Atolls Insights

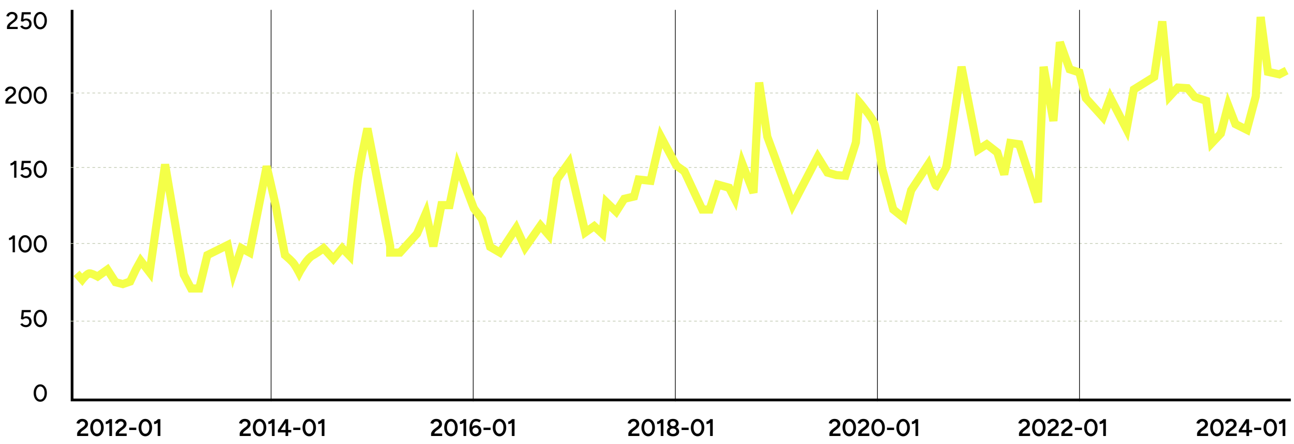
Beyond Discounts: How Cashback Sites Drive Incremental Value

01 Introduction

Cashback has taken off in recent years, as consumers and online retailers alike have embraced the model. For consumers, cashback offers a way to maximise value and earn tangible rewards from their online shopping. For retailers, offering cashback via third-party sites can help attract new customers and drive loyalty with existing customers, who are more likely to return to retailers that reward them for their spending and potentially also spend more per transaction.

Google Trends data shows a continuous increase in cashback-related searches over the last 10 years, especially in Europe, demonstrating its growth in popularity:

Google Trends Data — Europe



Google Trends data for 'cashback' searches, combined across Germany, France, Spain, and the UK.

Cashback basics: how it works

The concept of cashback is straightforward: customers make purchases and receive a percentage of the purchase price back as a cash reward. The cashback is funded by retailers, who pay cashback websites a commission for every sale they generate. The cashback websites then pass a fair proportion of this commission back to the customer.

Benefits of offering cashback as a retailer

Attracting and converting consumers is more difficult than ever due to fierce competition and rising ad costs. Cashback can offer an antidote to this. Here's how:

- Cashback offers a cost-effective strategy to build consumer loyalty and increase purchase rates. It can also boost average order values and reduce cart abandonment.
- Cashback programs help target price-sensitive shoppers* and improve brand perception, with 87% of consumers viewing cashback-offering brands more positively.
- It also offers a way to implement targeted price discrimination without revealing your pricing strategy to competitors. You can read more about implementing price discrimination in our paper on this topic here.

***It's important to note that a price-sensitive shopper doesn't necessarily have low purchasing power. In fact, many high-spenders and prolific online shoppers use cashback sites, it's just that their purchase decisions are more likely to be influenced by the availability of cashback.**

"Sometimes we don't know merchants, and the fact that they are listed on iGraal is a mark of quality; we immediately trust them."

Consumer feedback in France, 2024

02 The incrementality question

As an online retailer, if you are thinking about jumping on the cashback trend yourself, you will probably ask yourself one key question: will this channel drive incremental value? That's what we'll explore here. Before that, though, we need to agree on what incrementality means.

