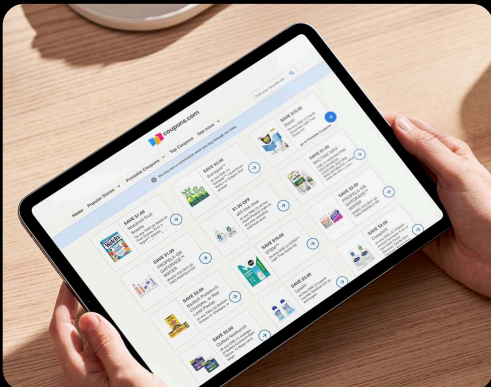


A guide to targeted **price discrimination**



for
**ecommerce
brands.**



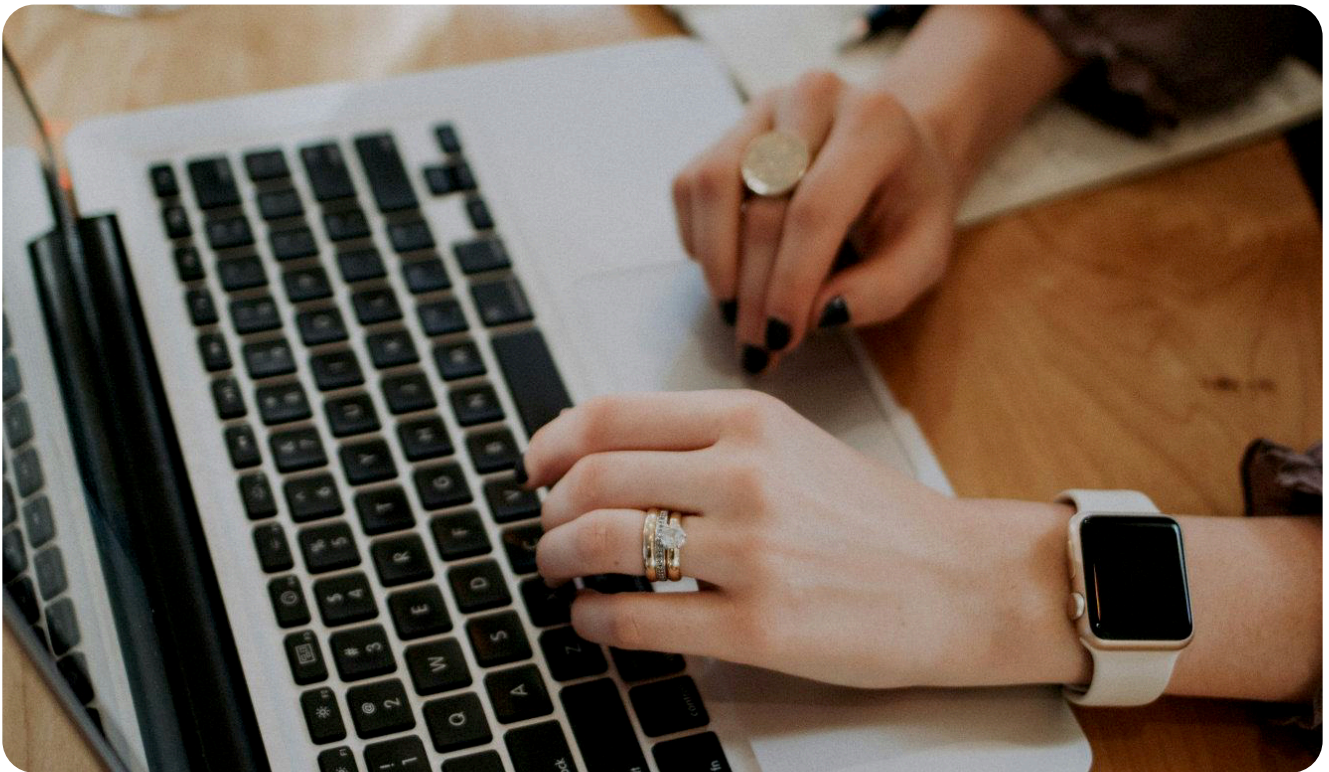
Contents

Introduction	2
Same goods. Different prices. More profit.	3
Price discrimination in ecommerce	4
Demand elasticity and why it matters	5
The advantage of targeted price discrimination	6
Employing price discrimination with affiliate sites	8
● Targeting new customers versus growing sales volume	10
● Cashback sites: an avenue to convert more customers and target new demographics	12
Protecting your brand perception	14
How easy is price discrimination through coupon and cashback sites?	15

Introduction

Price discrimination, where retailers charge different prices to different customer groups, is a **common strategy for maximising sales and increasing margins**. For online retailers specifically, coupon and cashback sites can play a central role in helping to employ targeted price discrimination and convert customers who may not have made a purchase otherwise.

