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E-coupons may not pay off for small businesses

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Daily coupon websites offer customers deep discounts, but these deals could spell disaster for some small businesses.

CBC News



The way these services work is simple enough. The sites offer one deal per day in each city in which they operate. Discounts are quite deep, usually between 40 and 60 per cent, but can sometimes be upwards of 90 per cent. If a preset number of people purchase the coupon, it becomes valid. The discount site takes a cut of the coupon sales (usually half), and the retailer keeps the rest, less any administrative fees.

Many coupon sites have quickly generated large followings of bargain hunters. In a May survey of more than 2,000 people by shopping site PriceGrabber, 44 per cent of respondents said they use or search daily deal websites.

That kind of potential customer base makes companies sit up and take notice. In late 2010, for example, Groupon (the leader in the e-coupon field), declined a \$6 billion buyout from Google, and when it filed this summer for an initial public offering it was valued at between \$15 and \$30 billion US.

But rifts are starting to show in the e-coupon market as competition not just for consumers but also for businesses offering solid deals increases.

Despite its potential market of more than three quarters of a billion users, Facebook pulled the plug on its four-month-old Facebook Deals coupon initiative in August. Bill Tancer, general manager of global research at Hitwise, recently blogged that Groupon's traffic has dropped sharply since its peak in June this year. Other services continue to see increases - LivingSocial, for example, saw its traffic rise about 27 per cent. But overall visits to the "daily deal and aggregator" sites Tancer monitors were down 25 per cent in July and August.

While some consumers are starting to question the quality of the deals offered on e-coupon sites, there are also horror stories of businesses being swamped by eager coupon holders. Earlier this year, for example, a Toronto butcher shop was unable to handle the crush of customers brought on by its foray into web couponing.

Bob Phibbs, a retail consultant and author who has written a book on the subject, says he believes there is no way that many small business owners can reap solid benefits from e-coupon sites.

"I don't think businesses can stand to gain anything," he said. "The challenges and the potential damage to your brand and all that you've put together are pretty big."

A 2010 study by Rice University of 150 businesses that had done Groupon promotions said 66 per cent had a positive experience, but 32 per cent said they lost money and 40 per cent said they likely wouldn't run another e-coupon promotion.

One problem is that the major draw to these coupon sites, which number more than 100 in Canada alone, is the assumed promise that they'll help a business' customer base to grow. But the PriceGrabber survey noted that 78 per cent of respondents said they purchase local deals mainly because they like saving money. Just 19 per cent said they used e-coupons because they wanted to try out a product or service.

Phibbs says offering such deep discounts on products or services can actually devalue a business.

"There are no shortcuts to getting a devoted customer base," he said. "You can get some short-term popularity by offering discounts, but then you become known for those discounts and not for quality of service."

A stroke of marketing genius

That's not to say nobody is reaping benefits from e-coupons. Janna Van Hoof, who runs Supgirlz, a company offering stand-up paddle boarding lessons in Toronto, offered a coupon for 50 per cent off one lesson, valid for the duration of the summer. She says she used Groupon because she felt it was the best way to spend her limited marketing money.

"We managed to attract over 1,000 customers in our first summer," she said, pointing that out she hopes they return next year. "Lots of people that didn't even know they could try stand-up paddle boarding in Toronto have tried it."

Phibbs says he believes Van Hoof's experience was positive because her business offers something new that appeals to a niche market. For other small business owners with more generic products and services, he says using sites like Groupon for marketing is a mistake.

"Think about the last time somebody gave you flowers," he said. "Did you remember the florist or the person that gave them to you?"

"In this instance, Groupon is the person giving out the flowers, you [the small business] are just the florist. People seem to say it's a marketing cost, but it's not?you're making their brand bigger, not yours."

All about reputation

A recent study by researchers from Harvard and Boston University found that businesses using Groupon and Living Social were significantly more likely to receive a negative review on social media sites like Facebook and Yelp, with reviews coming in an average of 10 per cent lower than competitors on the latter site.

Phibbs says these results are not surprising, because the sudden influx of customers a Groupon offer can bring could lead to poor service.

"A five-star restaurant, for example, that offers a Groupon discount could have all these discount hunters come in," he said. "Then it's overcrowded, and even their regulars don't get served very well. A reputation that took years to build could be ruined in months, and that's very hard to get back."

Pay attention to your business, not discounts

"There's more places to buy more things than ever before so I understand the desperation to use Groupon," Phibbs added. But he points out that it does not make sense to build a business based solely on offering deep discounts, which is Groupon's sole philosophy.

"You've taught [new customers] that you're either a discounter or your prices are too high to begin with," he said. "The people who pay full price are the ones that keep you in business, not the people you give incredible deals to."

He says the real reason a business may not be drawing in a substantial customer base is most likely tied to the product or service offered?it's likely just not that competitive.

"You need to look at your business to see why customers are not coming back," he said. "Fix [what's wrong] and then build your own email or social media-based customer list and market to those people."

Van Hoof says e-coupons were a learning experience. And although her experience was a good one, she does not plan to use the service again next summer.

"We will probably set up a payment system on the website and advertise through local media instead," she said. "It's great if you're starting out and have a unique service to offer, but I would not want to rely on them."