Defining incrementality

Incrementality is all about measuring the impact of your marketing efforts. Funnel.io describes it as the "impact of a marketing campaign on a specific outcome", and affiliate network CJ describes it as "the additional value the channel provides that would not have occurred without the channel present".

This means incrementality can be different for each business depending on the context and the goals of that business - there's not a single way to measure it.

It is really important here to focus on the idea of "additional value". Some marketers have a very narrow view of incrementality, focusing for example on new sales only. But that approach is not only short-sighted, it is potentially dangerous. Let's not also forget that each marketing campaign or channel can bring additional hard-to-measure spillover effects - cashback, for example, can help to improve your brand image, but this can be difficult to quantify.

Let's look at two hypothetical examples of misconceptions that can arise when you focus too narrowly on a single data point when measuring the impact of a marketing channel.

Scenario 1

You look into your data and you see that one of your marketing channels is driving 90% repeat buyers and just 10% new customers. Assessing that channel on a narrow definition of incrementality based on new sales only might lead you to the conclusion that it is not worth investing in. After all, if most of the customers coming from there are repeat customers, why keep paying for them? Those customers already know your brand, so they'll continue shopping with you anyway, right?

Therefore, you decide to turn the channel off. Soon, though, you notice that overall sales have dropped, especially with existing customers. What you didn't realise is that the channel had a major impact on influencing existing customers to shop with you, which you hadn't considered as you were focusing only on new customer sales.

In this simple example, you can see that the channel was delivering incremental value. Those existing customers were being influenced by the channel to make additional purchases, generating sales that wouldn't have otherwise happened.

Does cashback influence retailer choice?

While the example above is hypothetical, our data shows that offering cashback - or not - significantly impacts where people decide to spend their money. In one example, when a major player in the travel vertical stopped offering cashback, many users switched to competitors. In the first four months of the year, thousands of users who had previously exclusively shopped at the retailer in question started spending money at competitors instead. We project that the loss of these customers could cost the retailer between €36-68 million in revenue over the course of the year.

Scenario 2

You see that paid search has driven 500 sales from new customers in the last week, which is 50% more than a typical week. Great! This channel must be on the rise so you decide to raise your paid search budget. However, when you check the results a week later, sales are back down to where they were before the spike.

That's odd. Despite increasing your budget for the channel, you didn't see any increase in sales. When you dig a bit deeper, you find out that the increase in sales in the previous week came as a result of more people searching for your brand after it was mentioned on TV due to a new product launch. Paid search helped to capture this increase in demand, but played no role in generating it.