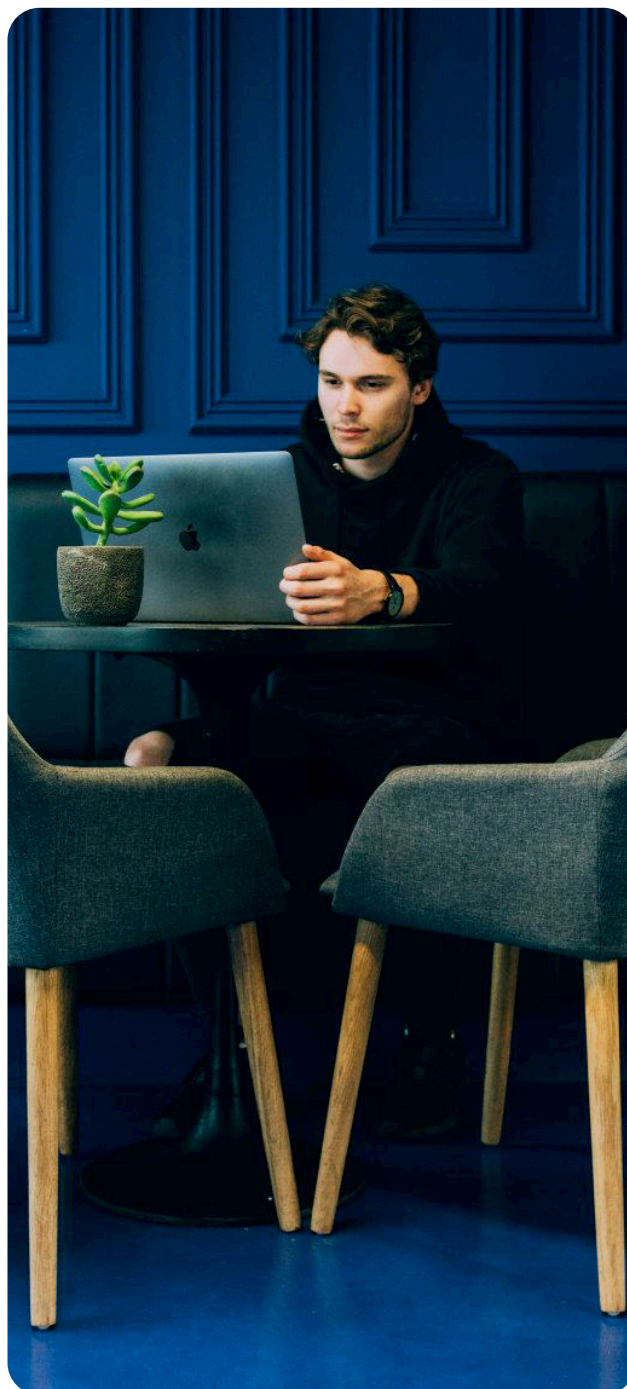
In this guide, we'll examine the different types of price discrimination, how they apply to ecommerce brands and how you can **use price discrimination to maximise your reach while protecting profitability**.



Same goods. Different prices. More profit.

Price discrimination tends to come in three distinct categories¹:

- **First-degree price discrimination**
This involves charging the optimal amount to each customer based on their exact willingness to pay - requiring a lot of data analysis and an exceptionally high level of personalisation.
- **Second-degree price discrimination**
Here, retailers let customers self-select their optimal price through loyalty schemes, coupons, volume purchases, bundled offerings or tiered pricing.
- **Third-degree price discrimination**
This approach charges different customer segments based on characteristics such as age, location, vocation or time of purchase.



¹ <https://www.investopedia.com/ask/answers/042415/what-are-different-types-price-discrimination-and-how-are-they-used.asp>

Price discrimination in ecommerce



The research and analysis required for first-degree price discrimination can make it prohibitive for all but the most advanced online retailers. This strategy is typically reserved for those who can continuously optimise prices with detailed granularity.

Third-degree price discrimination is popular across the leisure, travel and tourism sectors, for example, offering discounts to students or seniors or to those who book trips in advance.



