

Merchants, Analysts Debate The Longevity of Daily Deals

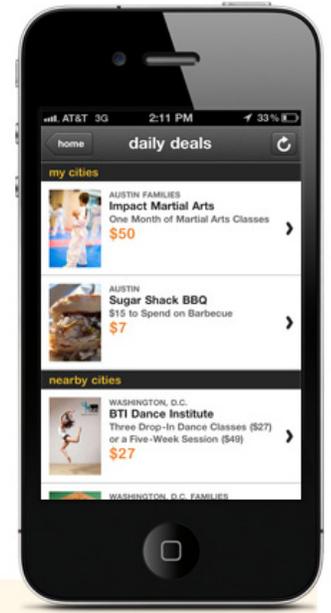
By Alicia Fiorletta, Associate Editor

Daily deals have emerged as a way for retailers to increase customer acquisitions and overall purchase rates. Sites such as Groupon and LivingSocial offer consumers limited-time deals and specials for services from merchants, restaurants and salons, retail items and other consumer-oriented goods. Despite the recent departure of Facebook and Yelp from the daily deal space and reports of deal redemption issues, a new study from Rice and Cornell universities reveals that daily deal usage is still thriving.

The study, titled “Daily Deal Fatigue or Unabated Enthusiasm?,” spotlighted purchase behaviors and consumers’ overall opinion of daily deal sites. In the survey of 655 consumers that have purchased at least one daily deal, participants were separated into three categories: novice users who have purchased between one and four daily deals in the past; experienced users who have purchased between five and 10 deals; and heavy users who bought 11 or more offers.

Based on a 1:7 scale — 1 representing respondents who “strongly disagree” and 7 being those who “strongly agree,” novice users rated a 4.09, indicating that the daily deal offer incents them to buy products/services they normally would not. Results also revealed that many consumers are repeat users: only 3.8% of heavy and experienced daily deal users tap into the sites less often than they have previously.

“The key finding is that there is no evidence of waning interest among consumers of daily deal promotions,” said Utpal Dholakia, Professor of Management at Rice University and co-author of the study, in a press statement. “In fact, the more deals purchased by an individual, the more enthusiastic she seems to be.”



In today's challenging economic environment, consumers are redeeming online coupons for discounted merchandise, special trips and meals, and must-have deals on salon services such as massages and manicures. While the deal itself piques consumer interest, sites often limit coupon availability to a maximum of two days to increase purchase urgency. As consumers grow savvier in thrifty spending techniques across channels, it is vital that retailers stand out by offering incentives to extend the reach of their brand and merchandise.

"The daily deal phenomenon couldn't have come at a more opportune time for deal providers, consumers and merchants," Emily Keye, Marketing Strategist for Bronto Software told *Retail TouchPoints*. "The recession and the uncertain recovery have had a tremendous impact on consumer shopping habits. While many studies show people have cut spending on luxury items and are being more frugal, consumers still want and need to spend on fun and entertainment now and then — that's where daily deal sites come in. They enable consumers to stick to the 'new normal' of being frugal while still enjoying themselves."

Research conducted by ForeSee Results also highlights great potential for retailers that leverage daily deals. In a survey of 22,000 consumers, more than 66% were enrolled in at least one daily deal email program. These users were regularly active in purchasing and redeeming deals: more than half (55%) noted that they redeemed more than one offer in a three-month period.

While retailers are leveraging daily deals to drive incentive purchases, many also are partnering with sites like Groupon and LivingSocial in an effort to increase brand awareness and customer loyalty. Industry experts, however, indicate that the success or failure of daily deals relies on the number of consumers who become loyal customers after purchasing a digital offer. "The goal of most coupon and discount promotions is to attract new shoppers with the allure of a discount, then turn them into loyal customers," said Larry Freed, CEO of ForeSee Results. "But ultimately, the effectiveness of the daily deal comes down to how many people actually were customers already and how many of them were new. That's the key driver of whether it's going to be worthwhile for retailers."

Maximizing Success Through Daily Deals

While many merchants release daily deals in an effort to increase their consumer base, they also can use these types of deals to deplete overstocks during transitional selling seasons.

For example, many may turn to daily deals to drive in-store traffic and sell excess inventory during the pre- and post-holiday shopping season, according to Freed. “It will be interesting to see how retailers will use daily deals during the holiday season, especially since the shopping season seems to start earlier and earlier, and retailers grow more eager to roll out discounts. When the holiday season winds down, it also will be interesting to see if retailers use daily deals as an accelerant to sell excess inventory.”