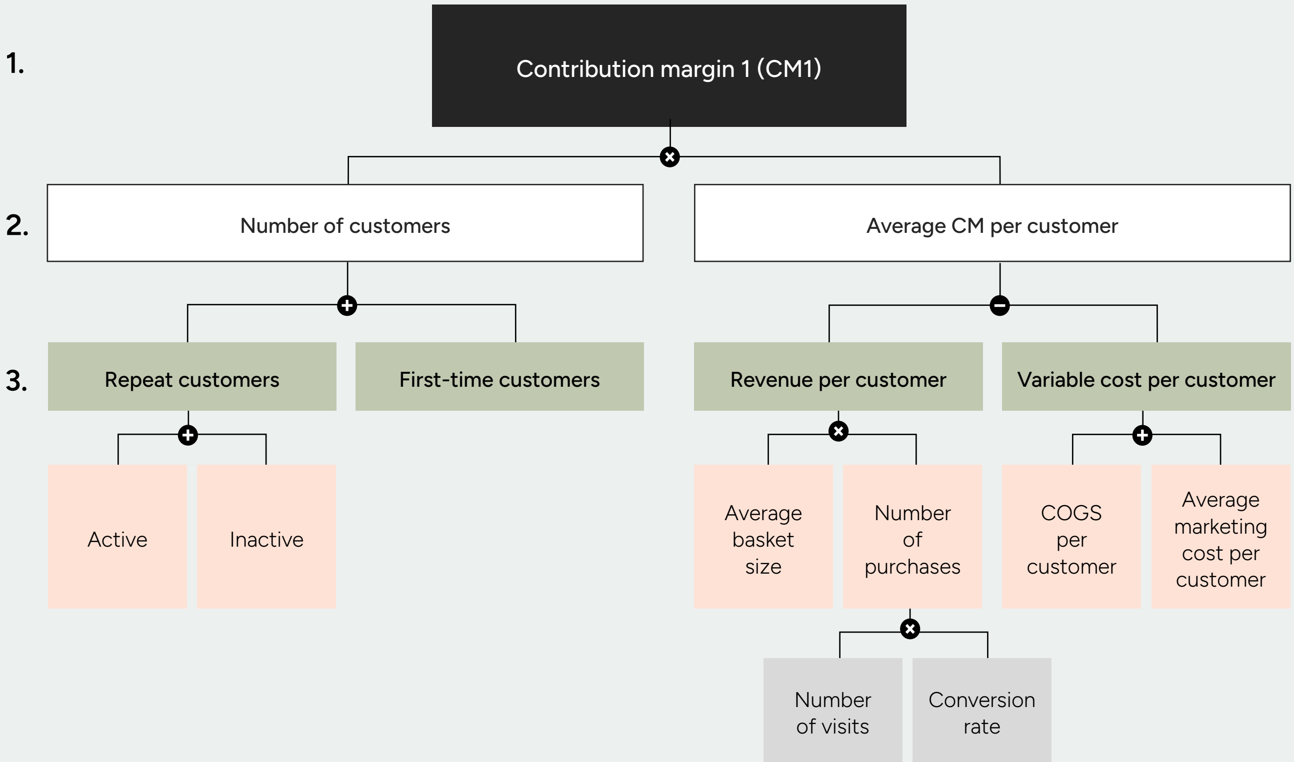
Here, though, things get a bit complicated. Even though paid search, in this example, wasn't responsible for the increase in demand, some of those additional sales may have still been incremental. That's because the ads may have steered customers to a higher-converting landing page or away from competitors that may also have been bidding on your target search queries. Without the paid search ads, some of those sales wouldn't have happened. The question you may look to answer here is how many of those sales were incremental and whether that number justifies the overall cost of the campaign.

Measuring incrementality is difficult

The key point is that measuring incrementality is difficult because the consumer journey is messy. There is no perfect way of measuring it because we don't have perfect information about the factors involved in every purchase. But that doesn't mean we shouldn't measure it at all. And it reinforces the fact that it shouldn't be based on a single measure such as new sales (which can be one of the indicators used, but should not be the only one).

The six drivers of incrementality

So, how can we measure incrementality? We developed the following methodology to look at it:



Here's how to read it:

1. The north star metric is **contribution margin 1 (CM1)**, i.e. revenue minus variable costs

2. Two primary metrics affect CM1 - the **total number of customers and the contribution margin per customer,** and each of these is affected by the following:

- Total number of customers: **known customers and new customers**
- Contribution margin per customer: **revenue per customer and variable cost per customer**

3. Each of these metrics can be influenced by various levers, such as average basket size, purchase frequency, and average marketing cost per customer

Almost every metric (or lever) shown above can drive incremental value. However, from our experience, these six are the ones that tend to be most relevant for marketers (as they are the metrics that marketers can have the most impact on):

- First-time (or new) customers
- Repeat customers
- Average basket size
- Purchase frequency (i.e. number of purchases per customer)
- Average marketing cost per customer (or per sale/conversion)
- Conversion rate

We go into each of these and look at how cashback sites can impact them in section 3, "Do cashback sites drive incremental value?".