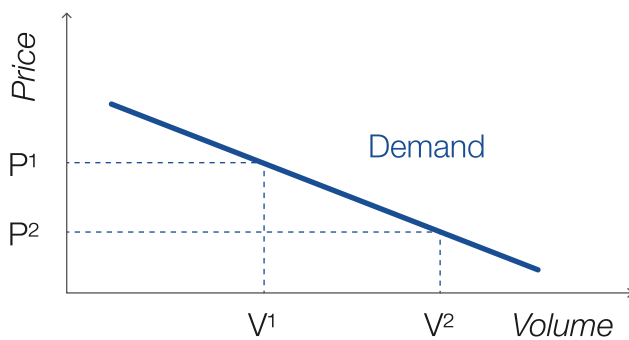
However, it is second-degree price discrimination that **offers the greatest opportunity for ecommerce retailers to increase revenue and profit.** Rewarding loyalty, or adjusting prices by volume or bundles can make it easier to increase order volume and margins with customers who already intend to purchase from you. And through coupon codes and cashback sites, **you can reach new cohorts of price-sensitive customers who may otherwise not shop with you.**

Let's have a look at how second-degree price discrimination works.

Demand elasticity and why it matters


First, a quick economics primer. Demand elasticity refers to the impact on demand that comes from changing the price of a good or service. The more elastic a good is, the more sensitive demand is to price changes. This means that if you sell goods or services with inelastic demand, reducing the price would not make a big difference to volume. But if you sell goods that have high price-demand elasticity, **discounts can be an extremely useful tool to help you maximise sales**. In this scenario, demand increases as prices are lowered.

Elastic demand




Examples of goods with elastic demand :

 Clothing

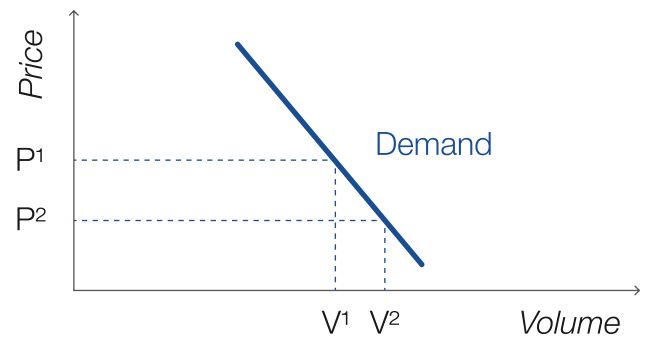
 Vacations

 Luxury goods

 Cars

Generally, the less essential a good is, the more elastic its demand will be.


Inelastic demand



Examples of goods with inelastic demand :

 Insulin

 Tobacco

 Water

 Electricity

Now, clearly, you have to find the right balance between maximising sales and maximising profits. By working with coupon or cashback sites, **you can employ a form of targeted second-degree price discrimination that helps you do this.**

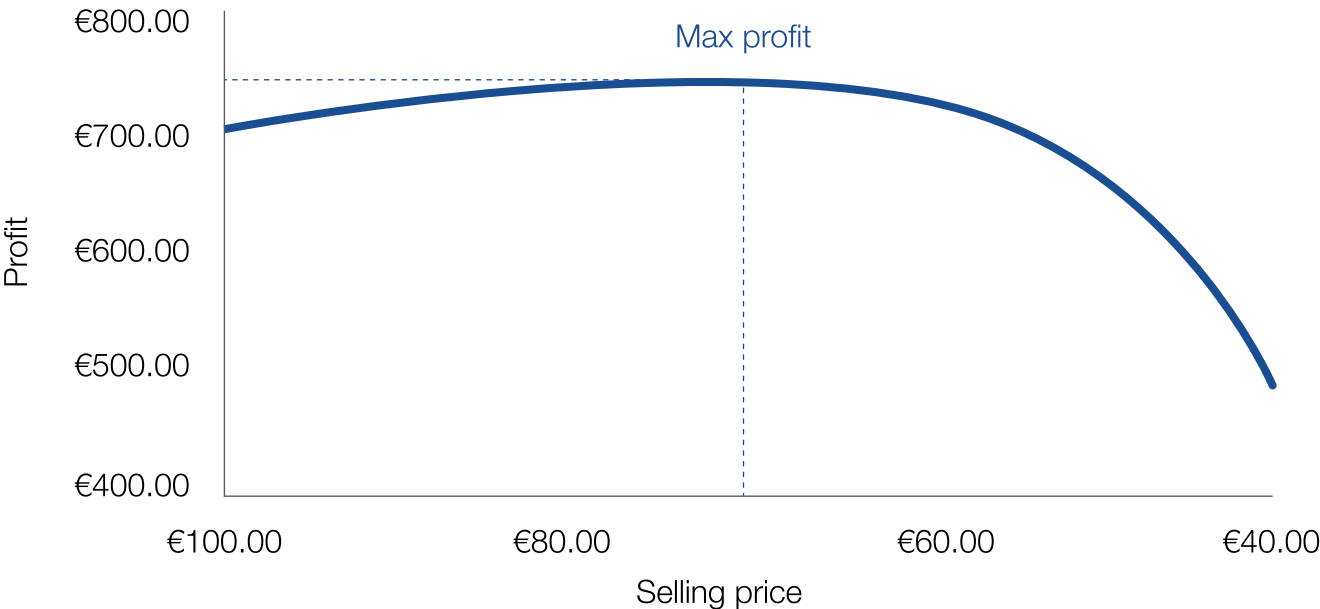
The advantage of targeted price discrimination

