

RETAILERS' EVALUATION OF GROUP DEAL PROMOTIONS

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Abstract

Group deal promotions became popular for both consumers and retailers. The benefits for the consumers are obvious, but this paper contributes to the scarce literature on the retailers' value and focuses on the retailers as the key to sustainability of this business model. The concept of keeping the retailer satisfied is related to keeping the end-customers satisfied. The deal site must offer attractive deals for the end-customers and in order to do so it must foster good relations with the retailers, since they provide the products and services. One more important aspect is that satisfied retailers will provide quality service to the customers, which is important for the customer retention rate that again contributes to the retailer's satisfaction.

To support proposed framework the internal database of Grouper (the Macedonian group deal site leader) is used to quantify the repetition rate of the retailers that offered promotion at least once on Grouper in the period January 2011 - July 2014 and of total 1065 retailers 67% had promotions running more than once. We examine retailers' evaluation of daily promotions by conducting survey on 535 business partners that ran and completed Grouper promotions within January 2013 and June 2014. Grouper promotions were profitable for 62.7% of the companies vs. 42.9% of the companies running promotions on other group buying sites

Keywords: retailers; evaluation; group buying; profitability; consumers

JEL Classification: L81

Introduction

The business model of group buying was introduced by the company Groupon in 2008. It represents a win-win for both the retailers and end-customers; savings for the end-customers and new customers for the retailers. As the group buying sites are intermediaries between retailers and final users, they have to focus twofold: to the retailers and the end-users. Retailers are the core of the group deal sites business model because they produce the product that the site markets. Acquiring more retailers diversifies the list of products they can market, which allows them to attract more paying subscribers and increase revenues. However, what is more important than the acquisition of featured retailers is the retention thereof. The acquisition growth will undoubtedly slow, as there can only be a finite number of retailers willing to use the service, especially in the small emerging countries. Consequently, the majority of revenues must come from repeat retailers.

Our goal is to obtain insights into how retailers in Macedonia running daily deal promotions assess this new promotional tool. Internal database is used to quantify the repetition rate of the retailers that offered promotion at least once on Grouper in the period between January 2011 and July 2014. Retailer's evaluation of daily promotions is examined by conducting online survey on 535 grouper businesses partners that ran and completed Grouper promotions within the January 2013 and June 2014. We compare their experiences with different group buying sites. Findings of this study can be useful to group buying companies to improve their business to small- and medium-sized businesses considering a daily deal promotion.

1. Literature review

For many small and medium-sized businesses, attracting new customers as a result of a social promotion may seem really appealing (Dong-Hun, 2009; Kotecha et al, 2008). Some prior research also supports the effectiveness of price promotions in drawing new customers to businesses (Walters and MacKenzie, 2008). One powerful reason that firms use price promotions is that they can increase profits (Greenleaf, 1995).

A significant literature has provided empirical evidence on the impact and structure of voucher discounting, measuring retailers' uses of vouchers and consumers' responses. Dholakia (2011) made surveys about retailers that offered Groupon discounts, finding that some retailers are very satisfied, while others regret their involvement with Groupon.

Similar findings can be found in Gupta et al. (2012). According to Varian, companies get involved in promotional pricing with the aim to attract larger market segments (Varian, 1980). Blattberg and Neslin show how promotions may attract new customers (Blattberg and Neslin, 1990), and lead these customers to become relational customers (Dholakia, 2006).

Retailers' benefits for are not only of a financial nature. Stulec and Petljak emphasize that group buying is a great way of promotion, which allows companies to reach new customer segments that are more likely to notice an advertisement on a computer screen than in printed form because of their lifestyle. This is especially case with the small businesses, for which advertising through mass media is too expensive (Stulec and Petljak, 2010). Understanding group buying as an innovative retailer business model, small and medium enterprises can cooperate with particular buying services looking for their sources of competitive advantage in this way (Bilinska-Reformat and Reformat, 2011).