How to define incrementality for your business

Defining incrementality for your business comes down to aligning the measures outlined above with your company's priorities. Here are some basic examples on how you can align incrementality measures with different company goals:

Company goal: Grow market share

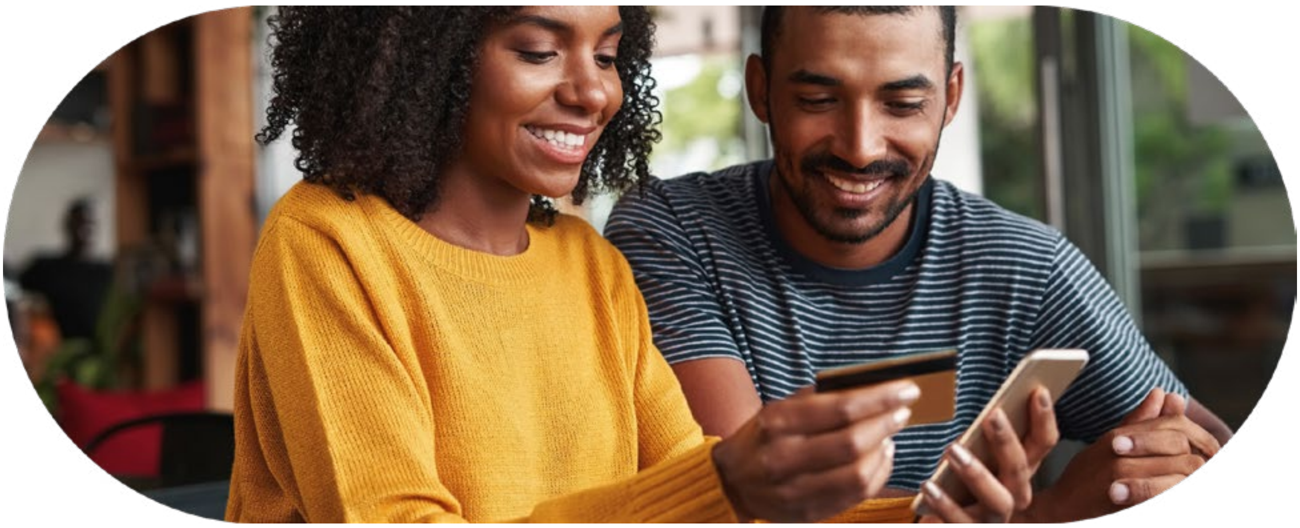
Focus on overall revenue or customers the cashback channel is generating.

Company goal: Increase average spend per customer

Focus on average basket size and the purchase frequency of customers coming from the cashback channel.

Company goal: Improve profitability

Measure the impact of cashback on average basket size and marketing cost per customer.



03 Do cashback sites drive incremental value?

Let's now look at each of the six incrementality levers we outlined previously and show some examples of how cashback sites can impact them.

New customers

Let's start with the most frequently used one. Attracting new customers is, in most cases, an important measure of marketing effectiveness. Focusing on this alone can be dangerous for the reasons mentioned earlier, but for most marketers it will still be an important consideration. (As a side note - one situation it is likely to be less important is when you're the market leader in a well-established market; in this case, it could be difficult to find any marketing channel that drives mostly new customers.)

Retailers often tell us that they think they'll only get existing customers from cashback sites, i.e. people who shop with them already will simply now shop with cashback and therefore cost margin. Even if this were true, and 100% of the customers coming from cashback sites were existing customers, there could still be incremental value in those sales if we consider some of the other value drivers (such as higher basket sizes - more on that later). But that aside, it's also simply not true that you won't get new customers from cashback sites.

Atolls' cashback brands, iGraal and Shoop, have around 15 million members between them. To say that cashback sites can't drive new customers is to effectively say that there is no one in that pool of consumers who hasn't shopped with your brand before. Users of reputable cashback sites also report that they tend to trust brands they find on cashback sites, even if they have not heard of them before. What's more, in a survey of 1000 French consumers, 66% said that they would prefer to purchase from a brand unknown to them that offered cashback rather than buying from a brand they knew that didn't offer cashback[1].