Imagine you're selling shoes online; you have a total addressable market of 100 people, you price the shoes at €100, and it costs you €30 to produce them. At the €100 price point, you sell 10 pairs of shoes. Now, taking elasticity of demand into account, let's assume that every 10% reduction in the price of the shoes leads to a 20% increase in demand.

In this scenario, if you were to set a single price for the shoes for everyone, your optimal selling price would be around the €70 mark; at this price, your total profit will be highest as you have balanced the price with demand.



Total profit vs. selling price

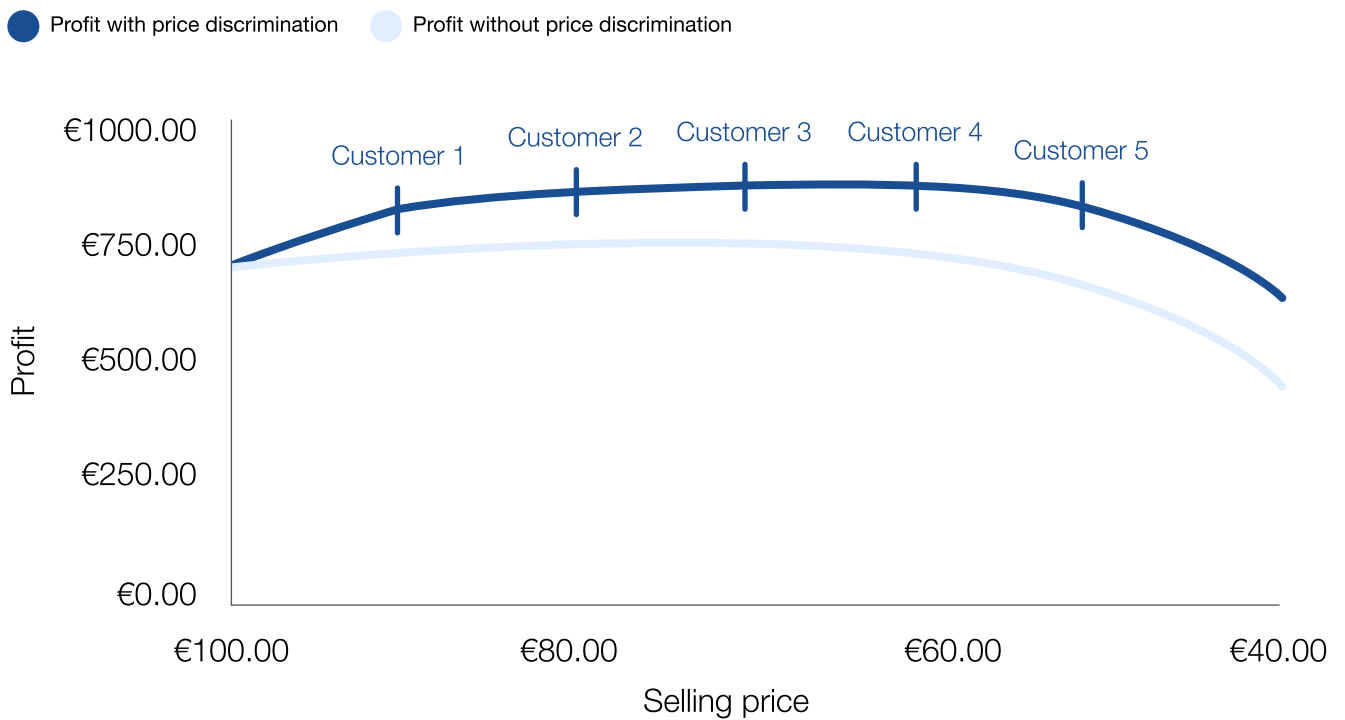


THE ADVANTAGE OF TARGETED PRICE DISCRIMINATION

But if you employ price discrimination, you can **increase profits by optimising prices for individual customer segments**. Even when the number of customers you serve remains the same, in the best-case scenario **your profit will be 17-20% higher than without price discrimination**.



