

The Danger and Promise of Daily Deal Sites

As social network media has exploded over the past few years, companies have come face-to-face with an entirely new channel through which to reach their customers. This has become an exciting yet daunting opportunity as executives try to determine **what to do** in a space with no agreed-upon best practices and no textbooks for success. In a series of articles, L.E.K. Consulting will examine how consumers are engaging with brands via social media, which companies are successful, and **how companies can drive revenue with social media**.

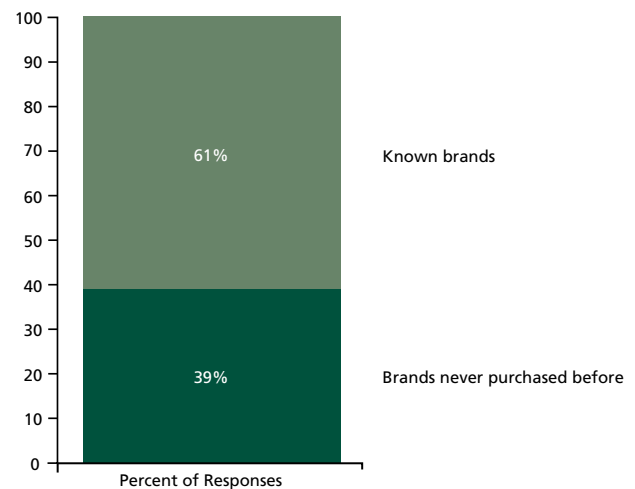
Daily deal sites like Groupon and LivingSocial have emerged as a tempting channel for companies to capture new customers and drive repeat purchases. While the past year brought heavy consolidation among these sites, the surviving companies have maintained strong momentum with consumers: 50% of those surveyed by L.E.K. Consulting are registered Groupon members and 28% subscribe to LivingSocial. LivingSocial especially shows tremendous momentum and potential, with usage up 26% from last year and consumers estimating future increases above that of most other sites.

Yet despite the lure of new customers, daily deal sites can be a dangerous proposition for companies. In some cases, daily deals actually cannibalize healthy sales. Our research found that 61% of consumers use daily deal sites to buy products from brands where they've made previous purchases (see Figure 1).

The Danger and Promise of Daily Deal Sites was written by **Dan Schechter**, a Vice President and Co-Head of L.E.K.'s global Media, Entertainment & Technology Practice; and **Alan Lewis**, a Vice President at L.E.K. Please contact us at retail@lek.com for additional information.

Figure 1

What Percent of Your Daily Deal Purchases (E.G. Groupon) are With Companies or Brands You Have Never Purchased from Before?



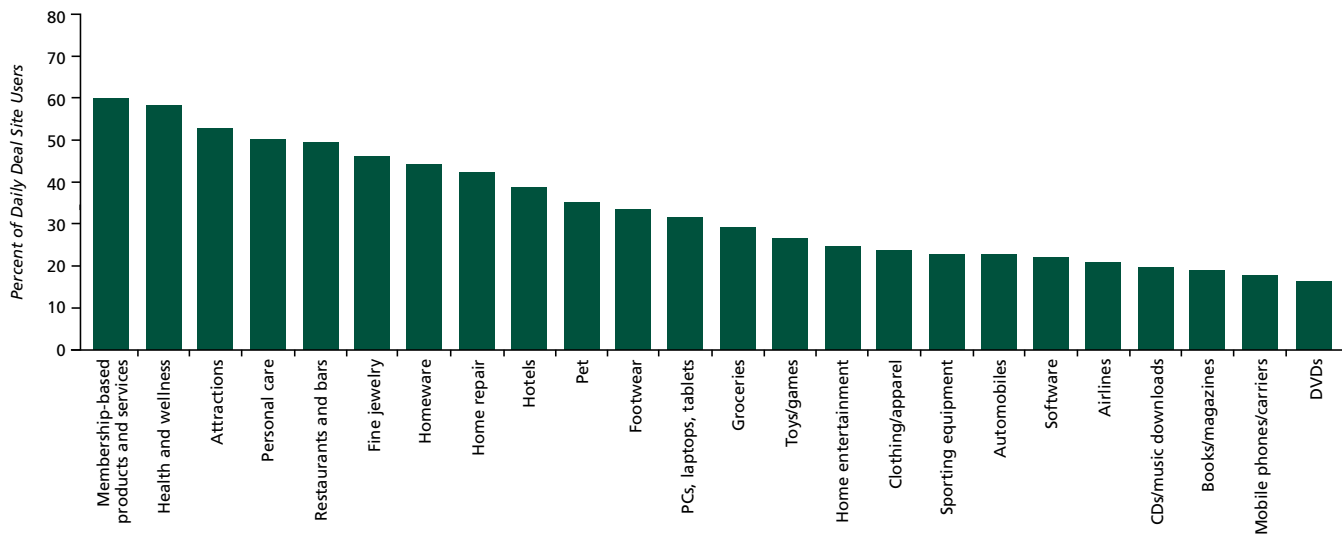
Source: L.E.K. Analysis

Since most companies lose money on deal site offers (by both reducing their prices and giving a cut of the purchase to the site running the deal), this finding implies most daily deal purchases are simply giveaways that cannibalize full margin sales. The cannibalization is worse for low-margin products or services with restricted catchment areas such as day spas and other local businesses.

The picture is significantly brighter when consumers use deal sites to purchase from brands that are new to them, which they are very willing to do across numerous sectors (see Figure 2). Nearly 60% of respondents said they would purchase membership-based products or services, such as magazine subscriptions, from a new brand through a daily deal site.

Figure 2

What Types of Products/Services Have You Purchased from a New Brand or Company Through a Daily Deals Site?



Source: L.E.K. Analysis

Opportunities also exist for new-to-market health and wellness providers, attractions, personal care companies, and restaurants and bars. Unlike purchases made from familiar brands, more than 50% of consumers said they will likely buy again from new brands they are introduced to via daily deal sites.

Winning with Daily Deal Sites

Beyond the cultivation of future loyalty and full-price custom, in certain product categories companies can expect greater likelihood of uplift and upsell on the initial transaction. Our research found 70% of consumers are willing to pay nearly \$20 above the face value of daily deal coupons for restaurants or bars.

Similarly, around 50% said they would spend close to \$40 for apparel and fine jewelry purchases. The surprising winners in the daily deal game, however, are home repair and homeware product companies. Both segments are highly penetrated with deal offers (close to 45%), but consumers typically spend up to \$200 above the face value of their coupons when shopping for these products.

Companies need to structure deals with the twin goals of minimizing cannibalization and providing incremental lift – which is not always possible for every company. For example, if a local day spa typically only serves customers from a small geography and its Groupon offer goes out to a much wider area, it is unlikely to attract new customers and more likely to cannibalize regular sales from existing customers.

Daily deal sites have already saturated some sectors and continue to penetrate others, requiring most companies to play in some way. Fully understanding both the opportunities and the perils of this channel can help companies structure offers wisely, and identify product categories where offering a deal strategy is more likely to add real value to the bottom line.

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