

security

hosting

e-kit

mail

Topic | Social Media

Tutorial 41

## Daily Deals And the Groupon Phenomena

*This tutorial explains how deals and discount voucher promotion websites work and will help you decide whether they can benefit your tourism business.*

Reading time: 20 minutes

Prerequisite: None

tourism

navigation

online  
marketing



# TOURISM E-KIT

*Delivering clear e-knowledge  
to the tourism industry*



**TOURISM NT**  
NORTHERN TERRITORY  
AUSTRALIA

This tutorial has been produced by The Australian Tourism Data Warehouse, is an initiative of the National Online Strategy Committee, and is funded by all Australian State & Territory Tourism Offices

DISCLAIMER: All content on this website and publication [both audio and visual] is protected worldwide by copyright and all other relevant laws. As each business situation is different no responsibility or representation is accepted or given for the use of content in this document and each user should take their own professional advice accordingly.

## 1. What are flash sales and daily deals?

Flash sales, social buying and daily deal websites are a relatively new phenomena made popular by companies such as Groupon, Scoopon, Cudo and LivingSocial. Though they have only been around since 2009, daily deals are now advertised to millions of email subscribers around the world. Daily deals, social buying and flash sales are terms you may hear used interchangeably.

THESE SITES LEVERAGE COLLECTIVE BUYING POWER TO SECURE DEEPLY DISCOUNTED SERVICES OR PRODUCTS THAT ARE ONLY MADE AVAILABLE FOR A VERY SHORT PERIOD OF TIME AND WHICH SOMETIMES REQUIRE A MINIMUM NUMBER OF PEOPLE TO PURCHASE IN ORDER TO BE ACTIVATED.

So for example, a restaurant may offer \$100 worth of food for \$50, but requires at least 100 people to purchase the deals and it is only available for one or a few day(s), hence the term daily deal. Recently, daily deal websites have been actively targeting tour and activity based businesses in the hope of diversifying their offerings and in order to break into more “Things to do” type services rather than just food and beverage.

Most daily deal sites are hyper local, meaning that **they generally target locals**. Some daily deal sites, such as Travelzoo are now providing daily deals that are targeted more at travellers, however, they are in the minority. **This is important to remember because, if your customers are primarily international or inter state tourists, you will most likely not be targeting them with daily deals and if you do, they are unlikely to be repeat customers.**



Each site has its own point of difference.

*For example, when someone purchases a deal through LivingSocial, they are sent a link they can send to their friends inviting them to get the deal too. If three of their friends purchase the deal then the original purchaser gets the deal for free.*

Another interesting variation is South Australian based Soul Deal which donates a percentage of all deals sold to the charity selected by the customer. For further information on the main players in Australia relevant to tourism businesses please refer to the tourism ekit tutorial that

compares the different deal providers.

THERE IS SOME DEBATE AROUND WHETHER THE EMERGENCE OF THESE SITES IS ATTRIBUTABLE TO THE TOUGH ECONOMIC TIMES AND WHETHER THEY ARE HERE TO STAY. THE NUMBER OF SITES HAS GROWN QUICKLY AND THERE ARE NOW SO MANY THAT THERE ARE SITES SUCH AS DEAL ZOO THAT PROVIDE SUBSCRIBERS WITH A DAILY OVERVIEW OF THE DEALS AVAILABLE FROM A VARIETY OF OTHER SITES.

## 2. How do daily deals work?

Daily deals are marketed as performance based and are often pitched to local merchants and operators as a “No risk” advertising opportunity. The business only pays if the daily deal site sells a deal. Here are the basic steps for running a daily deal. Please note these may change depending on the deal provider:

1. A sales person from the daily deal site will contact you and ask if you are interested in offering a deal. Some sites allow businesses to send a message through the daily deal site expressing interest
2. **The representative from the daily deal site works with the operator to put together a compelling deal.** Usually this requires at least a minimum 50% commission of the sale amount payable to the deal website as well as other conditions
3. The representative will then review the contract with the operator. Once the contract is signed, the daily deal will be queued for publication
4. When the daily deal is published, an email is sent out to the daily deal site subscribers informing them of the deal
5. Subscribers visit the page on the daily deal website explaining your deal, where they have the option to purchase the deal
6. If the subscriber purchases the deal, they pay the daily deal site for the deal with their credit card
7. The subscriber in most cases receives a voucher that they can download and print
8. When the deal expires, no other subscribers can purchase the deal
9. Depending on the daily deal site, you will receive part or all of your portion of the sales within a specific time period, usually 30-60 days. In general, you will receive approximately 50% of the sales proceeds. You will also receive a spreadsheet or some other file containing a list of the voucher codes that were sold
10. Subscribers who have purchased your deal will begin to make bookings or show up at your venue
11. When paying for your services, they will present some form of proof which may be a voucher as proof of payment for the service
12. You can verify the voucher by checking the list provided by the daily deal site.

