



MEDIA LOUNGE

NEXT LEVEL ECOMMERCE

Retail Mind Games: A Guide to Effective eCommerce Discounts

Introduction

Promotions involve more than just discounts and deals - they represent an interplay of psychology and strategy, influencing consumer behaviour. This is apparent, as **48% of people are likely to avoid brands that don't offer promotions**, highlighting the vital role of promotional strategies.

This whitepaper provides a comprehensive look into the mechanisms and impacts of various promotional techniques in the online retail sector. We explore how both simple and advanced tactics can subtly influence consumer behavior.

Understanding the psychological dimensions of promotions is crucial. Techniques explained in this report like the Decoy Effect, the Rule of 100, and the nuanced use of vouchers and coupons go beyond mere cost-saving - they build emotional connections and drive brand loyalty.

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1. Discount Strategies

Discounts play a critical role in convincing consumers to try new brands and prevent cart abandonment. A significant portion of consumers will spend hours each week looking for discounts and deals.

When it comes to optimal discounting, **research suggests a discount needs to be more than 10% to be perceived as significant.** This is known as Just Noticeable Difference (JND), a part of the concept by Ernst Weber, which later became Weber's Law in marketing.

Displaying discounts effectively is crucial. **The anchoring effect, where the initial price sets a reference point, can influence consumer perception of value.** For example, a £100 dress at a 50% discount is more attractive than a similarly priced dress without a discount.

DISCOUNTS NEED TO BE MORE THAN 10% TO BE SEEN AS SIGNIFICANT

USE THE ANCHORING EFFECT WHERE THE INITIAL PRICE SETS A REFERENCE POINT

2. Promotions Hierarchy

A study from 2022 examined how different promotional strategies affect sales and conversion rates on eCommerce platforms, using data from Amazon and JD.com, China's largest online retailer. The researchers identified a three-level hierarchy in promotions: direct monetary promotions, money-off coupons, and gift promotions.

Monetary promotions and money-off coupons had a bigger impact on sales than gift promotions. Direct monetary promotions were more effective than coupon promotions. Additionally, the study found that quantity promotions were more effective than bundle promotions.

However, the study concluded that **the industry and product type significantly influence the effectiveness of promotions.**



3. The Decoy Effect

The Decoy Effect is a pricing strategy where a less attractive product is used to make another product seem more appealing.

There are a few variations of the decoy effect:

- **The compromise effect suggests that consumers prefer the middle option in a set of three, perceiving it as a 'compromise' choice.** When presented with two microwaves, 43% chose the \$180 option over the \$110 option. However, introducing a third option at \$200 increased the \$180 option's selection to 60%.
- Another principle, **asymmetric dominance, demonstrates that adding an inferior option (Option C) increases the attractiveness of Option A over Option B.** When customers are presented with Option A, Option B, and Option C (the inferior option), Option A's appeal is enhanced.



£2.50

£3.50



£2.50

£3.50

£4.50

Introducing a decoy makes the £3.50 option seem more reasonable.

4. Free Shipping vs. Price Discounts

Offers of free shipping, saving customers £6.99, are often perceived as more attractive than a £10 discount on the purchase price, as Professor David Bell identified in his research on customer behaviour.

According to this research, **60% of online retailers report free shipping as their most effective marketing tool.** Bell's model shows that while consumers initially buy more to offset shipping fees, the continual mental effort required to calculate offsetting shipping fees in subsequent purchases discourages them from repeated shopping, leading to a decline in customer retention.

Bell's research indicates that 52% of online shopping cart abandonment is due to shipping and handling costs.

FREE SHIPPING IS OFTEN PERCEIVED AS MORE ATTRACTIVE THAN A DISCOUNT

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5. The Rule of 100 in Retail

The Rule of 100 is a guiding principle in retail psychology that dictates the efficacy of discount framing based on the initial price point.

When the price is set below the £100 threshold, the allure of a percentage discount significantly outweighs that of a fixed sum. For example, **20% off an item priced at £55 inherently seems to offer a more extensive saving than a straightforward £11 reduction, despite the end savings being mathematically identical.** This phenomenon occurs as consumers are prone to interpret percentage discounts as a heftier relative saving.

On the other hand, **when an item's price surpasses £100, the attractiveness of a fixed sum discount surges.** This preference emerges because a fixed sum offers a tangible saving with an immediately recognisable value. Also, with higher prices, calculating percentage discounts becomes more complex, making fixed discounts more straightforward and appealing.



6. Contextual Messaging

Contextual messaging plays a critical role in the marketing strategies of eCommerce businesses.

Consider the phrases "Get £X off" and "Save £X". On the surface, these may appear to have the same financial implication for the customer, but their psychological impact can be quite different.

