overcharge research.

A full, itemized source list is available on request. Figures are current as of May 2026.

ABOUT

About Instirio

Instirio is an ecommerce operations intelligence platform. It exists to do for one specific store what this report does for the industry — put a number on the hidden cost, and show exactly where it is.

Instirio's detection engine, Halia, joins a brand's Shopify, ShipStation, Stripe and 3PL invoice data, runs leak detectors across the operational stack, and returns a ranked list of findings with a dollar figure on each one. Where the Hidden Cost Index estimates the problem at the level of the industry, Halia measures it for a single store, on live data, and keeps measuring it as that data changes.

It is free under $50K MRR, connects in about five minutes with read-only access, and surfaces a brand's first ranked leak — usually within a week.

See your store's real number

The Hidden Cost Index describes a typical brand. Halia tells you yours. Connect your data and Instirio surfaces your first ranked operational leak, with the dollar impact attached. Free under $50K MRR, five-minute setup, read-only access.

Get started — instirio.com