

E-commerce Profitability

Smart Discounting Strategies

Vandra

Convert browsers into buyers


E-Commerce DTC Discounting

A Challenging Market

Today’s e-commerce merchants face significant headwinds in establishing, scaling, and profiting from their DTC channel. Low barriers to entry create fiercely competitive marketplaces, and monopolistic ad platforms are driving up acquisition costs.

Merchants vying for share of this market face a number of challenges:

- 1. **Intense DTC competition**, forcing aggressive price competition
- 2. **Rising digital advertising costs** push brands to maximize conversion on expensive traffic
- 3. **Consumers expecting regular sales** and discounts
- 4. **Email marketing performance** has become heavily dependent on promotional offers



This e-book’s focus is on understanding the key forces driving merchants to leverage discounting; common pitfalls many of them make in executing discount strategy; and how the best in the business leverage discounts strategically to maximize revenue and profit.

We’ll also cover how leading merchants are leveraging cutting-edge AI tools to help with this process, giving them time back to focus on the important parts of their business.

A Growing Reliance on Discounts

Facing this daunting market, the allure of driving quick sales through discounts has become a standard practice in e-commerce, particularly among growing DTC brands. These discounts typically fall into three core categories:

Welcome Discounts

(10-15% off first purchase)
Emerged as a lead generation tool to build email lists and create immediate purchase intent.

Site-Wide or Seasonal Sales

(20-40% off everything)
These broad discounts arose as DTC brands attempted to compete with traditional retail's major sale events.

Bundle Discounts

("Buy More, Save More")
Created to increase average order value and clear inventory more efficiently.

While these discounts might seem like an effective way to attract new customers, they often create unexpected challenges that can significantly impact your bottom line and brand value.



Understanding the True Cost

The reality is that, while discounted sales may seem great on the surface, underneath lies an inherent risk to the long-term profitability of your business.

This risk lies in three key areas:



- 1 Brand Value Erosion**
Presenting customers with 'always on' discounting, sales, or promotions creates the perception that your brand lacks premium appeal or exclusivity, causing them to seek alternatives.
- 2 Experience Degradation:**
Converting customers to their first-purchase is challenging enough. Building loyalty and increasing lifetime value is even harder; and it becomes more difficult when users are interrupted with irrelevant pop-ups, or find out that they've missed out on a sale.
- 3 Behavioral Conditioning**
Over time, consumers become accustomed to seeking out discounts as a primary driver to convert. This increases the percentage of discounted sales, reducing margins and creating a vicious cycle.

Together, these three risks create headwinds against an e-commerce business that make it challenging to grow and maintain profits, and continue the cycle of higher CAC, with lower LTV.

How the Math Works



An e-commerce direct-to-consumer (DTC) brand set a sales goal of 100 orders and aimed for a revenue of \$7,800. To boost sales, the company offered discounts to new customers. However, this strategy backfired. The brand's value declined, as the lower prices also affected customers who would have typically paid full price. This created a negative experience for loyal customers, many of whom felt penalized for their loyalty. Some customers were frustrated by having to sign up for a new account to receive the discount, while others decided not to make a purchase at all. Consequently, the company ended up with only 80 orders, generating just \$5,100 in revenue.

Discounting Risk	How it Hurts Your Bottom Line	Financial Impact
 Brand Value Erosion	Customers who buy directly from your brand typically do so out of conviction in your product's value. Regular discounting can undermine this value.	9.63% of sales went to a "premium brand"
 Behavioral Conditioning	Shoppers learn to wait for discounts. Future purchases become dependent on promotional offers, while full-price sales become increasingly difficult to achieve	4% of full-priced orders received unnecessary discounts.
 Experience Degradation	Loyal customers feel "punished" when sales go to new customers, creating incentives to use multiple emails. Leads to a cycle of more aggressive discounting to maintain sales	20% of orders are discounted unnecessarily 10% of orders are lost.

Outcome: All of this is a race to the bottom, resulting in Profit Margin Deterioration:

-
- Discounts don't come from revenue - they come directly from profit
 - Requires significantly higher sales volume to maintain profitability
 - Creates pressure to increase marketing spend to drive higher volume

Deep Dive:

The *Hidden* Math Behind Welcome Discounts

Let's start with a sobering reality: *a 10% welcome discount can require 40% to 50% more orders just to maintain the same profit.* For small, independent Shopify stores operating on tight margins, this mathematical truth can mean the difference between profitability and struggling to stay afloat.

To illustrate the impact a 10% discount has on your profit, here's an example of 100 products being sold at \$100 each:

Regular Pricing	With 10% Welcome Discount
Price per product = \$100	Discounted price = \$100 - 10% = \$90
Cost to make each product = \$70	Cost to make each product = \$70
Profit per product = \$100 - \$70 = \$30	Profit per product = \$90 - \$70 = \$20

If 100 products are sold at full price: 100 × \$30 = \$3,000 total profit
compared with the discounted price: 100 × \$20 = \$2,000 total profit

In this simplified example there is a \$1,000 shortfall,
meaning 50 additional orders are needed (50 x \$20) to make up the difference.