2. Research questions

Drawing upon existing price promotions research (Blattberg and Neslin 1990; Mela, Gupta and Lehmann 1997; Walters and MacKenzie 1988) key metrics relevant in determining a price promotion's profitability include: (1) its efficacy in bringing new customers to the firm, (2) the degree to which customers redeeming the promotion buy beyond its face value (often called "upselling"; Aydin and Ziya 2008), and (3) the degree to which redeemers make repeat purchases from the business at full price in the future.

As the objective of this study is to draw some big picture conclusions regarding the daily deal industry's performance thus far along with its prospects for the future, we address the following research questions:

- What proportion of retailers running daily deal promotion on Grouper do repeat use and how do deal repeat use intentions vary by industry?
- How retailers evaluate the daily deal's promotion, specifically in:
 - (1) New customer's acquisition efficacy brought in by the deal,
 - (2) Spending by deal users beyond the deal's value,

- (3) Repeat purchases at full price, and
 - (4) The coupon redemption rate or unredeemption rate -We take in consideration one more parameter to evaluate profitability, the coupon redemption rate which particularly affects the short term profit made from the promotion, by pre-paid and not redeemed coupons.
- What proportions of businesses make money vs. lose money on daily deal promotions?
 - Does incidence of profitability vary by daily deal site?

3. Methodology used (data collection and survey design)

In the present research our focus is on the assessment of Grouper's promotions from the standpoint of the retailer running the offer. A good starting point for the study is to analyze the number of featured promotions each retailer offered. To do so Grouper retailers' internal database is used to quantify the repetition rate. The data analyzed covered the period between January 2011 and July 2014. The number of new retailers by year, category and number of featured deals were examined. Aiming to quantify precisely the percentage of the repetition rate of the retailers, attention is given to the retailers that offered only one deal. Companies that started cooperation and offered their first deal since May 2014 were extracted from the total number of retailers with one deal offered, because of the short time period for possible second deal. The number of companies that shut down the business was taken out of the final number of retailers that cooperated only once.

Online survey was fielded to 535 grouper businesses partners, small-and medium-sized businesses that had completed a daily deal promotion with Grouper in the period between January 2013 and June 2014. The retailers were selected from the Grouper partners database and were sent an email from the official Grouper contact mail emphasizing that the survey will help Grouper identify the level of satisfaction of its partners and will help improve the cooperation.

The questionnaire consisted of 3 sections. The first section was consisted of general demographic data for the company: field of operation, years of operation, size and previous promotional tools used; and general information for the Grouper promotional deal: number of featured deals, average regular price and % of discount. The second and third sections were conditional and based on the answer of the last question of the first section. The retailer that featured deals only on Grouper replied to the further questions in the Section 2 and the retailer that offered promotions on other sites as well replied to the questions in Section 3. In Section 2 and 3 the retailers were asked questions about the particular deals they had run in order to investigate: (1) the degree of loyalty of the retailer to a particular deal site and (2) profitability. Profitability parameters were considered: (2a) number of new customers (2b) returning customers from the promotion, (2c) customers' spend beyond face value and (2d) the redemption rate of the coupons. Each one is discussed in details below. If the retailer run deals only via Grouper he got the questions for the particular Grouper deals and if he had cooperated with more deal sites he got the same questions except he had to reply answers in a grid comparing Grouper and the other site they were featured on. Two weeks later, a second e-mail is sent to the companies thanking those who responded and reminding the rest to answer the questionnaire which helped boost the response. The study was conducted for a period of three weeks in July 2014. It was closed with 102 completed responses, resulting in response rate of 19%.

4. Data analysis

- a. Internal database –What proportion of the retailers running daily deal promotion on Grouper do repeat use and how do deal repeat use intentions vary by industry?