Many of the retailers we work with see cashback as a new customer acquisition channel. To optimise for this, a common strategy is to offer a higher cashback rate for new customers than for existing customers. For example:

- **Beauty**: Sephora offers 6% cashback for new customers and 4% cashback for existing customers
- **Fashion**: ASOS offers 4% for new customers and 2% for existing customers
- **Food delivery**: Uber Eats offers €4 for new customers and €1.50 for existing customers

While we don't always recommend this strategy as it can sometimes cause friction with users, it is certainly an option. It also mirrors the strategy many retailers use across all their marketing channels, where they are generally willing to pay more for new customers than they are for existing ones.

Another way to attract new customers is to combine a strong offer with additional exposure, such as targeted emails and mobile notifications sent to the cashback site's user base. A great example of this is Freshly Cosmetics' campaign with iGraal. To support a flash sale on Freshly Cosmetics' site, the cashback rate for customers was boosted on iGraal. At the same time, the campaign was supported with additional exposure on the iGraal site. Comparing the results month-over-month (MoM), they speak for themselves:

- **Over €29,300 revenue generated (+47% MoM)**
- **72% MoM increase in transactions**
- **23% MoM increase in Average Order Value (AOV)**

[1] Appinio survey commissioned by Atolls, 2021

Getting the right attention for your sales events and special offers can be difficult, but cashback sites offer a great channel to reach potential customers who are likely to be especially receptive to them.

Affiliate network CJ also provided data about the overall split of new[2] vs. repeat customers via cashback sites. It shows that 27% of purchases made via cashback sites are from new customers. This may initially sound low, but there are some important things to take into account here:

- The data is based on a 2-year period, and given that a key benefit of cashback sites is that they help to drive repeat buyers, this kind of repeat customer percentage shouldn't be surprising over such a timeframe
- As this data is based on 25 million transactions, it means that cashback sites drove an impressive 6.75 million transactions from new customers for retailers

Do cashback sites impact purchase behaviour?

When you work with a cashback site, ultimately what you want to see is whether doing so impacts the behaviour of your customers (whether they know you already or not).

To assess cashback sites' ability to impact purchase behaviour, we can look at what happens when a retailer runs a cashback promotion - i.e. they temporarily raise the cashback rate offered to customers.

If cashback does not impact purchase behaviour, boosting the cashback rate offered to users won't impact sales. On the other hand, if cashback does impact purchase behaviour, an increase in the cashback rate would lead to an increase in sales.

This comes down to microeconomics and demand elasticity: by increasing the cashback rate, you are effectively lowering the price of what you are selling. As the price is lowered, demand increases.

So, what does the evidence show?

A leading travel booking site decided to run a special promotion over two days on one of Atolls' cashback sites. During this promotion, they doubled the cashback rate for bookings.

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

This demonstrates that cashback positively impacts purchase behaviour, especially during promotional periods.

By the way, the impact of cashback promotions is likely to be more pronounced the more elastic demand in your industry or product category is. For more info on that, **read our guide on price discrimination for ecommerce brands**.

[2] A new customer is generally defined as someone who hasn't made a purchase within the last 2 years (in some cases it is different, as ultimately it is up to the retailer to decide how they define a new customer)

Repeat customers

Various research demonstrates that cashback sites can positively impact customer retention. In one survey, **73% of respondents said they are more loyal to retailers that offer cashback**[3]. Moreover, the psychological appeal of receiving cashback rewards enhances the overall shopping experience, instilling a sense of gratification among customers. As a result, customers are more likely to associate positive emotions with brands offering cashback, which can lead to increased loyalty.

As mentioned in the previous section, data from CJ shows that, over a two-year period, 73% of transactions made via cashback sites are from repeat customers. This highlights how strong the channel is at driving repeat business in an environment where customer loyalty is harder than ever to build.

The more advanced cashback sites can also use purchase data and other information to proactively encourage repeat purchases. For example, when a brand offers a special cashback rate for a limited time, the cashback site can alert customers who've shopped with that brand previously.