Total profit with and without price discrimination



Employing price discrimination with affiliate sites

Here's where affiliate sites - especially coupon and cashback sites - enter the picture.

Very broadly speaking, you can segment your potential customers into two groups: those who are willing to pay full price, and those who aren't. The latter group is price-sensitive, and that's something you can use to your advantage. Price-sensitive consumers who are looking for deals are less likely to purchase something on a whim without an incentive to do so. But they're much **more likely than less price-sensitive customers to make a purchase when they perceive a good deal.**

Consider this: around 32% of buyers² look for an online coupon every time they make a purchase, 78% of whom may decide against buying without one. This leaves at least a quarter of your potential market who are unlikely to buy without being incentivised. At the same time, **around 86% of online shoppers say they are more likely to try a new business if they have a coupon**, with nearly four out of ten saying they are much more likely.

32%

of people search for coupons every single time they make a purchase online.

Working with coupon and cashback sites allows you to target price-sensitive buyers and reach highly elastic cohorts who are more likely to make a purchase when incentivised. Through these sites, you can expand your addressable market and grow your sales. Let's look at examples for these objectives individually.



Affiliate marketing primer

Affiliate marketing is a core part of new customer acquisition for many online retailers. It is a performance-based marketing channel where you reward other sites (or individuals with audiences on other channels, such as social networks) for driving traffic or sales to your website.

² <https://www.capterra.com/resources/coupon-marketing-strategy/>

EMPLOYING PRICE DISCRIMINATION WITH AFFILIATE SITES

A study by CJ³ based on millions of transactions found that shoppers coming via the affiliate channel spent 29% more than those who didn't. Over time, they also generated 88% higher revenue per shopper when compared with non-affiliate customers, and converted at a 46% higher rate.

An additional benefit of the channel for ecommerce retailers is that commissions are only paid after a successful conversion, ensuring positive ROI while allowing advertisers to scale volume simply by increasing the commission rate.

Affiliate sites often command a loyal audience with many thousands, or even millions, of active users, enabling you to target new audiences who are often at the latter stage of the funnel in terms of purchase intent.

Coupon and cashback sites are two such types of affiliate sites and can make a significant difference in price discrimination strategies by allowing you to target elastic customer segments with offers tailored to their level of price sensitivity.

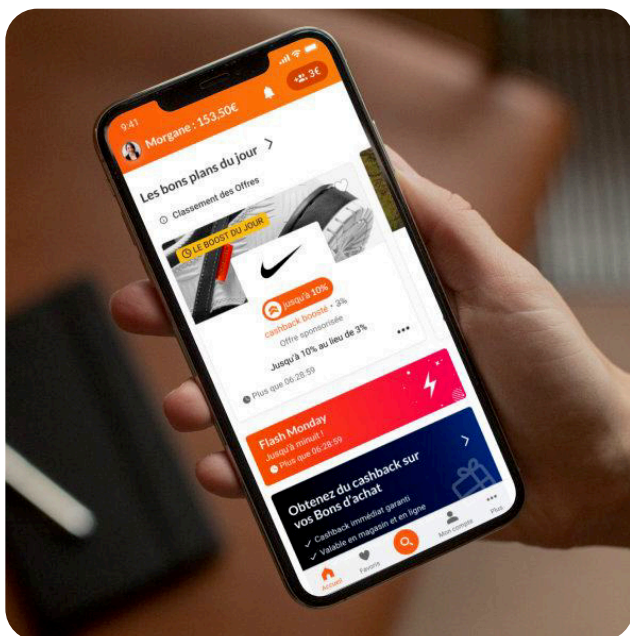


³ <https://junction.cj.com/report/affiliate-incrementality-whitepaper>

Targeting new customers versus growing sales volume

When you're specifically looking to reach new customers, you can offer a discount code that is valid for customers on their first purchase. As we've shown, this incentive **significantly increases the likelihood of converting new business**.

However, if you're looking to grow overall sales, you can offer a discount code that anyone can use; this gives you the **highest chance of converting the shoppers who always search for coupons**, regardless of whether they have shopped with you before.



Remember, working with coupon sites ensures you are implementing targeted price discrimination by offering discounts solely to the people who are searching for a deal, as opposed to everyone who visits your site. If you simply show the same discounts to everyone on your site, you lose this possibility and, as a result, your margins are likely to be negatively affected. Coupon sites (and cashback sites) help you avoid this by helping to convert price-sensitive customers without impacting the non-price-sensitive cohort of customers. That said, **some retailers are successfully able to combine on-site discounts with targeted off-site discounts**, as we demonstrate in the case study below.

