

Daily deal industry shows no evidence of slowing down

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Over the past year, some news reports have questioned the long-term viability and popularity of daily deal companies, but the industry shows no evidence of slowing down, according to a new study from Rice University.

In the study, "How Businesses Fare With Daily Deals As They Gain Experience: A Multi-Time Period Study of [Daily Deal](#) Performance," Utpal Dholakia examines performance of daily deals using [survey data](#) from 641 small- and medium-sized businesses obtained at three time periods: April-May 2011, October 2011, and May 2012. Dholakia is a professor of management at Rice University's Jones Graduate School of [Business](#).

In contrast to a study Dholakia published last June, his latest findings indicate a number of positive signs for the daily deal industry.

"Overall, the results find little or no evidence of [deterioration](#) in the performance of daily deal promotions over the past year or as the business operator runs multiple daily deals," Dholakia said. "Rather, there is improvement on some metrics."

Key findings from the new paper include:

- The likelihood of enjoying profitable promotions is associated positively with the business's experience; while less than half of the businesses running their first daily deal report profitable

promotions, three-quarters of those running seven or more deals report profits from these promotions. The percentage of businesses making money jumped by about 6 percentage points in the May 2012 sample -- from 55.5 percent (spring 2011) to 61.5 percent.

- Daily deals are just as likely to be successful for both businesses that don't do any marketing and those that spend heavily on marketing.
- Almost 80 percent of daily deal patrons are new customers, even for businesses running their seventh (or higher) daily deal, and businesses continue to see equally stable conversion rates for both repeat purchasing and spending beyond deal value.
- Daily deals appear to be sustainable programs for approximately 30 percent of businesses. Newer and relatively smaller businesses have even higher sustainability rates of close to 40 percent.
- Photographers (with a 75 percent rate of profitable daily deals), health and fitness services (69.3 percent), tourism-related services (68 percent), and doctors and dentists (66.7 percent) have significantly higher rates of daily deal success, while cleaning services (27.3 percent), restaurants and bars (44.2 percent), and retailers (50 percent) fare relatively poorly.
- Daily deals appear to be more sustainable for newer and smaller businesses. Businesses founded within the past six years had a 39 percent retention rate after seven deals compared with a 23 percent retention rate for older, well-established businesses. Smaller businesses with annual revenue below \$500,000 enjoyed a 41 percent retention rate compared with larger businesses, which had a 15 percent retention rate.

"These findings indicate that daily deal promotions appear to be sustainable marketing programs for about one-third of the businesses that try them," Dholakia said. "The challenge for the daily deal sites in the coming months will be to find these businesses and earn a greater

share of their business."

Provided by Rice University

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