

The counter-intuitive impact



coupon sites
can have on
contribution
margin.



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Introduction

Conventional wisdom suggests that coupon sites are a double-edged sword for retailers: on one side, they **offer a pathway to reach a broader audience**, yet on the other, **they seemingly gnaw away at profit margins**.

The typical logic goes something like this: each time a shopper applies a discount, the profit margin for that sale shrinks. Add to this the commission for the coupon site, and the margin seems to thin out even further.

However, a deeper dive into data and the strategic role coupon sites can play reveals a more nuanced picture. Contrary to initial assumptions, **coupon sites can paradoxically bolster contribution margins by improving Average Order Values (AOVs)¹, driving new sales with price-sensitive customers, and reducing cart abandonment**.

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Coupon sites can bolster contribution margins by **driving up AOVs, driving new sales, and reducing cart abandonment**.

In this paper, we'll dig into the data and look at the key role discounts - and coupon sites - can play in improving your numbers as an ecommerce business. We'll also look at why focusing purely on contribution margin can be detrimental, and how coupon sites can help you achieve other goals.



¹ AOV = The average spend per customer, typically calculated by dividing total revenue by total number of orders.

Do coupon sites reduce margins?

When it comes to the discussion about contribution margin, the basic argument against coupon sites is pretty simple. Let's imagine you sell a product for \$100, and it costs you \$50 to produce that product. Now, let's say you have three different customers who purchase that item:

- *Customer 1:* comes directly to your website and doesn't use a coupon code. Your gross margin on this sale is \$50.
- *Customer 2:* comes directly to your website and uses a 10% off coupon. Your gross margin on this sale is \$40.
- *Customer 3:* comes to your website from a coupon site and uses a 10% off coupon. The coupon site receives a 5% commission for assisting the sale. Your gross margin on this sale is \$35.50 (with the commission being \$4.50 - 5% of the \$90 basket value).



The prevailing belief that coupons reduce margins is typically based on simple calculations such as those shown above.

However, it is regularly overlooked that this belief is based on the unspoken assumption that every transaction would have been carried out in exactly the same way without a coupon. In fact, this assumption is wrong: data shows that coupons can increase AOVs, drive new sales in a targeted way, and reduce basket abandonment. All of these effects can more than compensate for the margin loss shown in the calculations above. Let's explore these effects further.

Effect 1: Coupons increase AOV

The concern that coupon sites could undermine profitability is not entirely unfounded. After all, if a customer pays less for a product, isn't the business inherently making less money on that transaction? Not necessarily.

Based on data Global Savings Group (GSG) has collected from thousands of transactions across a range of different industries, one common trend we see is that the Average Order Value (AOV) of customers using coupons tends to be above average. This means that while individual items may have a lower margin, the overall value of the purchase tends to increase, which can more than compensate for the discount offered.

Here is a breakdown comparing the AOVs of some leading retailers in different verticals with the AOVs of GSG coupon site users at the same retailer²:



In every case the **AOV is higher; 122% higher in the best case**, and 72% higher in the worst case. On average, it is around 93% higher.

² GSG AOV data collected from 938,424 transactions over a one year period. Retailer AOV data taken from retailers' annual reports.

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We also analysed data from Awin, one of the largest affiliate networks, to see the impact coupons can have on AOVs. Data from millions of transactions over three years and across 59 different ecommerce verticals showed that, **on average, AOVs were 54% higher when they included a coupon.**

54% increase in AOVs when they included a coupon.



Average AOV with and without a coupon code³



³ Data provided by Awin. AOVs were calculated for publishers in the Discounts & Promotions category, which includes coupon sites, and shows the difference in AOV when a voucher was used and when it wasn't. Outliers were removed (either when the AOVs were abnormally high or abnormally low in a particular vertical).

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Impact on contribution margin

So, AOVs might be higher, but what about contribution margins (CM)? Well, although there are too many variables to calculate the specific contribution margin in each case, we can estimate it if we take into account some additional data points.

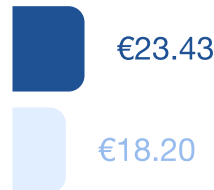
In the following graph, we have layered in the retailer's reported average margin, the GSG average CPA (cost per acquisition; the commission GSG earns per sale generated) and the average discount used by GSG buyers at that specific retailer. **Even with those additional 'costs' taken into account, the contribution margin per purchase is higher for coupon site users than it is for the average buyer.**



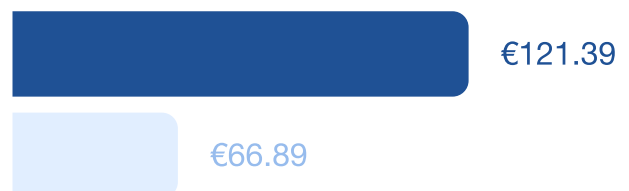
Contribution margin per purchase (€)

● Retailer contribution margin ● GSG coupon site user contribution margin

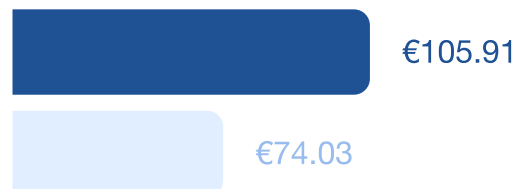
Leading fashion retailer



Leading travel booking site



Leading furniture retailer



Methodology: the retailer CM was calculated by multiplying the AOV by the gross margin, with data taken from the retailers' annual reports. The GSG coupon site user CM was calculated by multiplying AOV by gross margin after the average discount amount and the average CPA was applied.