— **Targeting elastic shoppers to deliver 86% revenue uplift**

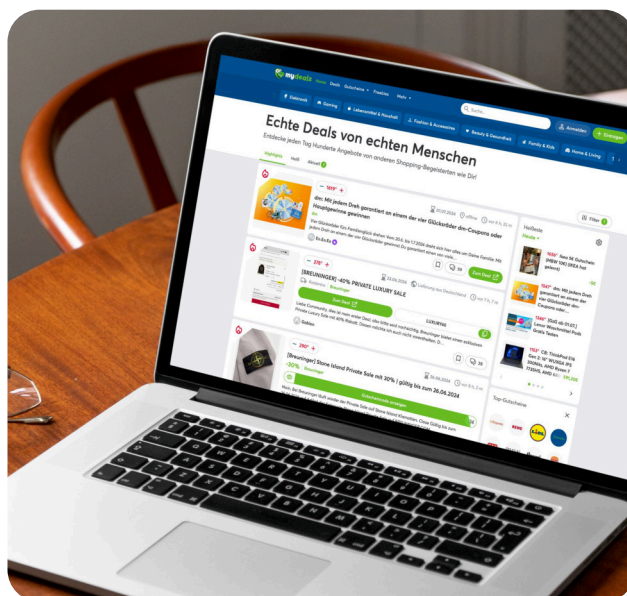
Working with coupon sites doesn't have to stop you from offering on-site discounts. For some retailers, on-site discounts are a core part of their sales strategy.

One leading nutritional supplements retailer we work with successfully targets new customers and stimulates incremental sales with with a promotional strategy that combines on-site discounts with off-site coupons tailored to individual audiences.

While on-site discounts drive increased volume with existing clientele, exclusive coupon codes published on coupon sites convert elastic shoppers that are especially motivated to purchase when they get an exclusive discount.

In a recent campaign, they published an exclusive code on GSG's mydealz site in Germany that offered mydealz users a better discount than the one offered directly on the retailer's site.

The strategy generated a revenue uplift of 86%. The retailer usually runs promotions with mydealz a few times each year, and they consistently deliver uplift - the average revenue uplift across four different promotions during a year-long period was 87%.

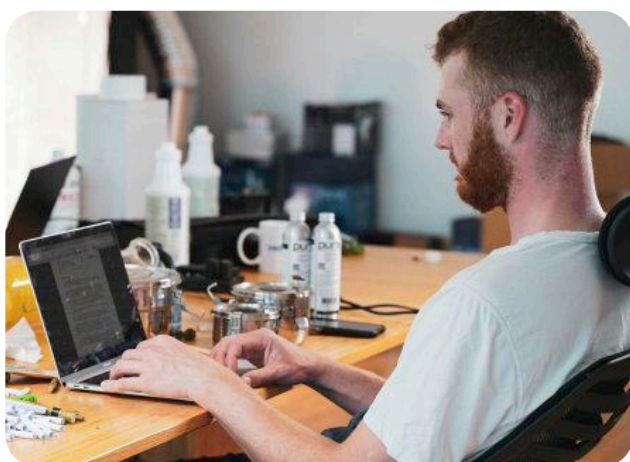




Did you know?

Data shows that coupon site users tend to spend more per basket than other shoppers - 54% more according to Awin data (which is based on millions of transactions over a three-year period). Therefore, coupon sites offer additional benefits beyond just converting more customers.

Interested in reading more about coupon sites' impact on your KPIs? Read our [white paper, **The counter-intuitive impact coupon sites can have on contribution margin.**](#)



Cashback sites: an avenue to convert more customers and target new demographics

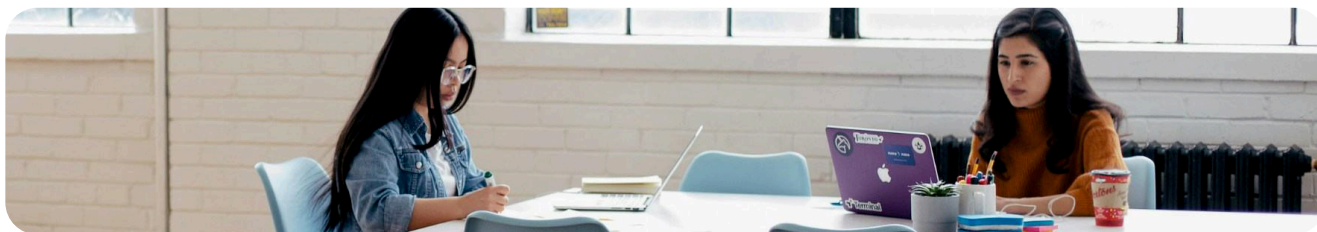
Statista⁴ shows cashback is one of the most popular strategies for secondary price discrimination worldwide.