While retailers are reaping a number of benefits from daily deals, they also must be cautious about the long-term brand implications of leveraging coupons and discount tactics. Freed suggests retailers ask themselves a few key questions: Does couponing accurately represent the company’s brand image? What is the potential long-term effect of couponing strategies on customer loyalty?

“If your goal is to get rid of the inventory at minimal margin, going into your loyal base with deals is a great way to do it,” Freed noted. “If you’re looking to broaden your appeal, daily deals are a great way to get people in store. But you have to be careful about how you train your customers. Are you training them to just wait for the sale?”

Depending on business model and vertical, merchants also must consider how daily deals will affect the overall customer experience. Service merchants, such as salons or restaurants, may have more at risk than those selling products, such as big box stores. “If you’re a loyal Nordstrom customer and the store is out of what you want, it is less hurtful to the relationship than if your need was service-oriented, such as a manicure.”

While some merchants are finding success offering their deals via sites like Groupon and LivingSocial, others — such as Bloomingdale’s and Neiman

Marcus — are doing it alone. This presents an opportunity for the individual retailer to implement a daily deal model that best represents the specific brand image and target consumer base, according to Keye. “Leading daily deal providers have already proven the tremendous success of the business model but marketers are beginning to consider ways to make their deals stand out in such a competitive email inbox.”

To maximize consumer awareness and boost purchases via daily deals, retailers must connect with their target consumer base, according to Keye.

Keye provided several best practices to optimize discounting/coupons tactics, including:

1. **Make timing a priority:** For optimal clickthroughs and purchases, retailers must track and analyze when they receive the best opens and response rates, and the timeframes that drive the most sales. Once a pattern develops, retailers can establish a consistent daily deal model.
2. **Think beyond “age, gender and location:”** Retailers can tap into their CRM and opt-in databases to obtain information on consumers beyond general segments like “age, gender and location.” Moreover, by moving beyond basic information, retailers can segment offers and specials to specific consumers based on their preferences.
3. **Create a unique VIP experience:** Special contests via Facebook, Twitter and SMS make shoppers feel as if they’re accessing exclusive information. Invitation-only sales that last for a limited time also allow retailers to boost urgency purchases.

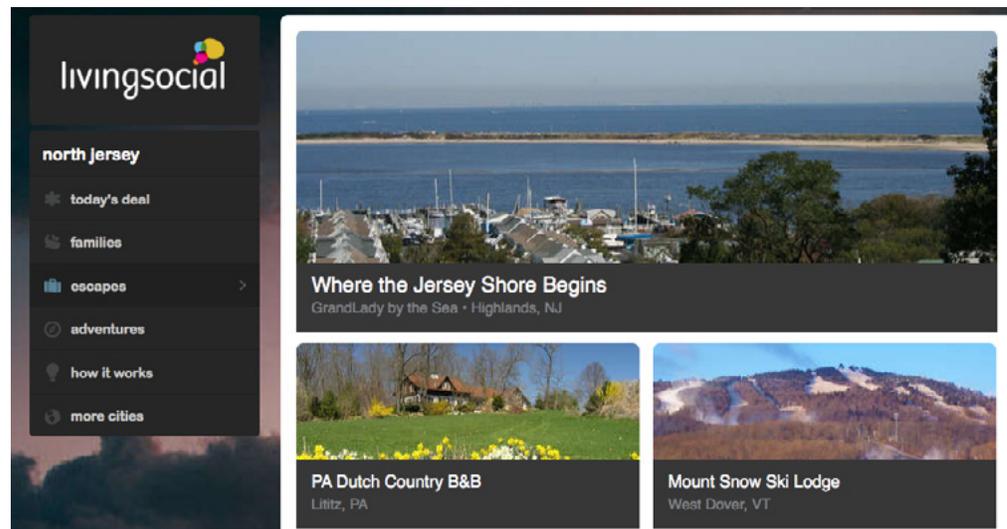
While increased purchase rates are a primary benefit of daily deals, retailers also must focus on creating a memorable customer experience, according to Keye. “With the current competition among daily deal sites, retailers must work on cultivating a great relationship with customers and subscribers so they continue to come back deal after deal,” she said. “Retailers should consider strategies such as loyalty and rewards

programs, and incentives to share deals. These are great ways to fire-up subscribers to become advocates for brands and value the deals retailers have to offer.”

Issues With Deal Redemption Spark Merchant Concern

Despite strong consumer response to daily deals, certain deal providers are under fire following reports of negative customer experiences. For example, Groupon recently was scrutinized after California residents weren’t picked up from an advertised round trip, luxury bus ride to Las Vegas. Deal buyers were left stranded on the Vegas strip for five hours. Localized business owners also have reported negative effects of daily deal campaigns.