### 3. Daily deals pros and cons

#### Pros

- Build brand awareness to a large local market
- Build a customer base quickly
- Upfront payment for deals sold

#### Cons

- Must offer 50% or more discount
- Very high customer acquisition costs
- Difficult to plan (based on deals sold)
- Increased administrative burden
- Brand and price compromise if a drastically discounted price is established as the market value (i.e. eroding rate integrity)
- Conflict with your trade partners by 'undercutting' them – the discounted rate is out in the open so there are rate parity issues (i.e. not having the same rate and same conditions on all public channels)

### 4. Do daily deals work for tourism businesses?

Daily deals are **very well designed for:**

- Businesses that have a fixed cost base and excess capacity

*For example, an attraction that has slow days can use daily deals to drive customers to their venue on otherwise low revenue days.*

- Low cost, high capacity tours such as hop on hop off sightseeing tours are also a good option, since the costs of running the bus are the same if there are 10 passengers or 50
- New businesses who are looking to spread the word locally may also be good candidates for daily deals. In the case of a new business, the costs of the daily deal can be attributed to start-up marketing.

Daily deals are **not well designed for:**

- Businesses that have limited capacity or a variable cost base.

*For example, if you offer a tour that has a limited number of seats and the costs of running the tour increase depending on the number of passengers.*

## 5. What are the costs of running a daily deal?

The daily deal will most likely tell you there is no cost to running the deal and that you only pay when they make a sale. This is not entirely true, since there are always costs with associated with any marketing or sales initiative. **The costs of running a daily deal depend on two factors:**

- The terms you negotiate with the daily deal site
- The number of deals that are sold.

The net revenue for the merchant is often 25% of the retail value of the service offered. So, for example\*:

<b>Retail value of the Deal = \$100</b>	<b>Value of the Deal = \$100</b>
Discount on the deal site = 50%	Discount on the deal site = 50%
Cost to the buyer = \$50	Cost to the buyer = \$50
Deals sold = 500	Deals sold = 1,000
Gross Revenue = \$25,000	Gross Revenue = \$50,000
Credit Card Fees (4%) = \$1,000	Credit Card Fees (4%) = \$2,000
Daily Deal commission (50%) = \$12,000	Daily Deal Commission (50%) = \$24,000
Net Revenue = \$12,000	Net Revenue = \$24,000
Net Value of services sold = \$50,000	Net Value of services sold = \$100,000
Net Cost (to use deal instead of getting full price customers) = \$38,000	Net Cost (to use deal instead of getting full price customers) = \$76,000

\* this is an example only. Different deal companies may have different terms and conditions and commissions.

You can see that your costs for a daily deal can vary greatly depending on the number of deals sold. In the first example, selling 500 deals results in a net cost of \$38,000. In the second example, selling 1,000 deals results in a net cost of \$76,000.

Another way to look at the costs is based on customer acquisition. If we assume that all the customers from the daily deal are new customers, the cost of acquisition for each new customer using this method is \$76 per customer (38,000 / 500).

## 6. How to structure a successful deal?

Daily deals are popular because they generally represent a great deal for the consumer. The high value proposition for the consumer comes at a cost to the merchant, as described above. When

negotiating terms with the daily deal site take the following points into consideration:

- **Limit inventory for deal seekers** - If your reservation system has the ability to allocate specific inventory to the deal, then you should do this well in advance of the deal running, and make sure that “Limited Availability” is built into your deal terms.

*For example, if your tour supports 15 seats you may want to allocate a maximum of 5 seats to be available for daily deal customers.*

This serves to limit your exposure to 33% of your inventory on any given tour and still allows enough inventory for regular paying customers.

ENSURE YOU APPROPRIATELY LIMIT THE NUMBER OF DEALS YOU ARE PREPARED TO SELL OVERALL, TAKING INTO ACCOUNT THE COSTS TO YOU PER BOOKING.

This is important because you want to ensure you do not have a blowout in costs but also because there must be sufficient opportunity for the voucher holders to make bookings within the redemption period. Many consumers are becoming frustrated with daily deals when they struggle to find availability. Consider how many vouchers you will allow each person to purchase – for example some hotels allow customers to buy multiple deals to combine for a longer stay while others offer a special rate per night to extend the stay. You can generally stipulate how many they can buy for themselves and also whether they can purchase more vouchers for gifts.

