Study: Daily deal websites can capitalize by displaying sales numbers

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Daily deal websites, such as Groupon and LivingSocial, have emerged as a popular way for small local merchants to conduct online promotions, but unlike other online and offline discount sources, they continually track and display the number of deals sold.

Dr. Upender Subramanian, assistant professor of marketing, and Dr. Ram C. Rao, Founders Professor, developed a theoretical model that considers the strategic interaction between a daily deal website, a merchant and consumers.

The Naveen Jindal School of Management researchers found that by providing this sales information, daily deal websites gained advantages over traditional coupon mailers, while also allowing merchants to attract new customers. Their study was published online in March in *Management Science*.

"When we started this research, Groupon and LivingSocial were rapidly becoming popular, and it was a puzzle," Subramanian said. "We have had coupon mailers like Valpak for a long, long time. They collect coupons from different merchants, put them together in one envelope, send it to you, and you find it in your mailbox. How is Groupon or LivingSocial different, or are these online extensions of the same phenomenon?"

Daily deal websites create value for both the customer and the merchant, Subramanian said. For customers, they offer the convenience of finding

deals for restaurants or spas they would like to try. For merchants, the websites help promote their businesses by increasing awareness among customers and attracting new ones.

Unlike traditional advertising, daily deal websites are paid based on how many deals they sell, as businesses like Groupon have a revenue-sharing agreement with merchants.

"In traditional advertising, the merchant has to pay upfront," Rao said.

The researchers found that tracking and displaying deal sales enables daily deal websites to provide further advantages over traditional coupon mailers. Displaying sales tackles a basic problem in attracting new customers online because it lowers the risk that consumers face when trying a new merchant. By seeing how many deals have been sold, new customers can see how popular the merchant is with its regular customers.

"When consumers do business online, often they don't know who they're doing business with. That's the biggest problem in online business," Rao said. "Our model shows that between the merchant and the consumer, an intermediary like Groupon allows the benefit of many merchants being able to reach the consumers and the consumers having confidence in the merchants."

Displaying deal sales also addresses another fundamental problem with traditional discount promotions, Subramanian said. Using discounts to attract new customers contributes to a loss of profit because they are also given to regular customers who would have bought without the deal. But by displaying sales numbers, daily deal websites transform this into an advantage by allowing a merchant to use its popularity with its regular customers to attract new ones.

The researchers said other online marketplaces like Amazon and eBay could implement the strategy of tracking and displaying sales. They plan to conduct future research on whether competing websites should display sales and the best types of contracts between merchants and intermediaries.

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