Why Welcome Discounts Became the Norm

Interestingly, the practice of welcome discounts wasn't originally designed for direct-to-consumer brands at all. The strategy was borrowed from multi-brand retailers who used welcome codes to circumvent brand restrictions on discounting latest-season items. However, as a DTC brand, you have direct control over your pricing and brand positioning - making blanket discounts an unnecessary compromise.

The Email Collection Myth

Many DTC brands justify welcome discounts as a necessary evil for collecting email addresses. However, this strategy requires closer examination.

- *How many sign-ups purchase within 48 hours?* These aren't additional sales - they're discounted conversions that likely would have happened anyway.
- *What percentage of collected emails actually convert to sales weeks or even months later?*
It is common to see low conversion rates for these "acquired" contacts after the initial discount.
- *Is the margin sacrifice worth the email acquisition?* Consider that you may be trading profit today for a database largely filled with one-time discount hunters.

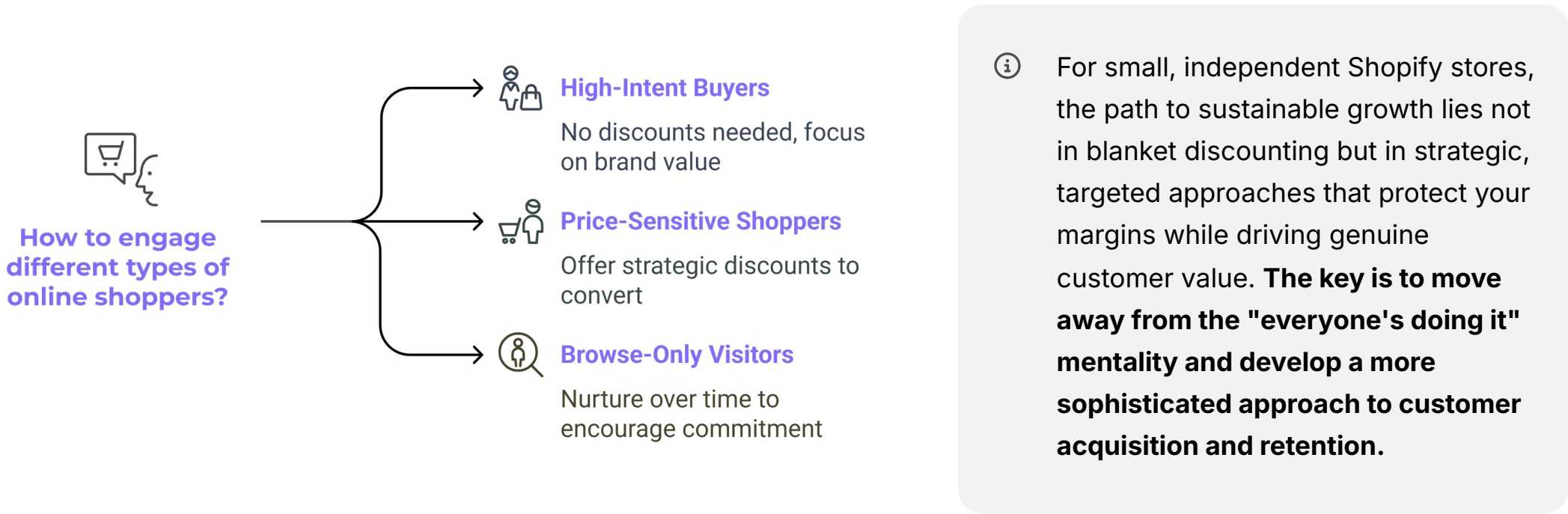
Personalizing Discounts

Understanding Modern Consumer Psychology

Understanding how and why customers make purchasing decisions is crucial for sustainable growth. Modern shoppers are more sophisticated than ever before, with distinct behaviors that shape their purchasing decisions, and today’s AI tools are enabling merchants to act on this nuanced customer experience.

These shoppers fall into three distinct categories:

High-Intent Buyers, Price-Sensitive Shoppers, and Browse-Only Visitors.