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How does this happen?

Quite simply, the higher AOV offsets the impact of the discount and commission paid to the coupon site. What's more, offering targeted discounts on certain items can be a great way to clear inventory, which can have positive knock-on effects elsewhere in your business, such as reducing inventory holding costs.



At this stage, you may be wondering why the **AOVs are higher**. Some of the likely explanations are:

- *Buyer behaviour changes when there is a discount available; many buyers justify spending higher amounts because they feel like they are getting a great deal and want to take advantage of it.*
- *Certain coupons require a minimum spend, so buyers purchase more to be able to take advantage of this.*
- *In some cases, GSG offers users a reward for purchases above a certain spend (e.g. a €15 gift card for spending €100 or more), which also encourages shoppers to spend more to receive the reward. Here, although it's not a discount driving the increased spend, the coupon site is impacting user behaviour.*

Effect 2: Coupon sites drive additional sales in a targeted way with clear ROI

Let's now say you're convinced by the AOV argument, and you believe that offering discounts can help to increase AOVs. You may still wonder why you should work with coupon sites. Why not instead simply promote the discounts yourself (*e.g. on your website*) and cut out the middleman? You can then avoid paying commissions to coupon sites and achieve the same outcomes, right? Not so fast. In theory, that's a nice idea. In practice, though, it's short-sighted and conversely, could be counterproductive. Here's why.

Not all of your customers are price sensitive

While coupon usage online is widespread, not everyone uses them. Let's imagine your potential customers are split into two groups - price-sensitive buyers and non-price-sensitive buyers. The price-sensitive buyers are the ones who will go searching for discounts elsewhere, while the non-price-sensitive buyers probably won't.

In a survey conducted by Capterra, 32%⁴ of

respondents reported searching for coupons online every single time before making a purchase. Therefore, although coupon users will make up a significant portion of your potential audience, not all customers will necessarily look for them.

32%

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

Now, if you show discounts to everyone on your site, even the non-price-sensitive buyers are likely to use them. As a result, your margins will be negatively affected. By working with coupon sites, you can employ a version of price discrimination by only showing discounts to those actively searching for them.

Some users will still look elsewhere for deals

For many people, searching for discounts is a staple of their shopping journey. That means that, no matter what discounts you offer them, they'll still look elsewhere in the hope of finding a better deal. Some shoppers will assume you are not showing the best possible offers to them, so the external validation trusted coupon sites can provide is a key factor.

⁴ 2022 Coupon Preferences Survey, [Capterra](#)

By working with **coupon sites**, you can **employ a version of price discrimination** by only **showing discounts** to those actively searching for them.

So, in this scenario, **you'll still benefit from working with trusted third-party coupon sites**, because either:

- Your customers will see there aren't better discounts available, so if they were already going to purchase anyway, they still will.
- They will find a better deal on a third-party site, which makes them even more likely to complete the purchase; in this case, the fear of missing out on a great deal will be even higher than it was with the 'original' discount.
- You can negate the potential negative impacts of bad actors. Note the phrase trusted third-party coupon sites above - unfortunately, some unscrupulous coupon sites employ questionable tactics such as publishing invalid coupon codes to attract users. When customers try invalid codes, their frustration at them not working can make them less likely to complete the purchase. When you work with the

leading trusted sites, they are likely to outrank the bad actors and thus not frustrate users with invalid codes.

Coupon sites drive clear ROI

One of the great things about working with coupon sites is that they generally operate on a CPA (Cost Per Action) basis. This means that you only pay for conversions (typically sales, but can be other actions such as installing an app), and not just for clicks or exposure. In many cases, the CPA tends to be a percentage of the sale, which further decreases your upfront risk.

GSG data shows that coupon sites as a channel drive higher ROI than many other leading marketing channels such as Google Ads and Facebook:

Average ROI vs. channel



Sources: Wordstream, ADBadger 2022, Sidecar 2021 Benchmark Report, Awini, GSG Internal Data

Effect 3: Coupon sites can lift conversion rates

Coupon sites can help raise conversion rates (or put another way, reduce cart abandonment), which can have a positive impact on your overall performance.

