

How do Daily Deals Works?

- Daily deal revenue is expected to increase 138% this year.

It seems like every day a new daily deal site launches, offering subscribers another way to get 70% off everything from sushi to massages to winery tours.

Groupon started the craze in Chicago in 2008, and other daily deal sites (more than 500) have been springing up ever since.

- 21.7% of people never redeem the vouchers they have purchased.

The premise for these deals is simple. A daily deals site contacts a business directly and the two negotiate a limited time deal (usually 50% to 90% off) for a product or service. The site then distributes the deal to its large mass of subscribers, in hopes that they also share the deal with their friends.



- Groupon's subscriber base has doubled this year, growing to 115 million subscribers.

The benefits of daily deals for businesses include exposure to new customers, potential word-of-mouth marketing, foot traffic through its doors, and a chance to highlight a popular product or service to a large quantity of consumers. Profits from the sale are split between the daily deal site and the business. Businesses can expect to get 50% of the deal price, but these back-end splits are negotiable.

Businesses should keep in mind that running a deal is not necessarily a path to quick revenue. Rather, it should be part of a broader marketing plan to drive awareness for the business, not a short-term loss leader.

The Major Players

Groupon, launched in November 2008, is the most popular of the daily deal sites. Chicago was its first market, and Boston, New York City, and Toronto soon followed. Groupon now serves more than 150 markets in North America and 100 markets internationally.

“Don't sell more than you can handle. Under the Merchant Agreement, are you able to place a cap on the number of deals that sell?”

Besides its rapidly increasing popularity and growth, two things that set Groupon apart are its Merchant Agreement and payment structure: When a business signs on to run a Groupon, it's rarely aware of when the deal will actually run, if at all. Groupon also includes an exclusivity clause, which stops a business from participating in any similar marketing 90 days from the day the offer runs. Since the merchant has no control over the offer's timing, it could be tied to this clause for months. Once the deal goes live, the merchant is paid in one-third intervals.



Daily deal site LivingSocial is currently the fastest growing company in eCommerce. Based in Washington, DC, the company released its first daily deal in July 2009. The site sends daily deals to more than 240 markets in 12 countries. As an incentive to buy, members who purchase a deal have the option to send a link through Twitter, Facebook, and email. If three of their friends buy the deal, the original purchaser obtains their deal for free. LivingSocial also directs their deals toward certain niches — Escapes, Adventures, Family Edition, and Instant Deals — which are highlighted as main navigation items on the site.

- LivingSocial's Amazon.com gift card deal put them on the map with 1.4 million purchases.

- The leading reason for doing a daily deal is customer acquisition. 31% of daily deal buyers are new customers.

- Return business rates range from 20%-70%. Be sure to have a customer retention plan.

Since the rise of the daily deal trend, Facebook and Google have jumped on board, testing limited cities around the country. Local newspapers and radio stations are also incorporating daily deals into their business model. Foursquare even reached agreements recently with all the major daily deal sites to distribute offers through its location-based check-in application.

Big Deals

Both LivingSocial and Groupon have hosted some substantial deals nationally. Most notably, LivingSocial ran a deal for Amazon.com gift cards in January 2011. With over 1.4 million purchases, this deal broke sales records across the board, putting LivingSocial on the daily deal map. LivingSocial then paired up with Internet movie ticket site Fandango.com and sold 1 million deals in 2 days.

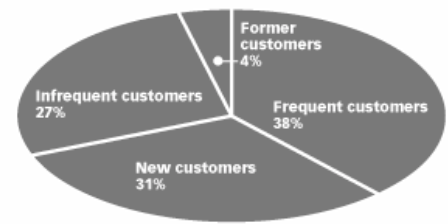
Groupon, however, was the first to tout a national retailer with their deal for Gap, which generated \$11 million in revenue. They've since done national deals with Quiznos and Old Navy.

Daily Deal Best Practices

Like most endeavors, research, education, and careful consideration are keys to successful daily deals. The following best practices can help get the decision process started.

- Don't sell more than you can handle.** Under the Merchant Agreement, are you able to place a cap on the number of deals that sell? Consider this: A national company may be able to handle an influx of 1,000 extra customers, but a "mom and pop" bakery may not.
- Read your Merchant Agreement thoroughly and understand the terms of the agreement.** Shop around the different daily deal sites, and see which Merchant Agreement suits your business better. Remember to negotiate the revenue split.
- Have a customer retention plan.** How will you get deal seekers to return to your store? Make sure to collect information from your customers (emails, etc), engage them on social media platforms, and offer a deal that makes them return!
- Be prudent about the deal you run.** Run a deal for a product that's not as popular or that has a low overhead cost. Put limits on your deal, such as days of the week or time of day (within reason), to avoid having them redeemed during times of high traffic. Conduct a deal that makes sense for your business.

Level of Customer Loyalty According to US Daily Deal Buyers, March 2011
% of respondents



Source: ForeSee Results as cited in company blog, June 22, 2011
129453 www.eMarketer.com

Retailer Sears has started its own daily deal program on their Facebook Page. View its "Wish Together" tab [here](#).

In-House Daily Deals

While running a daily deal doesn't guarantee that you'll make money, the deal site will certainly make money off of you. Retailers like Sears, Walmart, and Volkswagen have taken matters into their own hands, running their own versions of daily deals in-house.

Sears added a tab called "Wish Together" on its Facebook page. When a certain number of people "like" the deal, it goes live. Walmart had a similar Facebook app called "Crowd Saver." Volkswagen Belgium also put its own spin on the daily deal phenomenon with its Facebook page "The More you Like, The Less You Pay." For every "like" the page generated, the price of their Fabia model went down \$2.

Daily deal sites can be an effective way to bring customers through the door. But how do you get them to return? With so many daily deal sites available, shop around for a vendor that will make the deal work on your economics, not theirs. However, don't forget the advantage of creating your own version of a daily deal on your existing channels, without any revenue split or Merchant Agreements.