- **Limit redemption of your deal to slow days** - Most tourism businesses have busy days and slow days. The problem is that, like most of your customers, your deal seeker customers are probably going to want to book on popular days.

CONSIDER LIMITING THE DEAL SEEKERS TO SLOW DAYS.

If you want to allow deal seekers to purchase during your busy times, refer to the previous suggestion of limiting the number of seats available to deal seekers.

This is basic yield management and is a practice often done by hotels and other accommodation providers to fill rooms during slow periods. If you add this limitation, it ensures that your busy days will be filled with your highest paying customers, therefore maximizing your revenues.

- **Force deal seekers to online bookings (provided you have an online booking system and it supports such functionalities)** - Make it clear that deal seekers need to use your online booking system to redeem their vouchers or book your tours. This allows you to control how the deal is redeemed and what restrictions will be applied.

*For example, if the deal seekers do a search for availability and you specify that they must book a specific tour, then you can limit the number of seats they can book and the pricing that is displayed to the customer.*

Limiting the deal seeker to online bookings also has the added effect of reducing your administration and managing the booking. Since your revenue for deal seekers is going to be much less, it is important to find ways to reduce the human costs for managing these tours.

Even though you may pay a little more for your technology to handle the booking, the cost will always be less than the cost of a human to process the same booking.

IN THE CASE OF EMAIL OR PHONE BOOKINGS, ENSURE YOUR STAFF ARE FULLY BRIEFED ABOUT THE DEAL INCLUSIONS AND HOW THE PROCESS WORKS.

- **Create a unique offering for deal seekers** - Instead of discounting your regular tours or activities, try creating something totally different for your deal-based customers. This has the effect of allowing you to determine the costs and revenues for a specific product rather than cannibalising your core products.

It also allows you to limit the bookings and availability for the specific product which guarantees that your existing products will not suffer from deal seeker overload.

The unique offering should be different enough from your regular offering to avoid confusion and to reinforce the value of the deal. When creating a deal offering like this, consider partnering with other local services to enhance the deal without increasing your costs.

Just remember that the deal still has to be good value for the consumer. It won't take long for them to do the sums and work out if the value adds are unreasonably priced.

*For example, consider including a discounted meal at a local restaurant, free admission to a partner attraction, or a coupon for a local retailer. This way, you can actually extend the benefits of the deal to your partners who may run a similar deal that includes your business in the future.*

- **Cash equivalent versus discounted service - This is a really key tip.** Let's take the example of a sightseeing operator who offers a daily tour for 15 people. The tour is valued at \$150 per person.

If you offer your tour at a discount of 50% off and stick with the average 43% commission to the daily deal provider, then your revenue on the tour will be \$42.75.

Given that the customer purchasing this voucher is probably not going to be a repeat

customer and is not going to purchase anything beyond the value of the coupon, your revenue on this sale will only be \$42.75. If you change the voucher to be a fixed value voucher with a cash equivalent, for example \$20 towards any tour for a cost of \$10, then your revenue changes dramatically. Using the same example, your tour is \$150 – \$20 = \$130. Subtract the additional \$4.30, which is the daily deal cut and your take on the tour is actually \$125.70.

This is quite a big difference compared to \$42.75. Offering the cash equivalent deal has an added benefit of not devaluing your core offering. The tour is still \$150.

Companies like The Gap, Old Navy, and others have offered these cash equivalent deals so there is precedence. If the sales person you talk to says that this is not possible, then remind them of these high profile examples. They work well because they don't limit what the customer can purchase which means that the up-sell potential is higher but they are not as good for the deal provider because the deals are smaller and they tend not to be as attractive to customers. Structuring your deal this way also means not having to change your existing pricing or product offerings.

- **Be confident with your numbers** - Don't let the sales person pressure you into doing a deal that doesn't work for you. For many businesses that have not been careful with their deals, only the deal provider and the customer benefit.
- **Make the most of the opportunity to impress your customers** – treat your visitors as though they are paying full price and deliver all promised elements of the deal without having to be reminded.

If you use the aforementioned techniques to structure your deal and stick to your requirements, then you will increase your chances of ensuring that your deal is 1) good for your business 2) great value for your customers and 3) successful for the deal provider.

## 7. Key learning outcomes

- As a tourism operator you need to carefully consider “daily deals” as they can have a high cost to your operation
- Do the math and find your cost per acquisition
- Use the techniques mentioned in this tutorial to ensure your deal is good for your business and for your customers.

### a) *Related tutorials*

---

- Daily deals providers comparison