In our data we can also see that the most engaged cashback users, defined as shoppers who make 2 or more purchases with the same retailer within a two-year period, drive an outsized share of revenue. Typically, we see that repeat buyers, who make up 10-29% of total buyers in each category, drive between 40-70% of revenue. Our cashback platforms attract some of the most prolific online shoppers, with tens of thousands of users who make more than 50 transactions each year. So, if you're looking to attract customers who are more likely to become repeat customers and make more frequent purchases, you can reach them with cashback.

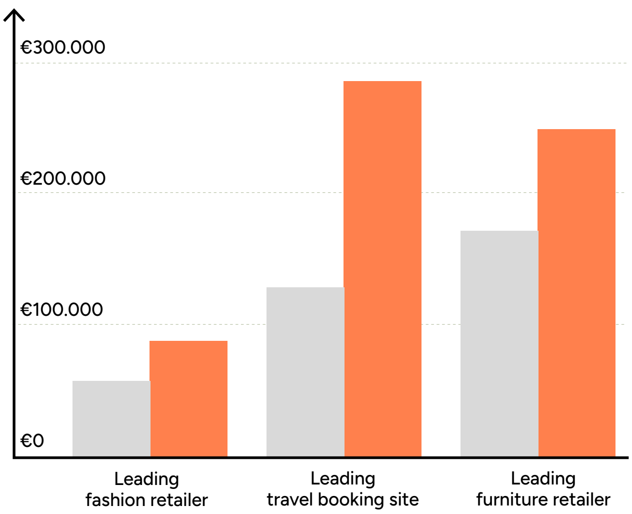
Average basket size

Ferrari sold 13,663 cars in 2023. Ford sold almost 2 million. Despite this, Ferrari's market cap is around 40% higher than Ford's, at around €70bn compared to Ford's €50bn. So what, you might say? What does this have to do with cashback? Well, business value is generated by many different factors. Ferrari earns significantly more revenue per customer than Ford, and that is one of several reasons why it is valued higher (of course, many other factors influence this, including Ferrari's immense brand value).

So, what can we learn from Ferrari? Well, for one, raising your average basket size (also referred to as average order value or AOV) can be a key value driver. And working with cashback sites can help you do this. In a survey, 63% of cashback site users self-reported spending more at shops that offered cashback[4]. And the data backs this up.

We compared the average basket sizes of three leading retailers in the fashion, travel and furniture industries with the average basket sizes of Atolls cashback users at the same retailers. We found that cashback users spent, on average, 46% more than the average shopper.

Average basket size



Data from affiliate network CJ also backs up these findings. Two years' worth of data across millions of transactions and 3.000 retailers showed that cashback has **a 29.5% higher AOV** than other affiliate non-cashback publisher models.

[3] Appinio survey commissioned by Atolls, 2021

[4] Appinio survey commissioned by Atolls, 2021

Number of purchases (purchase frequency)

If you refer back to the measures of incrementality chart (page 7) you will remember that increasing your revenue per customer can be influenced by the average basket size and the number of purchases per customer. We've already looked at how cashback influences basket size, so what about purchase frequency?

First of all, let's consider the customer psychology here. Cashback offers consumers a way to save money that acts differently from a typical discount, as the consumer doesn't receive the benefit immediately, but rather weeks or months after making a purchase. Despite this, in terms of its impact on purchase behaviour, it has a double benefit, which is highlighted in a report titled 'Cashback is Cash Forward' published in the Journal of Marketing Research[5]. On the one hand, it makes a purchase more attractive as the shopper tends to integrate the 'savings' from cashback into the price at the time of purchase. In this way, the consumer sees it as a discount on the purchase they are making. However, when they then receive the cashback (sometimes months after the initial purchase), they perceive it as a windfall gain, i.e. unexpected money that they can use for additional purchases.

This can go some way to explaining the theory behind how cashback can increase purchase frequency, but does the data back this up?