This is because cashback sites attract both users looking for an entry-level deal and more tech-savvy demographics who see an opportunity to earn money back on big-ticket purchases.

By incentivising purchases through cashback, **these sites allow you to deliver an effective price discrimination strategy.** Ultimately, this is a form of discounting - but one which attracts a distinct customer cohort. Plus, because users need to create an account to use cashback platforms, they tend to offer unique targeting capabilities. For example, you might be able to target users who previously made a purchase in your vertical (e.g. fashion) or power users who are prolific online shoppers.

⁴ <https://www.statista.com/statistics/1328134/functionalities-loyalty-programs-worldwide/>

EMPLOYING PRICE DISCRIMINATION WITH AFFILIATE SITES



On top of that, the number of return visitors to these sites is consistently high, creating a captive demographic that has made cashback a habitual part of the shopping experience. Within that group of engaged users you'll also find people whose purchase decisions are heavily influenced by the availability of cashback - another reason to ensure you're offering it.



Stimulating sales by 82% with a cashback boost

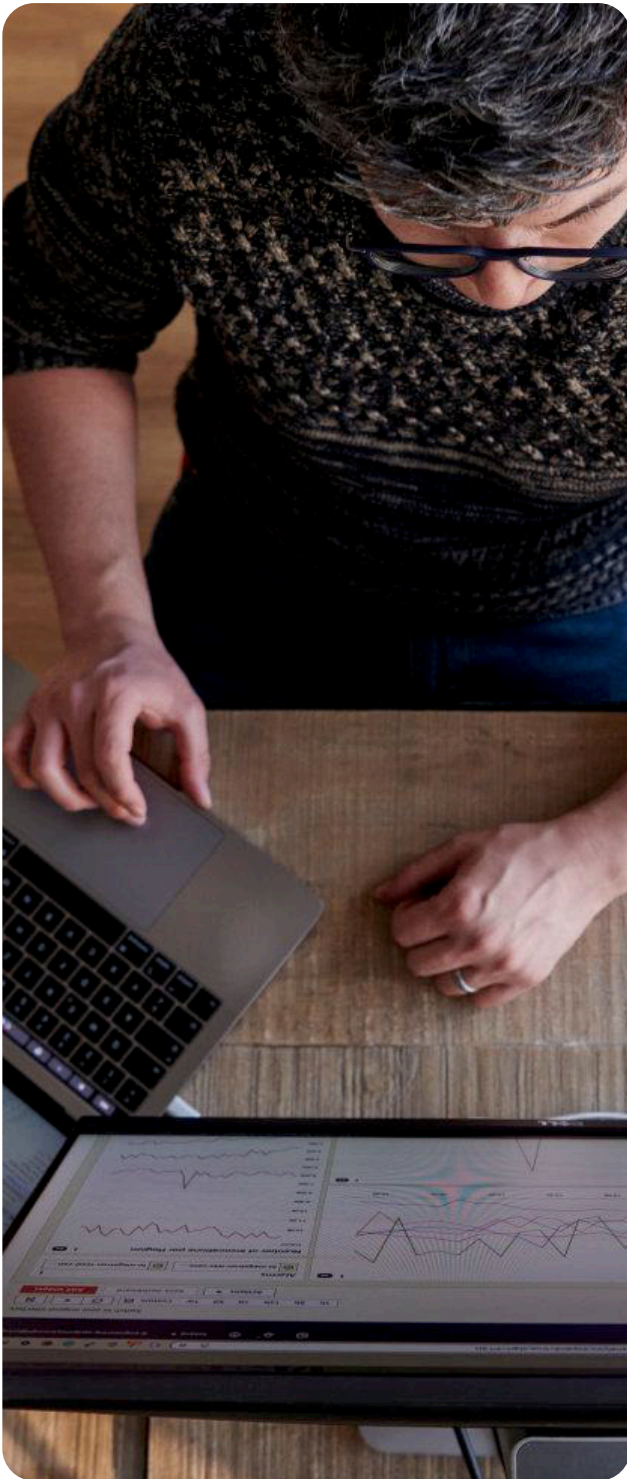
Cashback users include price-sensitive demographics, and this characteristic can be leveraged to drive increased sales. When these users perceive a good deal, they tend to purchase more, providing a significant advantage for businesses looking to boost their sales volumes and market share.