60% of total 1065 retailers that offered promotion at least once on Grouper in the period between January 2011 and July 2014, had promotions running more than once. However the number of retailers with only one deal promotion has to be corrected because of two reasons: (1) the number of retailers that closed their business and (2) the number of retailers that had their first promotion offered in the recent period, because of the short time period for being able to run a second promotion. Considering these corrections, 67% of retailers running Grouper promotions were repeat retailers (Figure 1).

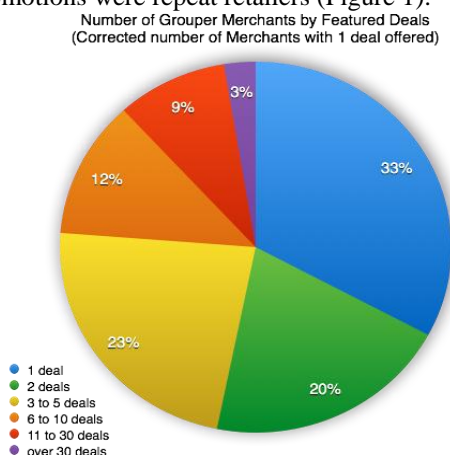


Figure 1. Number of Grouper retailers by featured deals with deducted closed companies and recent companies with one deal promoted

Source: Grouper retailers' database for period 22.01.2011 to 22.07.2014

The industry that has the lowest repetition rate is Food and Drink. From 12 retailer's categories (food and drink, beauty, education, automobile, children, culture, sport and entertainment, health, travel, products and miscellaneous) restaurants and café bars account for 20% of the retailers that offered only one promotion. On the other hand two categories account for 70% of the retailers that offered over 30 deals. One is Products, which is logical because one company offered many different products at one time. The second category, which deserves more attention, that participates with 36% of the retailers with highest repetition rate is the Beauty, particularly Beauty Salons and Spas. These findings coincide with Dholakia (2010), who found that restaurants seemed to be disproportionate failures when it came to Groupon deals while spas were disproportionate winners.

b. Survey data analyses

The analysis described in this study is based on a total of 102 responses of Grouper retailers that offered promotion between January 2013 and June 2014. Figure 4 shows that 40% of the responses are of education and health category. Least responses are given by category Jewelry and Fashion.

Participated companies are mostly small or half with 3-5 employees, and 13% over 20 employees. Over 50% of the participants are companies over 5 years existence and the other half is bellow. 85% of the participated companies have repetition rate, even 22% are with more than 10 deals. Considering the use of this new promotional tool, Macedonian companies participating in the survey use social media and group deal sites mostly (44%), and least Radio and TV.

According to responses 45% of the companies are loyal to Grouper, and 55% were running deals on other group buying sites.

5.1. How retailers evaluate the daily deal's promotion

(1) New customer's acquisition efficacy brought in by the deal

As purpose of group buying promotions is to bring customers to doors of the company and encourage trial of a new product, or of an existing product, the most important is how many among them are first time customers. New customer acquisition efficacy is a key driver in group buying promotion evaluation, because if the existing customers come with coupons for the service or product that anyway would pay full price, then it can produce cannibalization. 34% of participated companies answered that running group deal promotion on Grouper they offered their services mostly to new customers (over 75% were new). 88.5% of the respondents reported that they have over 10% new customers running promotion on Grouper vs. 76% running promotions on other group buying sites. Figure 2 shows efficacy of the promotion in new customer acquisition on Grouper and on the other group sites.

