CHAPTER 02

Shrinking efficiently

This is the chapter I would most like every Indian D2C founder to read, because the pattern it describes looks exactly like success on a dashboard, and it is the clearest early warning that a business is dying.

A real engagement

A makeup brand, selling on its own D2C site alongside the major marketplaces. **[OWN]**

When we came in, revenue had fallen **57% over eleven months**. ROAS was sitting at 3.1, and everybody in the business, founder included, described that as healthy.

Both facts were true at the same time. Here is how.

Spend was being cut faster than revenue was falling. When you cut media spend, the first thing you stop buying is the expensive customer. The cold prospect at the top of the funnel who costs the most and converts worst. What's left is your cheapest, warmest, most inevitable demand: people who were largely going to buy anyway.

So the average improves. **ROAS goes up while the company gets smaller.**

On a dashboard, efficient shrinkage is indistinguishable from winning. The line goes the right way. The number you report in the monthly review improves. And the business is quietly ending.

What was actually wrong

Three things, and not one of them needed more budget:

The discount habit. Forty-five paise of every rupee of gross revenue went straight back out as discount. Bestsellers sat on permanent 50% off, so customers had learned to wait, which meant every sale had to be bigger than the last one to move the same volume.

Paying twice for the same customer. Brand search, non-brand, shopping and remarketing were blended into a single reported number. A large share of what was booked as *acquisition* was in fact harvesting demand that already existed and would have converted anyway.

Traffic pointed at the wrong pages. Paid traffic was landing on combo and offer pages. The product pages converted better and were receiving a fraction of the traffic.

All three were being managed by the ads team. **None of them was an ads problem.**

What changed first

Not the campaigns. The measurement.

In week one, **net revenue, contribution margin and CAC payback replaced ROAS as the headline numbers.** Every decision after that was made against them.

That sounds like a soft, process-y intervention. It was the intervention. You cannot fix a leak that your reporting is designed not to show you, and ROAS is designed not to show you six of the seven leaks in this book.

What happened

	NET REVENUE	ORDERS	AD SPEND	DISCOUNT	NET ROAS
Month 0	₹34L	3,800	₹11L	45%	3.10
Month 1	₹37L	4,100	₹10L	37%	3.84
Month 2	₹46L	5,000	₹13L	29%	3.47
Month 3	₹77L	8,200	₹24L	22%	3.23
Month 4	₹118L	12,500	₹34L	18%	3.46
Month 5	**₹164L**	**18,600**	**₹44L**	**16%**	**3.71**

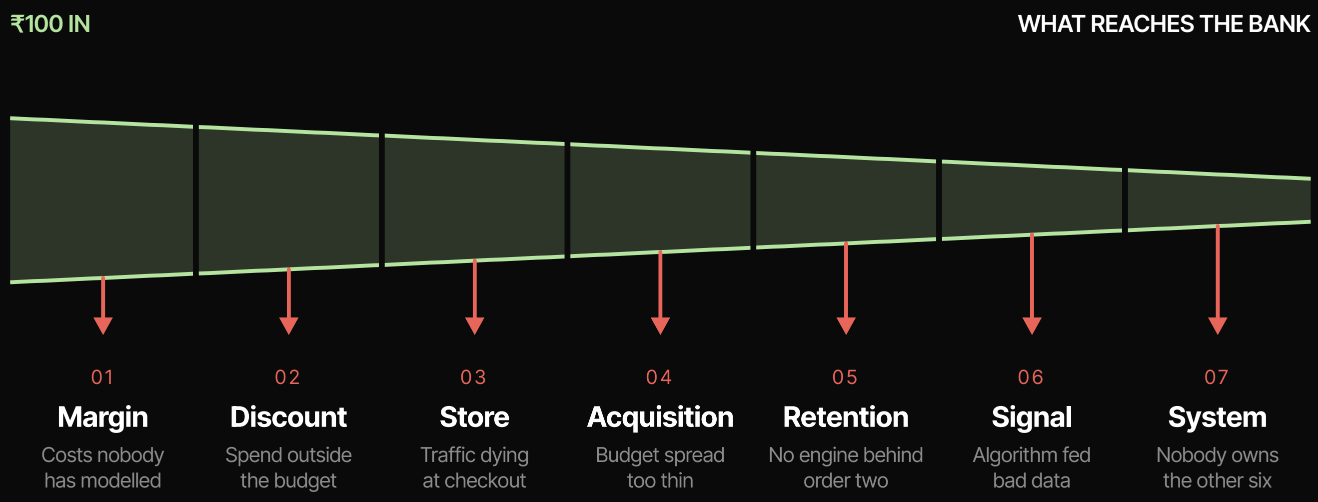
[OWN] Month 0 is the last full month before we started. All figures net of discount and returns, from the client's own Shopify and ad-platform reporting.

Revenue 4.9×. Discount down from 45% to 16%. Twenty-nine points of gross revenue moved out of the discount line and into margin. Ad spend up 4.1×, and the return on that spend went *up* rather than down. New-customer CAC fell 17%, from ₹286 to ₹238.

FIGURE 4 · THE SEVEN LEAKS, IN ORDER

Every rupee passes through all seven.

Money moves left to right. Each stage takes a cut you did not budget for, which is why the ribbon is thinner at the end than at the start.



> The order is not arbitrary. Each leak sits where the money actually passes, and each one is cheaper to close than the one before it. Fixing acquisition before margin means optimising a number you have not defined.

The two honest caveats

Months one and two look flat. That is the transition being paid for. Discounts came down before volume replaced them, so net ROAS dips before it recovers past where it started. **A brand that judged this at week six would have stopped it**: and would have concluded that cutting discount kills revenue, which is the exact wrong lesson.

This is one business. A makeup brand with strong products and a founder willing to hold his nerve through two bad months. It is proof that it can be done, not a benchmark. Your numbers will be different.

The number that changed the founder's mind

Revenue actually collected per order barely moved. **₹888 before. ₹884 in month five.**

The discount came down twenty-nine points and the customer paid the same.

Which means the discount was not buying volume. It was not buying anything. It was a habit that had been running long enough that nobody had tested whether it did anything, and testing it took five months and turned a shrinking business into one doing 4.9× the revenue.

Three questions worth running on your own numbers

Before you read another chapter:

1. **What percentage of your gross revenue left as discount last month?** Above 25% and that line is your profit, not your marketing.
2. **Is your ROAS improving while your revenue falls?** If yes, you are shrinking efficiently. On a dashboard it looks identical to winning.
3. **What is your realised AOV, after discount and after returns, versus twelve months ago?** Gross AOV hides the answer. Net AOV tells you whether your pricing power is intact.

If question two made you uncomfortable, put the book down and go and check. It'll take four minutes and it is the most important thing in these hundred pages.