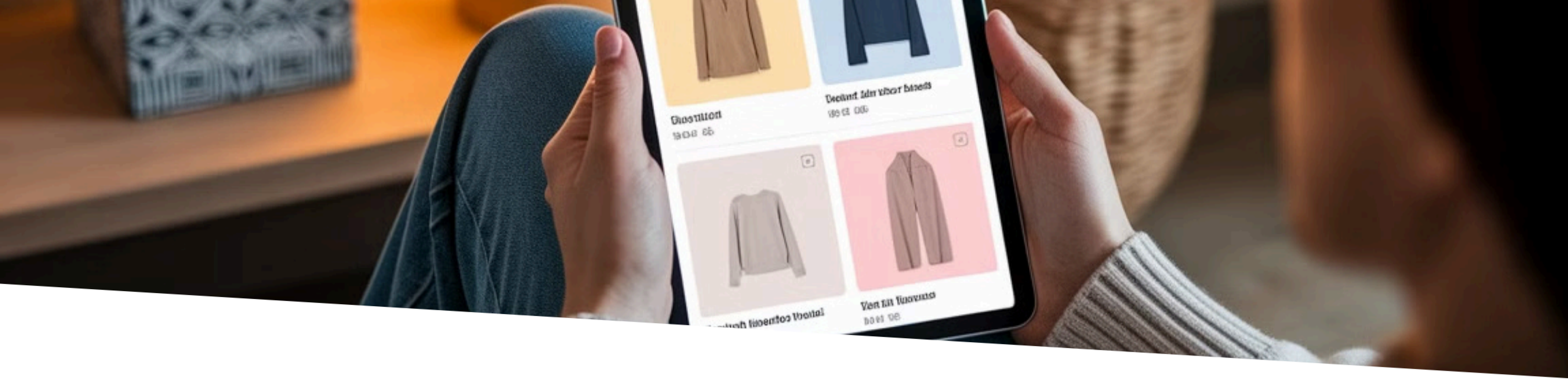


Tips to Engage: High-Intent Buyers

Consumer psychology drives how pricing shapes perceived value and purchase decisions. Customers rely on mental reference points rather than pure rational calculations, making it crucial to balance premium positioning with strategic offers.

Initial prices anchor customer expectations and shape perceived value. Premium positioning through consistent pricing helps maintain brand integrity, while frequent discounting can erode perceived worth.

High-intent buyers don’t need discounts. In fact, their association of value with premium pricing means discounts will reduce their desire to convert. Instead of discounting this audience, consider building loyalty, and offering exclusivity through members-only offers.



Tips to Engage: Price-Sensitive Buyers

Build a value-first approach. Highlight product benefits, showcase customer testimonials, and emphasize unique selling propositions to establish core value.

Create personalized shopping journeys, provide excellent customer service, and build long-term relationships with your customers. Discounting this audience strategically can drive them over the decision-making hump.

Strategic use of limited-time offers and exclusive promotions creates motivation to purchase. Well-targeted promotions maintain brand value while driving conversions through psychological triggers.



Tips to Engage: Browse-only Visitors

Educational content empowers browse-only visitors through detailed product information, comprehensive specifications, and clear comparison guides that illustrate the differences between options.

Progressive engagement begins with low-commitment touchpoints like product reviews and thematic newsletters that maintain ongoing connections without requiring immediate purchases.

Develop sticky features and tools like wish lists, product alerts, and interactive tutorials that create multiple pathways to conversion while building confidence in purchase decisions.