A leading travel booking site decided to tap into this potential by running a special promotion over two days on one of GSG's cashback sites. During this promotion, the site doubled the cashback rate for bookings.

The results? Compared to the same two days a week earlier, GMV increased by 80% during the promotion period, while total sales increased by 82% and market share in the travel category increased by 65%.

This demonstrates that strategic promotions through cashback sites can yield substantial benefits for businesses, particularly in highly competitive, price-elastic markets.

Protecting your brand perception



For price discrimination to be effective, **you need to be able to target individual customer segments separately from each other**. In other words, make sure your cheaper offers are only seen by people who wouldn't otherwise make a purchase.

Overly broad discounting can have a negative effect on how consumers perceive the quality of your products and brand. Coupon sites enable you to solve this problem by offering discounts solely to the people who are searching for a good deal. Cashback sites perform the same function, but without referring to discounting at all. Both enable you to **capture a greater share of the market and clear more inventory without hurting the price perception of your brand**.

How easy is price discrimination through coupon and cashback sites?

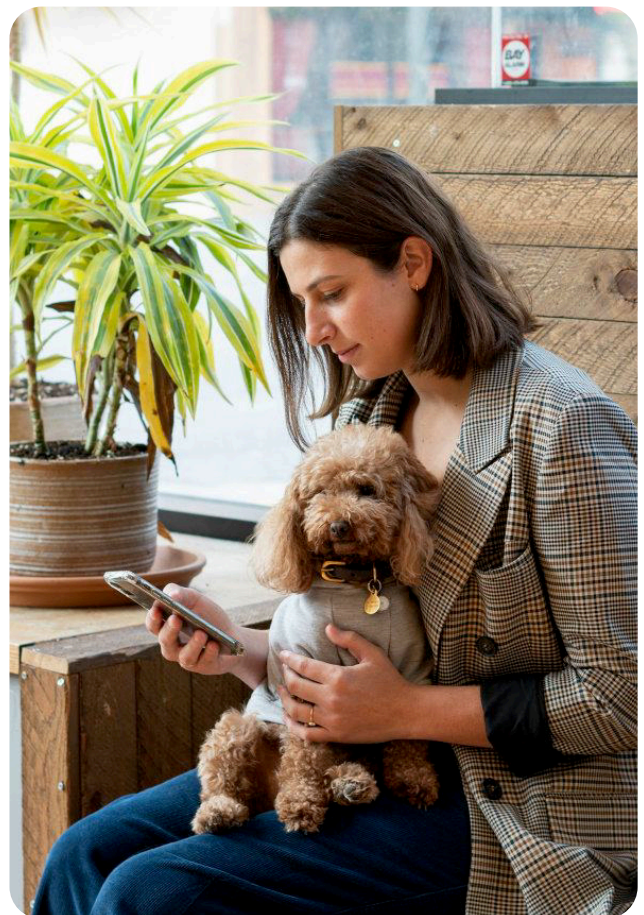
Of the three types of price discrimination, **secondary price discrimination has the lowest barrier to entry for the easiest return in terms of additional revenue and profit** for ecommerce brands.

It requires none of the customer insights required to determine willingness to pay, as it is the customers themselves who select the deal that appeals to them. Accurate customer segmentation still requires robust data analysis, as will calculating each segment's demand price elasticity.

But once these are established, **coupon and cashback sites are empirically successful channels for segmenting and targeting price-sensitive shoppers with deals that are more likely to convert them into customers.**

And by targeting shoppers with discounts and cashback deals that are invisible to customers acquired via other channels, you can ensure your brand proposition remains untouched for more inelastic customer segments.

—
With continual monitoring of profitability, customer satisfaction and brand perception, **online retailers can ensure that this strategy delivers clear, positive and controllable ROI.**





Authors



Lorenzo Secco

Lorenzo is Global Business Development Director at GSG, responsible for onboarding and working with new clients.

lorenzo.secco@igraal.com



Ben Smye

Ben leads the B2B marketing efforts at GSG and has spent more than 10 years in various marketing roles in different industries.

benjamin.smye@joingsg.com

About: Global Savings Group

Global Savings Group is the **world's largest shopping engagement platform, empowering millions of people to take smarter spending decisions.**

We help retailers reach consumers across the buying journey while showing clear ROI on their marketing spend.

Interested in working with GSG?

Send us an email to
new.business@joingsg.com

or visit our website,
www.global-savings-group.com