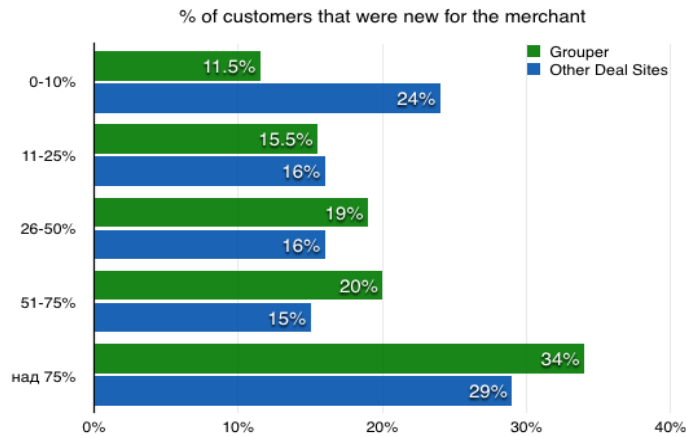


Figure 2. New customer acquisition on Grouper and on the other group sites

(2) Spending by deal users beyond the deal's value

A second measure that is useful in assessing a group deal promotion's success is its ability to generate spending among users beyond its face value. Beside of getting new customers in the door, the expectations are that they will spend beyond its coupons' value. Small and medium-sized businesses across a range of industries were asked to declare the percentage of customers that spend beyond the group deal's value. 45% of the participants running Grouper promotions reported 0-10% of the customers spending beyond coupons' face value and 34% noted spending customers between 11-25%. Figure 3 shows percentage of spending beyond the deal promotion face value on Grouper and on the other group sites. 55% of the respondents running Grouper promotions had 10% of the customers that spent beyond coupons' value vs. 39% on the other group sites.

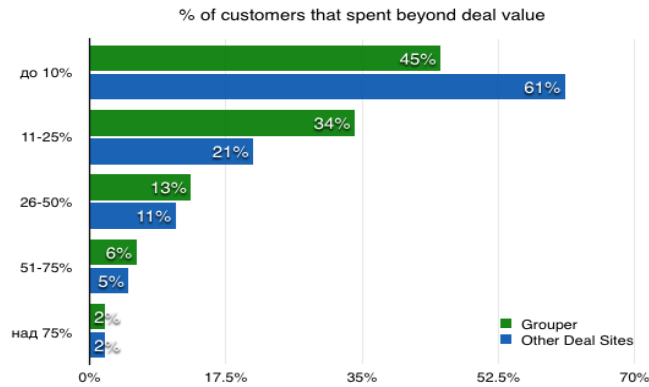


Figure 3. Percentage of spending beyond the deal promotion face value on Grouper and on the other group sites

(3) Repeat purchases at full price

To make customers brought to the company' doors repeated or a regular customer is the most important benefit that companies can gain running group deal promotions. In essence, a price promotion succeeds when it entices new customers to try a particular offering through a compelling offer, and they like it so much that they buy it repeatedly, becoming the firm's relational customers (Dholakia, 2006). 27% of the participants answered that in case of Grouper promotions they gained 10-25% repeat customers and 18% managed to win repeat 26 to 50% customers.60% of the promotions on Grouper gained over 10% regular customers and 40% on the other sites.

4) The coupon redemption rate or unredeemption rate

64% of the respondents reported unredeemed coupons to 5% and the rest or 36% had unredeemd coupons over 5% of the purchased coupons. The unredeemed coupons' rate can be considered from 2 aspects. First the unredeemed coupons are direct profit from the promotion because the merchant receives payment for all coupons sold regardless of the redemption. Beside, after the redemption period the unredeemed coupons lose the promotional value but the buyer can use it for products or services for the price paid for the coupon or he can pay the difference in the price (the discounted amount) to get the product/service he firstly bought on a deal. Second, the unredeemed coupons should not be viewed as a profit because the company loses potential new customers that can become repeat customers with lifetime value. The question remains if the retailers feel that the unredeemption rate has a positive or negative impact on the promotion.

5.2. What proportions of businesses make money on daily deal promotions? Does incidence of profitability vary by daily deal site?

Grouper promotions were profitable for 62.7 % of the companies vs. 42.9% of the companies running promotions on other group buying sites. Figure 4 shows how survey participants evaluated promotion's profitability featuring deals on Grouper and other deal sites.