First of all, why is this important? Well, a study by Baymard Institute showed **that cart abandonment rates range between 55-84%, with an average rate of just over 70%**⁵.



That means that a significant number of shoppers are motivated to browse and find items they want to buy online, but **lack the incentive to complete their purchases.**

If you can take steps to reduce cart abandonment and raise your conversion rates, even a small change could make a difference. For example, a site with 100,000 visitors per month, an AOV of €50, and an average conversion rate of 2% could



generate an extra €50,000 in sales by increasing the conversion rate to 3%. Granted, that would entail improving your conversion rate by 50%, but industry data shows that this kind of lift is possible when you work with coupon sites.

Consider this data from affiliate network CJ, which compared the behaviour of millions of shoppers who visited a coupon site during their journey with those who didn't: Shopping journeys that included a visit to a coupon site saw a conversion rate lift of 152.4%⁶.

152.4% conversion rate lift.

⁵ 49 Cart Abandonment Rate Statistics 2023, Baymard Institute

⁶ Data provided by CJ to GSG

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In a separate study on the impact of the affiliate marketing channel as a whole, CJ data showed that **shoppers who interacted with the affiliate channel during their journey had a 46% higher shopper-to-customer conversion rate**⁷.

46%

Higher **shopper-to-consumer conversion rate.**

GSG data also backs up these findings.

In 2023, GSG ran a test with a fashion retailer in the UK that combined an exclusive coupon code (published on our coupon sites) with some targeted traffic acquisition. The campaign delivered a conversion rate lift of 180% compared to the normal conversion rate⁸.

In summary, the evidence suggests that **including coupon sites in your strategy could help to improve your conversion rates which can deliver overall sales growth.**



⁷ *A Study of Affiliate Incrementality, CJ*

⁸ *GSG case study with a fashion retailer. During the campaign period, the average conversion rate for users going from a GSG coupon site to the retailer site increased from 5% to 14%.*

Bringing it together:

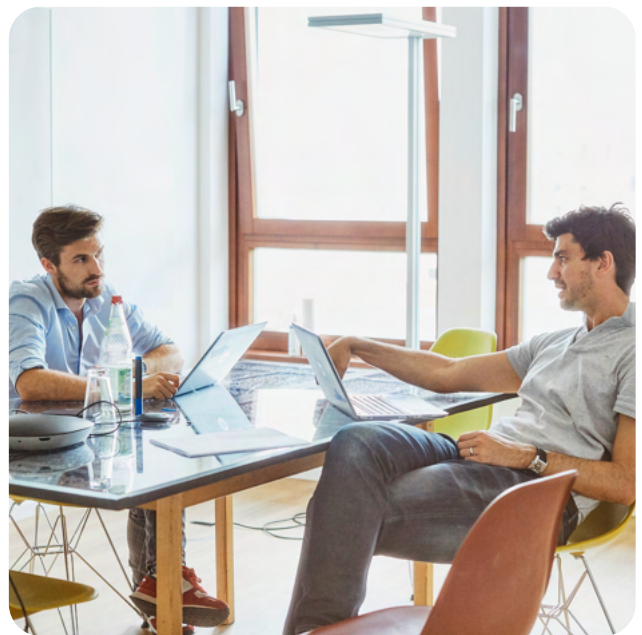
Should you work with coupon sites?

Clearly, the impact working with coupon sites can have on contribution margins for online retailers is multifaceted. While the prevailing belief is that coupon sites erode profit margins by offering discounts and taking commissions, a deeper analysis reveals a more nuanced reality.

Primarily, **coupon sites can increase Average Order Values (AOVs)**. Data shows that customers using coupons tend to spend more per transaction, potentially offsetting the reduced margins from the discounts and commissions. This increase in AOV is a critical factor that can turn the perceived disadvantage of coupon sites into a strategic advantage.

Additionally, the role of coupon sites in customer acquisition and retention cannot be overlooked. **Coupon sites drive measurable ROI and work on a CPA basis, making them a cost-effective tool for reaching new audiences and reducing cart abandonment.** Moreover, working with reputable coupon sites helps target price-sensitive customers while maintaining higher margins from non-price-sensitive customers. Furthermore, coupon sites can also enhance the performance of other marketing channels.

By integrating coupon sites into the marketing mix, retailers can improve conversion rates and reduce overall marketing costs, thereby enhancing the return on investment across all channels.



In summary, while the initial perception may be that coupon sites diminish profit margins, the reality is more complex. When strategically utilised, **coupon sites can be a powerful tool to increase AOVs, improve marketing ROI, and lift conversion rates.** Just be sure to work with reputable players who can help you implement a strategy that fits your business.



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About: Global Savings Group

Global Savings Group **provides consumers with access to the best savings, cashback, deals, product inspiration, and reviews.** Through our global network of coupon sites, communities, cashback portals and shopping tools, we help consumers find the best products and retailers.

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

Interested in working with GSG?

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www.global-savings-group.com