"Get £X off" is a more direct, action-oriented phrase. It suggests an immediate benefit and can create a sense of urgency. This kind of wording may be more appealing to customers who are motivated by the idea of gaining something immediately. On the other hand, **"Save £X" taps into the idea of conserving resources, which can be particularly effective for budget-conscious shoppers.**

Generally, "Get £X off" tends to be more effective in driving immediate sales.

**IMMEDIATE GAIN MESSAGES
OFTEN APPEAL MORE, BUT
EFFECTIVENESS DEPENDS ON
YOUR CUSTOMER PROFILE**



Impulsive shoppers are more likely to respond to "Get £X off" that focuses on immediate gains and instant gratification.



Budget-conscious shoppers who focus on conserving resources are more likely to be influenced by "Save £X."

7. Vouchers and Emotional Impact

Vouchers and coupons can wield a significant psychological impact on consumers. Dr. Paul J. Zak's research confirms this, revealing that **the act of receiving even a £10 voucher can induce a substantial biochemical response.** His study observed a remarkable 38% surge in oxytocin levels, a hormone associated with feelings of happiness and trust. Furthermore, recipients experienced an 11% increase in self-reported happiness and a decrease in physiological stress indicators, with heart and respiration rates dropping by 5% and 38%, respectively.

The strategic use of vouchers can start a cycle where the initial joy of saving creates a lasting bond with the brand, encouraging repeated interactions. Each subsequent engagement with the brand reactivates these positive emotions, reinforcing the consumer's loyalty and maintaining the cycle of happiness.

VOUCHERS, THOUGH LESS IMMEDIATE THAN CASH DISCOUNTS, CAN BUILD LASTING RELATIONSHIPS

66%

of consumers would buy something with a coupon, even if unplanned.

63%

of consumers say they will reconsider an abandoned cart if offered a coupon.

8. The Appeal of Free

The concept of zero-cost is particularly powerful in consumer psychology. Some people tend to attribute more value to items that are free, rather than simply discounted.

Consumers often prefer getting an additional item for free over getting something cheaper.

Research suggests that this preference may be due to the average person's difficulty in understanding fractions and perceiving better value in a tangible free item rather than in a less immediate monetary saving.

The science of promotions reveals that free offers not only create a positive brand image and customer happiness but also contribute to a company's long-term profitability and sales.

Free samples can lead to substantial sales increases, driving consumer loyalty and trust. The act of providing something free creates a positive impression and often leads to sales through the natural desire to reciprocate goodwill.

**BUY ONE GET ONE FREE IS
THE TOP ZERO-COST
PROMOTION, PREFERRED BY
67% OF CONSUMERS**

**81% OF CONSUMERS WILL
TRY A NEW PRODUCT AFTER
RECEIVING A FREE SAMPLE**

9. Understanding the Left-Digit Effect

The perception of price differences is influenced by what's known as the "left-digit effect" in psychology. This effect refers to how consumers perceive the leftmost digit of a price disproportionately.

When customers see prices reduced from £4.40 to £3.90, the left digit changes, creating a perceived greater difference compared to a reduction from £5.50 to £5.00. Even though the monetary difference in both scenarios is the same, the change in the leftmost digit has a greater psychological impact.

This psychological effect can be explained by the way our brains process numerical information. Humans are not inherently good at processing exact numerical values, especially when it comes to quickly assessing prices. Instead, we often take cognitive shortcuts, such as focusing on the most prominent digit.



10. Charm Pricing and Consumer Behavior

Charm pricing is a pricing mechanism employed by retailers to subtly influence consumer perception. **Charm pricing involves the practice of setting prices just below a round number, such as £19.99 or £19.95 instead of a rounded £20.00**, with the rationale that customers tend to focus on the first, more significant digits of a price. This tendency causes them to round down in their minds, assessing the item's cost to be nearer to £19 rather than £20, thus creating the illusion of a bargain.

The impact of charm pricing extends beyond perception - it is a potent tool that has been proven to increase conversion rates. The effectiveness of this method is underpinned by extensive research and empirical evidence.

Retailers across various sectors employ charm pricing to present consumers with what are perceived to be more favorable pricing structures, thereby capitalizing on a cognitive bias to drive sales and market movement.



11. What To Do Next

Thank you for taking the time to go through our report. Our aim is to provide insightful observations and strategies that will enrich your approach to promotional offers.

As you contemplate your next promotional campaign, we hope our report serves as a valuable resource, inspiring you to fully utilise the potential of well-structured promotions.

If you are seeking expert assistance in the realm of eCommerce, we are here to help. With 15 years of experience and a portfolio of over 400 successful eCommerce projects, our team is skilled at crafting solutions tailored to your unique needs.

Get in touch with us at hello@medialounge.co.uk or visit our website www.medialounge.co.uk.

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