

Study finds Groupon is more beneficial for consumers than businesses

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Social promotions such as those offered by deal-of-the-day website Groupon are wildly popular with shoppers, but they might not be as big a hit for businesses, according to a recent study by Rice University's Jesse H. Jones Graduate School of Business.

Groupon promotions were profitable for 66 percent of the businesses surveyed for the study, but they were unprofitable for 32 percent. More than 40 percent of the respondents indicated they would not run such a promotion again.

Groupon is a social promotion site that features a daily deal for each city in which it operates and offers consumers a significant discount for a local good, service or event. The discount is valid only if a minimum number of consumers purchase the deal.

Utpal Dholakia, author of the study and associate professor of marketing at the Jones School, conducted surveys with 150 businesses spanning 19 U.S. cities and 13 product categories that ran and completed Groupon promotions between June 2009 and August 2010.

The study provides evidence that "satisfied employees" is the most important factor for the Groupon promotion to work successfully for a business. If employees remain satisfied through the promotion, the likelihood of its profitability is significantly higher. The percentage of discount offered and the number of Groupons sold did not predict the deal's profitability, nor did the percentage of Groupon users who

purchased beyond the Groupon's value or purchased again at full price.

"Because the Groupon customer base is made up of deal-seekers and bargain shoppers, they might not tip as well as an average customer or be willing to purchase beyond the deal," Dholakia said. "So employees need to be prepared for this type of [customer](#) and the sheer volume of customers that might come through."

Other findings include:

- Groupon promotions offer the most benefit for businesses in which the promotion does not cannibalize sales to existing customers.
- Among the service businesses (restaurants, educational services, tourism and salon and spa), restaurants fared the worst and salons and spas were the most successful.
- Businesses with unprofitable promotions reported low rates of spending by Groupon users beyond the Groupon's face value and low rates of return to the business again at full price.
- [Respondents](#) indicated they had largely negative perceptions of Groupon's competitors.

"I think these findings show that social promotion companies need to better balance consumer appeal with positive outcomes for the small businesses offering them," Dholakia said. "Right now, these deals are tilted too far in consumers' favor."

Dholakia outlined some strategies for success:

- Use promotions for building relationships instead of creating one-time transactions. Instead of offering \$60 worth of food for \$30, parcel it out to offer \$20 worth of food for \$10 over the customer's next three visits.
- Don't offer discounts on a total bill; rather, offer a specified discount for various products or services.
- Choose items judiciously to sell unpopular items or use unutilized services through the promotion.

More information: The complete study can be found at www.ruf.rice.edu/~dholakia/

Provided by Rice University

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