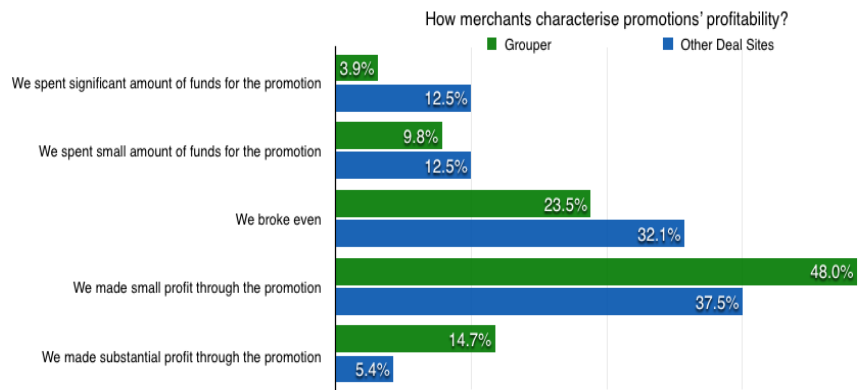


Figure 4. Promotional profitability by featuring deals on Grouper and other deal sites, evaluated by companies

Conclusions

Regarding benefits and pitfalls of retailers running group buying promotions there are different discussions. There are some suspicions regarding sustainability and future of group buying promotion, even though new gained great popularity. This study will give important knowledge to understand the real potential associated with daily deal promotions. We examine performance of group buying deals promotions using Grouper internal database and by conducting online survey. The repetition rate of the total 1065 retailers that offered promotion at least once on Grouper in the period between January 2011 and July 2014 was 67%. The industry that has the lowest repetition rate is Food and Drink or restaurants and café bars account for 20% of the retailers that offered only one promotion. On the other hand two categories account for 70% of the retailers that offered over 30 deals. The highest repetition rate has the category Beauty, particularly Beauty Salons and Spas. The findings coincide with Dholakia (2010), who found that restaurants seemed to be disproportionate failures when it came to Groupon deals while spas were disproportionate winners. The findings that restaurants and retailers (store-fronts and offline) are having a more difficult time making daily deals work compared to other industries, whereas salons and spas, and health and fitness services are doing relatively well with daily deals, can challenge the group buying industry, to work more maybe in some modifications in the model in order to make it work for this industry as well.

Even though group buying promotional tool, as every other promotion aims to drive store traffic and increase product demand and brand awareness, retailers also seek to generate residual benefits from the deal in the form of opportunities to upsell, future repeat customers, and positive word-of-mouth communication. Retailers take these residual benefits into account when they evaluate effectiveness of the offered deal holistically.

We conducted online survey on 535 grouper businesses partners that ran and completed Grouper promotions within the January 2013 and June 2014 to find out merchant's evaluation of daily promotions. 102 businesses responded to the questionnaire. 89% of the respondents reported that they have attracted over 10% new customers running promotion on Grouper vs. 76% running promotions on other group buying sites. Concerning spending beyond the coupons' value 55% of the respondents running Grouper promotions had 10% customers that spent beyond coupons' value vs. 39% on the other group sites. Percentage of

repetition customers gained by deal promotion on Grouper is 60% and on the other 40% on other group sites.

Grouper promotions were profitable for 62.7% of the companies vs. 42.9% of the companies running promotions on other group buying sites.

As explained earlier, group buying promotions are extremely popular among retailers at present, but the future of this industry, lies in the sustainability of the model. Future potential of the industry lies in the assessment made by firms that have run such promotions regarding: (1) whether they will run another a promotional offer again in the future, and (2) whether they will recommend such promotion to other retailers. In our proposed framework, both these assessments are positioned as consequences of the promotion's profitability. Specifically, we expect that when the firm enjoys a profitable Grouper promotion, it will indicate a greater willingness to run another such promotion in the future, and also be more amenable to recommending such promotions to other businesses.

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