In September 2010, Jessie Burke, owner of Posies Bakery and Café in Portland, Ore., spotlighted the negative implications of digital couponing by sharing her negative experience with Groupon. Though Burke saw the benefits of digital offers after a neighboring pizzeria released a Groupon offer and significantly increased traffic and income, she noted multiple struggles in the deployment process.



“We were going to offer a ‘pay \$6, get \$13 worth of product’ coupon because John [the salesperson] told me people really respond to deals that are more than 50% discount,” Burke explained in an [in-depth blog](#).

post about the experience. “However, John told me that when the consumer pays less than \$10, Groupon usually takes 100% of the money. He reassured me that most customers buy more than the \$13, and that we would never have to advertise again after taking advantage of the Groupon network.”

Posies Bakery and Café succeeded in gaining an influx of new customers and tallied nearly 1,000 Groupon purchases. But the business suffered when it couldn’t serve loyal customers due to minimal inventory and large lines. Many new customers also tried to beat the system by using their Groupon multiple times, according to Burke. “After three months of Groupons coming through the door, I started to see the results really hurting us financially,” she noted. “There came a time when we literally could not make payroll because at that point we had lost nearly \$8,000 with our Groupon campaign. It was sickening, especially after our sales had been rising.”

As the debate over the efficiency of daily deals continues to develop, many authors and retail analysts are forewarning business owners who believe coupons and discounts are a quick fix for success.

“The danger is we’ve disregarded loyalty to repeat customers in the attempt at trial,” explained Bob Phibbs, CEO of [The Retail Doctor](#) and author of *Groupon: Why Deep Discounts Are Bad For Business*. “It’s as if we care more about the wedding than the marriage. That’s dangerous because small business owners — the least able to weather deep discounts — still see the benefits on company web sites and think they should try it without looking at the unforeseen consequences.”

Retailers should focus on establishing their brands and building relationships with target consumers rather than reaching out to deal-seeking buyers, according to Phibbs. “Retailers that spend their time building their brands need to look at all of the consequences, from being commoditized into just the deal of the week for a spa, gym, or restaurant, to the reported lack of loyalty to come back without further discounting,” he said.

Conclusion: Daily Deal Distributors Continue To Thrive

Despite numerous reports of daily deals gone wrong, Groupon and LivingSocial remain leaders in the space and continue to successfully roll out new initiatives.

Although Groupon made headlines when it announced its plans for an initial public offering (IPO) in June 2011, the company amended its paperwork for the third time in September 2011 to separate its gross billings (the amount the company collects) from its net revenue, according to Business Insider. However, the company made market headway with the October 2011 release of its new loyalty program, Groupon Rewards. The program is designed to allow consumers to earn rewards when they make purchases at participating locations via the credit or debit card on file at Groupon.com.

“What’s exciting about Rewards is how easy it is for both merchants and consumers,” said Mihir Shah, VP and GM for Groupon, in a company announcement. “As a shopper, you don’t have to worry about a loyalty card or remembering to check in — we do all the work behind the scenes.

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As a merchant, Rewards works with your existing POS system to help you track redemption and ROI while incentivizing future purchases.”

In September 2011, LivingSocial announced its expansion into Spokane, Wash., Suffolk County, N.Y. and Utah County, Utah, among other areas. Currently the Washington-based company has more than 45 million members in 25 countries. Also, the company began preparations for an IPO in July 2011, citing Deutsche Bank, JPMorgan Case and Bank of America Merrill Lynch as underwriters, according to *The New York Times*. Reports from *Bloomberg* indicate the company may raise approximately \$200 million in private funding rather than moving forward with an IPO.

Consumer adoption and purchase rates will continue to rise as daily deal and digital couponing companies consistently develop, according to the study from Rice and Cornell universities. Results indicated that only 2.8% of heavy and experienced deal redeemers said they grew tired of the sites over time.

Though these results show growth potential for retailers that utilize incentives to drive purchases, the study also spotlights the growth of deal-seeking consumers that focus on price more than shopping experiences. “The big challenge for retailers is to determine whether daily deals create new customers or if it increases the likelihood that people will make purchases only when they’re getting discounts,” Freed said.

Merchants believe that leveraging daily deals will continually turn one-time buyers into loyal customers. Regardless of these expectations, the opposite is more likely to occur, according to Phibbs. “The appeal is the ‘hope’ that a retailer will get a flood of new customers who will return again and again,” he explained. “The reality is there is never a shortage of cheap people feeling smart because they didn’t pay retail.”



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