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The Great Groupon Debate

Are daily deal sites good or bad for retail?

Groupon, the popular daily deal site, has made its share of headlines lately.

Google was reportedly willing to pay \$6 billion for the two-year-old company, while lawsuits have alleged its business model is deceptive and violates gift card laws. In the run-up to its initial public offering, analysts questioned the valuation of Groupon: Sucharita Mulpuru, an e-commerce analyst for Forrester Research, warned against investing in the IPO, saying that future share offerings from social networking companies like Facebook would be wiser.

“There is no rational math that could possibly get anyone to the valuation Groupon thinks it deserves,” the analyst wrote in an open letter. “This IPO game isn’t about finding value, it’s about finding a greater fool who actually believes the valuation is true. Trust me, you will be the fool.”

Then in late June, SoSasta, an India-based Groupon subsidiary, accidentally leaked some 300,000 user passwords.

Then there is the company’s impact on retailers — particularly smaller ones and those most vulnerable in a weak economy. “Groupon has put companies out of business,” says Greg Buzek, founder of IHL Consulting Group. In addition, “It’s not sustainable due to the number of competitors out there and the lack of stickiness on the particular deals.”

Many disagree with Buzek, saying daily deals is a new and exciting category and among the best things to happen to merchants since the catalog. Ryan Holiday, a spokesman for American Apparel, says Groupon is very effective and retailers can be creative with how to use it.

That’s the thing with Groupon: There’s no shortage of opinions – and even less consensus.

Powerful marketing

Groupon has quickly become entrenched in mainstream America. More than 83 million subscribers receive deals via e-mail; 30 million deals were sold in 2010, and 28 million were sold in the first quarter of 2011 alone.

Retail consultant Bob Phibbs, who authored the e-book *Groupon: Why Deep Discounts are Bad for Business and What to do Instead*, says businesses are running to Groupon and LivingSocial for a quick fix. But Groupon spokesman Chad Nason says Groupon is a powerful marketing tool.

“Groupon is not meant to be a lifeboat for businesses that are in trouble,” Nason says. “Groupon is a marketing vehicle the likes of which really has never been seen before.”

Groupon, Nason says, wants subscribers to get out into their communities and experience things “like a local sushi shop that people always drive by and have never gone into, but then they see a Groupon for it ... They go try it, love it and go back again.”

The main complaint from merchants is that bargain-seekers come in for slashed prices and don’t come back. According to a June 2011 Rice University study, nearly 80 percent of all daily deal users are first-time users, and only 20 percent become repeat customers of businesses offering daily deals.

Phibbs says by using Groupon, retailers essentially “dump profitability right down the toilet” because Groupon users “just go to the next deal.”

Groupon argues it provides as many tools as “humanly possible” to make sure merchants can take advantage of the company’s marketing power to create loyalty. “That means making sure that you are prepared with product and employees, making sure that everybody understands the redemption process,” Nason says. “No other marketing tool ... has been this effective.”

With Groupon, he says, retailers can see customers actually walking through the door, “and hopefully they will come back.”

Buzek, however, believes the odds aren’t worth the risk. He says most retailers cannot absorb the financial hit that comes with discounting goods and revenue sharing.

“There are better ways of connecting with your client,” he says, “like through a charity donation or cooperative promotion that provides a bond beyond just retailer and consumer.”

Case studies

Major outfits including Gap, Bath & Body Works, Body Shop, Old Navy and Quiznos have used Groupon. In May, Quiznos signed on to use Groupon at 2,100 stores — half of the chain’s restaurants.

“I don’t think either Groupon or Quiznos was interested in pursuing a flash-in-the-pan,” Quiznos’ COO Michael Roper said at the time. “We wanted an opportunity to generate new regular customers. For , repeat business is critically important. It gives their business value if they can create more value for a customer like us.”

Gap sold 441,000 Groupons in a single day, bringing in more than \$11 million. In November, American Apparel offered a “\$25 for \$50” deal in the United States. Holiday says some 160,000 Groupons were sold, driving 100,000 customers into stores during the 90-day coupon window.

“As a company that has greatly expanded and increased our product offering in the last two years, this was a kind of advertising and exposure to our new garments that couldn’t be done through any other medium,” Holiday says. “The customer spends, on average, significantly more than the \$50 minimum purchase, and in fact they spent more even than the average purchase our typical non-Groupon customer makes.”

Holiday says about 25,000 of these customers signed up for the e-mail newsletter, as well.

In the main, Groupon retailers tend to be smaller. Online cake retailer StinkyCakes.com ran a Groupon promo and created new loyal customers, says owner Mychal Connolly. He says his small business got in front of millions; he counts those as impressions.

“Groupon should be viewed by a business as a great marketing tool to attract bargain-hunting customers, and as a way for new customers to test their products,” he says. “It’s up to the businesses to market to and turn those new customers into loyal ones.”

But Phibbs says Groupon is the worst thing for small businesses since Walmart. He believes small retailers will go out of business quicker because they’re devaluing their products.

“The race to the bottom is on,” he says. “Whoever can be the cheapest ultimately is going to have the worst service.”

The future

Since Groupon’s launch, many imitators have entered the daily deals space. LivingSocial (which is lining up its own IPO), Gilt Groupe and SocialBuy are among those that have built strong audiences.

Many believe retailers have been training consumers to seek bargains, and the likes of Groupon are merely the next step in the evolution of price slashing. With that said, some retailers are seeking new ways to incorporate Groupon into their ad spend.

“There may be a way for retailers in the future to combine the models presented with Groupon ... with sample sale websites like eBay’s Fashion Vault and HauteLook to sell runs of overstock or last season’s goods,” Holiday says. “That is, instead of buying a gift card on Groupon, you’re buying a voucher for a specific ... that you can then redeem at a retail location.”

Even the popular website TechCrunch.com believes this is the future of e-commerce, saying Groupon’s deal feed is similar to Facebook’s news feed. But Buzek believes daily deal sites are a fad, a product of a bad economy.

“Once the economy improves and you have people back to work,” he says, “that will be the last of daily deal sites.

Read more at: <http://www.stores.org/STORES%20Magazine%20August%202011/great-groupon-debate>

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