First of all, it's important to note that you need to have the right strategy in place to increase purchase frequency. For example, you could offer a cashback rate that is higher than that of your competitors, or you could run promotions where you offer higher cashback rates for a limited time.

We have worked closely over the last 18 months with a leading travel booking brand. Throughout this time, they offered an attractive base cashback rate that was above that of key competitors, and they also ran several promotions where they doubled the cashback rate on offer (usually for 2-3 days at a time). Most competitors either did not do this or if they did, the promotions were far less frequent.

As a result, purchase frequency at the site was more than double that of their major competitor, and 115% higher than the average purchase frequency in their category. What this shows is that with the right strategy, you can increase purchase frequency.

2x purchase frequency of the closest competitor

Through a combination of an attractive cashback base rate and regular boosted cashback promotions throughout the year, a leading travel booking site was able to achieve a purchase frequency more than double that of their closest competitor, and 115% higher than the average of all competitors in their vertical.

Average marketing cost per customer

Marketing efficiency has become an especially important topic over the last year or two as some companies have had to cut back on marketing spend in a tight economic climate. This has led to more of a focus on reducing the average cost per customer (or sale).

In its simplest form, the average marketing cost per customer is calculated by dividing total marketing spend by the total number of customers in a specific time period. It can also be calculated based on the total number of new customers, but then it is important to separate out marketing spend on acquisition vs. retention to avoid misleading conclusions.

Cashback can help to improve your average cost per customer because it is an efficient channel. You only pay for actual sales, and you have control over the cost you want to pay per sale. Therefore, you can ensure you never overpay for customers, something that isn't possible with many other channels. In recent years, the cost of Google and Meta Ads has risen dramatically, making it harder than ever to efficiently drive customer acquisition from those channels.

What's more, even when customers originate from other channels, cashback can provide the incentive needed for them to convert. This can raise the conversion rate of those users, and subsequently lower the average cost per conversion.

[5] Cashback is cash forward: delaying a discount to entice future spending, Vana, P, Lambrecht, A and Bertini, M (2018)

Let's see how that could look in practice:

- You get 1000 visitors from paid search; it costs €3 per click and your typical conversion rate for paid search is 4.4%. Here, your total cost is €3000, you acquired 44 customers, and therefore your average cost per customer is €68.18.
- Now, let's see how that could look with cashback in the mix. Let's say 10% of the paid search visitors are cashback users[6]. We can now assume that those users will convert at a higher rate; we will use 21.57% as the conversion rate as that is the average conversion rate of cashback users in our data[7]:
  - » 900 clicks convert at the usual rate of 4.4%
  - » 100 clicks convert at the higher rate of 21.57%
  - » Total (whole) conversions: 61
  - » Blended cost per customer: €52.43[8]

Conversion rate

Data shows that the conversion rate of shoppers from cashback sites is significantly higher than other channels. CJ data shows that it is 60% higher from cashback sites than other affiliate channels, and 188% higher than non-affiliate traffic. The reason, broadly speaking, is twofold:

- Firstly, cashback site users tend to be already in buying mode
- Secondly, the cashback acts as an incentive for them to complete the purchase