A Strategic Discounting Implementation Approach

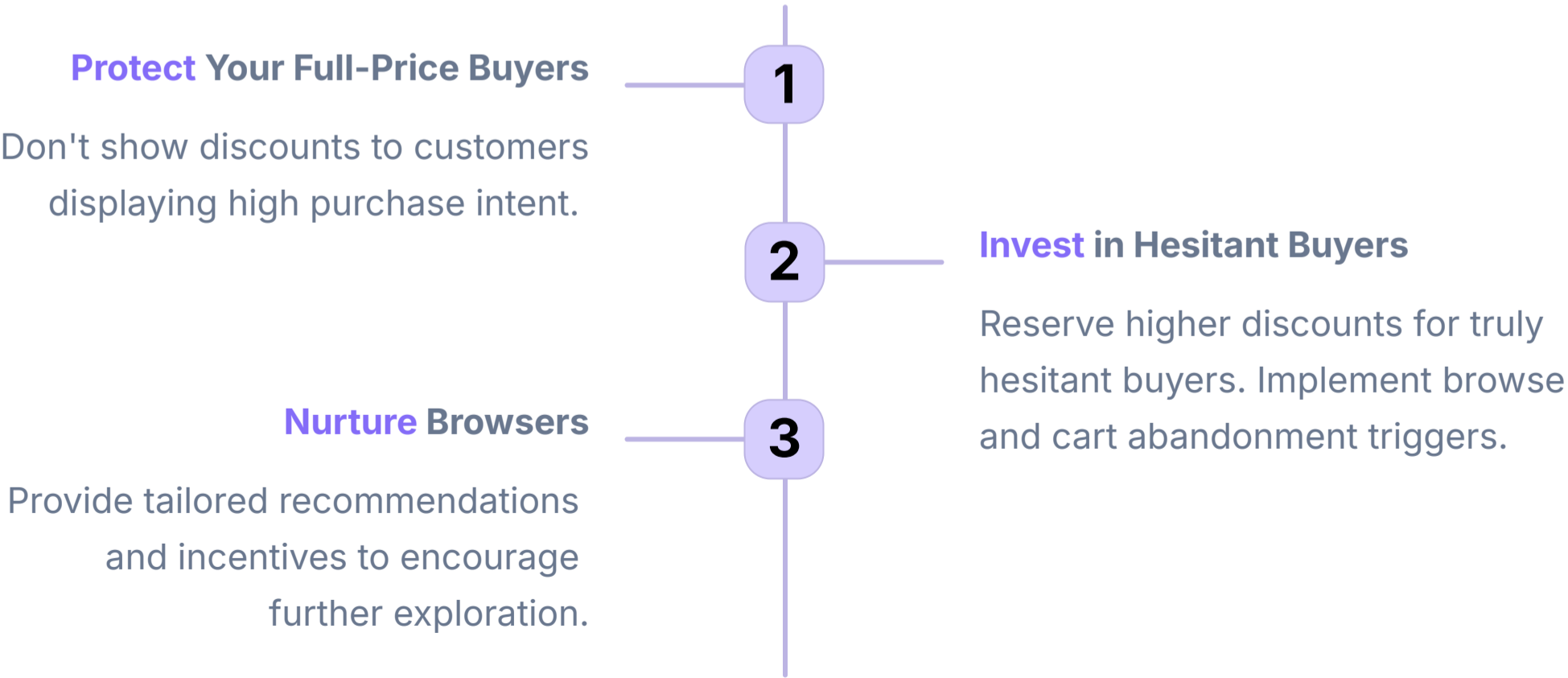
Common Pitfalls to Avoid

Avoid offering the same discount to everyone or showing discounts too early. Consumers today expect more than the one-size fits-all, generic pop-up. Don't ignore seasonal trends or forget to include shipping costs in margin calculations.

Instead, approach your customer conversion strategy as a personalization exercise that aims to meet the needs and desires of each of your customer segments.

The best merchants are focused on a three-step playbook:

Protect, Invest, and Nurture:



How to Set Your Strategy Up

- 1

Understand Audiences in Real Time: Most analytics platforms are a rear-view mirror, looking backward at what happened. To implement an effective personalization strategy, you need to understand your users, and make decisions in real-time.
- 2

Measure & Segment Intent: Use AI tools that can accurately assess and measure a users intent based on their browsing behavior. Segmenting users into High, Medium, and Low-Intent cohorts enables you to deliver them real time offers based on what you now know of their needs.
- 3

Deliver Personalized Offers: These same AI tools can offer you the ability to deliver unique offers to different segments of users, in real-time, based on their intent. Follow the Protect, Invest, Nurture framework with each.

Measuring Success

Remember: The goal is to use discounts as a strategic tool, not a blanket solution. Your discounting strategy should evolve based on data and customer behavior patterns.

Cohort	CVR (Pre)	CVR (Post)	Incremental Sales	Discounts Avoided
High-Intent Buyers	10%	12%	-	\$56K
Price-Sensitive Shoppers	0.5%	8%	\$325K	-
Browse-Only Visitors	0.25%	0.5%	\$12.5K	-

CVR (Pre) = Conversion Rate before implementing Strategic Discounting
CVR (Post) = Conversion Rate after implementing Strategic Discounting

Data based on anonymized Vandra client examples over 90 day testing period

Taking Action

Implementing Smart Discounting: As we've explored the science behind intelligent discounting, it's clear that the future of e-commerce success lies in personalized, data-driven approaches. But how can brands implement these strategies without significant technical resources or risk?

Why Vandra.ai is Leading the Smart Discounting Revolution

Drawing from our extensive experience with **500+ digital commerce brands**, Vandra.ai has developed a solution that makes intelligent discounting accessible to every e-commerce business.



AI Powered Insights

Vandra's AI is trained from hundreds of small and medium-sized e-commerce shops, and has developed a unique understanding of Shopify consumer behavior across verticals.

Effortless Implementation

Vandra's script is implemented with 4 clicks, has no impact on site performance, and runs invisibly to the user in the background, categorizing users based on their intent to purchase.

Personalized Nudges

Merchants have complete control over when and how Vandra's personalization nudges interact with users; setting custom discount thresholds, and pausing delivery automatically.

Proven Results Without Risk

Stop wasting money on discounts to high-intent buyers, and increase margin. Vandra users see an average 15% conversion rate lift within the first 30 days.

Full Funnel CRO using AI

Contact us to learn more about Vandra's additional nudges for "browse-only" users.

Take the first step toward intelligent discounting

Schedule a Demo