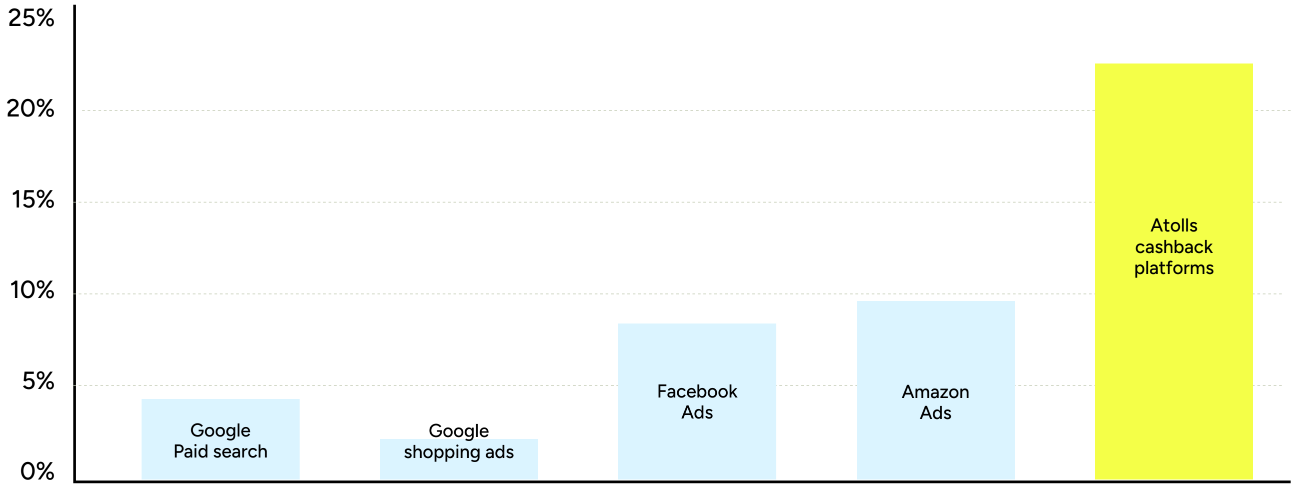
When compared to other major marketing channels, the conversion rate is also significantly higher - even higher than Amazon Ads, where users also tend to be in buying mode already:

Now, it's true that some shoppers coming from cashback could have originated from a different channel. Therefore, the credit for the conversion needs to be split with the other channel. But this is the case for almost all channels - imagine someone has just seen your TV ad, searches for your brand and converts on a paid search ad - the credit for this conversion should be split with TV. The key point is that, even when another channel is involved, cashback can be the factor that pushes customers 'over the line' and it can, therefore, contribute to an uplift in overall performance.

Here's an example of how:

1. Let's say you get 1000 visitors to your site, and your **average conversion rate is 5%**. In this case, you'll get **50 sales**.
2. Now, let's say you start working with a cashback site, which 10% of your visitors are users of already.
3. If that 10% of visitors - in this case 100 people - converts at 20% (about the average conversion rate for users coming from cashback sites), you'll get **65 sales from the same cohort of customers** (20 sales from the cashback cohort of 100 visitors and 40 sales from the remaining 900 visitors).
4. The result: a blended **conversion rate of 6.5%.**

Conversion rate by channel



[6] This is a hypothetical number but has some base in reality, with approximately 10% of the populations of France and Germany registered on one of our cashback sites.
[7] Internal Atolls data, calculated by dividing the total number of transactions by the total number of clicks
[8] The number here depends on your CPA for cashback and the basket value. In this number, we assume an 8% CPA and an average basket size of €120.

04 Summary

In this paper we've highlighted how cashback, sometimes perceived as just another discount channel, can in fact drive incremental value for retailers in a variety of ways. We looked at why you need to shed the misconception that incremental value only comes from new customers, even though it can be one of the measures you use.

For example, businesses that prioritise market share growth should consider new customer acquisition as a goal. Those seeking to amplify spend per customer should focus on average basket size and purchase frequency. To enhance profitability, examining average marketing cost per customer and basket abandonment rates is vital.

The psychological appeal of cashback also cannot be overlooked. By framing the reward as a deferred "windfall" gain, cashback drives customer loyalty and repeat business. This kind of impact on consumer psychology can be hard to measure directly but can have an overall positive impact on your results.

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About

Atolls is a leading shopping engagement platform annually empowering 2bn+ consumer decision journeys across our digital destinations including Deals Communities, Cashback Platforms and Coupon Sites - enabling 15k+ advertisers to engage with high intent audiences when and where it matters the most.

Founded in 2012 in Munich, Atolls has offices in 11 countries from which more than 1,000 Atollians run a portfolio of 40+ category-leading destination brands in 23 markets – from iGraal and Shoop, to hotukdeals and mydealz, to Coupons.com and Radins.com.

Interested in working with Atolls?

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